

CHANCE TO OWN:
A CONSUMER-BASED ASSESSMENT
OF THE SECTION 235 PROGRAM
OF LOWER-INCOME HOME OWNERSHIP

by

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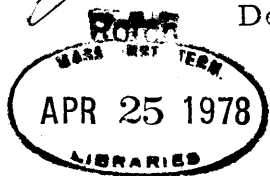
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ABSTRACT

The Section 235 home purchase program provided lower-income families with a "chance to own", in the dual sense of chance as opportunity and as risk. Based largely on a 1973 survey of Section 235 purchasers in ten major metropolitan areas, after one to four years of ownership experience, this study examines the opportunities and risks associated with tenure choice from the vantage point of participants in the 235 program.

Study findings serve to deflate some of the negative myths that have emerged out of the 235 program experience, e. g. , the presumed incompatibility of home ownership and low income, and judgments about the potential dysfunctions of ownership for marginal urban families. Despite the problematic nature of the program, in the aggregate purchasers found much to be satisfied with: better living conditions than they had encountered in the rental market; the prospect of equity accretion as family savings; and the gratifications and autonomy associated with ownership status. However, the distributive consequences of the program were such as to favor white purchasers over minority purchasers, and higher income over lower income purchasers, in the distribution

of relatively sound housing in healthy submarkets. Nevertheless, nearly all purchasers, regardless of income and race, favored continued ownership rather than a return to tenancy, even in the face of high ownership cost burdens.

Despite the poor quality of many homes sold under the program, serious mortgage default and aborted ownership were more closely associated with family crises resulting from loss of employment and major illness, and mortgage degeneration was more likely to occur in urban areas of relatively high unemployment. Income stability, rather than income level, was the more important determinant of sustained ownership viability, as evidenced by the relative stability of the most economically disadvantaged owners, many of whom depended on public assistance. Mortgage default episodes were common occurrences among owners, reflecting periodic income stresses of finite duration, but they were usually successfully resolved and rarely slid into foreclosure.

On the whole, consumer experiences over the early years of 235 ownership are sufficiently positive, in light of the administrative imperfections in the program, to argue for reconsideration of the role of tenure choice as an aspect of future federal low-income housing policies. Recommendations are made that, in the author's view, would significantly improve the effectiveness and equitableness of future subsidized ownership programs.

Thesis Supervisor: Bernard J. Frieden, Professor of City Planning
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To Lynn, Jon, and Libbet,
who were with me
every bit of the way.

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It is in the nature of doctoral dissertations that they involve substantial independent research efforts over an extended period of time, for which the credit -- and whatever blame -- falls largely upon the individual author. My appreciation of the collective effort involved in the design of the original study and in the gathering and organization of the data upon which this research is based, over an arduous two-year period at OSTI, was a steady companion during the long months of isolation in which this analysis was developed. Accordingly, I would like to acknowledge my gratitude to those who worked with me at OSTI, and to offer particular thanks to the following staff members: to Peggy Gleicher, a consummate artisan in the complex craft of survey research, for her formative role in the survey design and analysis; to Laura Friedman and Sarah Peskin, for the intelligence and commitment they brought to the crucial task of translating survey responses and analytic designs into computer analyzable form; and to William Grindley, for his invaluable role in consolidating the findings of our field studies of the operation of the Section 235 program.

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Here I come!
Been saving all my life
To get a nice house
For me and my wife.

. . .

Neighborhood's clean
But the house is old.
Prices are doubled
When I get sold:
Still I buy.

. . .

-- Langston Hughes
from the poem
Little Song on Housing

Chapter I. INTRODUCTION

A. The Section 235 Program: Dawn to Dusk

At its emergence during the late 1960's, the concept of a federal policy of lower-income home ownership -- one which would subsidize and underwrite the purchase of homes in the open market by families of relatively marginal income -- was hailed by its chief progenitor, Senator Charles Percy, as "a new dawn for our cities."¹ After considerable debate, the concept was forged into legislation as the Section 235 program of the milestone Housing Act of 1968 and launched with a fair degree of optimism on the part of Congress, despite the uncertainties and special risks which were recognized to be inherent in the program. In the prevailing climate of urban discontent and turbulence, the Johnson administration and Congress deemed it preferable to act under uncertainty than to delay action on a program that had already gathered considerable legislative momentum, and that had come to be considered a significant response to the housing and residential stresses endemic to lower-income households across the nation's cities.

Two years after its implementation, the 235 program was badly shaken by the exposure of market abuses and federal maladministration which had permeated a substantial sector of the national effort and left many families the title-holders of sorely deficient and often overpriced housing

1. Senator Charles Percy, "A New Dawn for Our Cities", Congressional Record -- Senate, October 17, 1966, pp. 27258-27260.

units. Almost simultaneously, rising mortgage default rates throughout the program and a high rate of mortgage failures in some areas served to stigmatize the image of the program even further, despite the original understanding on the part of Congress that the program would involve high, but worthwhile risks. These national events made the program increasingly vulnerable to the will of an administration, headed by President Nixon, which was manifestly disinterested in the cause of federal assistance to the nation's housing-poor. Despite a number of valid attempts on the part of the Department of Housing and Urban Development to remedy defects in the operation of the program and improve its ability to realize its potential, the administration judged the housing subsidy programs to be irremediable when it imposed a moratorium on any further subsidy commitments in January, 1973. After a scant four years of program operation, characterized by a high degree of turbulence and often inept or callous administration, the sun had rapidly set on the concept of lower-income home ownership.

B. Alternative Interpretations of Program Malfunctioning

Alternative interpretations of the problematic nature of the 235 program experience tend to ascribe the shortcomings of the program either to a failure in the policy concept itself or to a failure in the administrative implementation of otherwise realizable objectives. The former view holds that there is an inherent incompatibility between the demands of home ownership and the conditions of life at the margins of lower-

income. The "life at the margin" theory, as it is often called, maintains that lower-income families are, by and large, incapable of sustaining ownership obligations because of intermittent crises -- in employment, health, and family stability -- which assume catastrophic proportions, require the deferral of mortgage payments and essential repairs, and ultimately contribute to aborted home ownership. Against the charges of faulty and improper administration of the program, HUD Secretary Romney questioned the basic concept of the program:

"...no matter how carefully we inspect and appraise, and no matter how carefully we screen and counsel purchasers, when we are dealing with low-income buyers we are dealing with the fundamental problems of people living at or near the subsistence level... To such people, any temporary loss of income or unusual expense amounts to a financial catastrophe."²

The latter view, here referred to as the "systemic" interpretation, holds that flawed implementation was a primary contributor to the 235 program's malconsequences, leading to market abuses and the placing of many lower-income purchasers in untenable ownership situations characterized by seriously defective housing conditions and negative equity positions at purchase. This view was first forwarded by the investigative Staff report of the House Banking and Currency Committee during the 1970 disclosures of abuses in the program:

"...In some areas, 235 purchasers are either 'walking away' from their homes or, through arrangements with FHA, are turning their houses back to that agency... Because of the relative newness of this program, the impact of widespread

2. U.S. House of Representatives. Investigation and Hearings of Abuses in Federal Low- and Moderate-Income Housing Programs, Staff Report and Recommendations, Committee on Banking and Currency, 91st Congress, 2nd Session, December, 1970, p. 141.

turnbacks and foreclosures will not be felt immediately. But, unless the 235 program undergoes a drastic remedial change the Federal Government... may soon find itself owning thousands of substandard homes bearing inflated mortgages..."³

Citing one national mortgage company's foreclosure rate of about 5 percent, the report speculated that they were primarily "walk-away" mortgage failures:

"While some of the foreclosures can be traced to financial inability to meet payments, perhaps the major cause of abandonment is the utter frustration of homeowners who thought they had purchased a home of reasonably sound construction only to find that the monthly mortgage payments on the home only entitled them to make other payments for major repairs."⁴

In contrast with these blanket assertions about the program as a whole, strong local variations in program performance were increasingly evident by the eve of the subsidy moratorium; mortgage default rates varied from a low of two percent in one HUD area office to a high of twenty percent in another.⁵ During the eleventh-hour deliberations of the Joint Economic Committee in late 1972, Senator Proxmire used the local differentiation argument to bolster his attack on HUD's administration of the program while defending the program concept itself:

"We have a situation in Milwaukee where our foreclosure rate is extraordinarily low although the credit has been made as widely available as elsewhere, whereas in Detroit it is extraordinarily high, 10 times as high in Detroit as Milwaukee. Why? They have exactly the same program,

3. Ibid., p. 1.

4. Ibid., pp. 3-4.

5. U.S. Congress, Housing Subsidies and Housing Policies, Hearings, Joint Economic Committee, 92nd Congress, Second Session, December, 1972, p. 37.

Federal, privately financed, and federally guaranteed. The problem is HUD management is much better in Milwaukee than in Detroit."6

Elsewhere in the proceedings, Proxmire asked:

"Does this not indicate that the primary reason for a high number of repossessions is the overwhelming failure in management by HUD rather than the intrinsic nature of the program?"7

The jockeying between Congress and the administration over the fate of the 235 program had contributed to an artificial polarization of views and contending interpretations of program experience. Congressional proponents of the program placed the blame on HUD's implementation of the effort and sought administrative remedies, while administration officials asserted the "life at the margin" view and questioned the fundamental viability of ownership tenure for lower-income families. Surprisingly little attention was given to the consideration of alternative factors contributing to local differences in program performance, such as local economic conditions and the extent to which they were favorable or unfavorable to sustained home ownership. Such a "contextual" interpretation would have seemed likely in the face of Seattle, where a major recession in the dominant aerospace industry had clearly precipitated the highest 235 mortgage default and failure rates in the country, but it received only passing mention in the Committee's attempt to diagnose

6. Ibid., p. 355.

7. Ibid., p. 34.

the problems that were manifest in the program.⁸

The three contending views -- the "life at the margin" interpretation, the "systemic" interpretation, and the "contextual" interpretation -- represent alternative attempts to isolate a dominant, if not exclusive explanation that accounts for 235 program behavior during its early years. They also have substantially different implications for future federal policies regarding ownership opportunities for urban lower-income families. If relative poverty or the problems of life at the margin involve substantial and pervasive risks to sustained, viable ownership then the policy concept which guided the formulation of the 235 program needs to be scuttled, and federal housing policy should restrict tenure options for lower-income households to assisted rental opportunities. On the other hand, a clear confirmation of the systemic interpretation as a major cause of 235 mortgage degeneration would suggest that, under proper administrative revisions and safeguards, the 235 program model might, at some point, resume its role in tact as a major national housing strategy. However, if local economic conditions, particularly those related to employment, constitute a powerful explanation of local variations in program performance in accordance with the contextual interpretation, then future federal policies of lower-income home ownership are

8. Ibid., p. 37. In response to Senator Proxmire's assertion that local variations in program performance resulted from differences in HUD program management, Elmer Staats, the Comptroller General, added: "Plus the economic conditions that may affect one locality more than others." But this contextual theme was never picked up in the remaining Committee deliberations.

feasible provided they are regionally selective and restricted to metropolitan areas where economic conditions are favorable. Such regionally-differentiated policies would be a substantial departure from the Section 235 concept, which viewed home ownership as a universal good for urban lower-income households and made its benefits available wherever the private housing sector was willing to respond, without regard to differences in local economic contexts.

C. Research Objectives and Approach

At its heart, this research constitutes a diagnostic assessment of the 235 program experience, which attempts to sort out the dominant factors that account for the problems manifested in the program, as represented by the alternative interpretations described above, as well as to determine more generally the extent to which and the ways in which the program succeeded or failed as a lower-income housing strategy. In general, there is much to be gained among the policy community in learning from the experiences of past programs, and particularly so in the case of the Section 235 program which represents a significant and unique federal excursion into low-income housing policy. But, more importantly, the research is intended to contribute to the development of future policy alternatives regarding expanded tenure opportunities for urban lower-income households. In short, the research addresses the question of what can be learned from the 235 experience with respect to the role of home ownership -- its worthwhileness and viability -- as a potential

component of future low-income housing policy.

In so doing, the analysis rests largely on data derived from structured interviews with program participants within the context of a national survey of 235 home purchasers. There are several reasons that argue strongly for this kind of consumer-based assessment of the program.

Alternative interpretations of the brief and controversial history of the 235 program hinge on largely unverified assumptions about consumer experience, behavior and motives, as well as on assumptions concerning post-purchase housing conditions, residential and life circumstances of the owning family. Given the strong tendency to ascribe the malconsequences of the 235 program to its consumership, in yet another variant of the "blaming the victim" theme,⁹ the previous lack of any systematic approach to obtaining consumer experiential data is deplorable. The paucity of relevant survey data regarding the precipitants of 235 mortgage default and aborted ownership was clearly recognized in testimony to the Joint Economic Committee as late as December, 1972. In a letter to the Committee, William Whitbeck, the director of the HUD Detroit area office, asserted:

"...No information has yet been obtained from the class of persons best qualified to speak of reasons for default -- the defaulting homeowners themselves. This lack of hard survey data on reasons for default and later movement by the defaulting homeowner lends a flavor of unreality to almost all of the present discussions of this problem"¹⁰

9. William Ryan, Blaming the Victim (N. Y. : Pantheon Books, 1971).

10. U.S. Congress, op. cit., p. 264.

In its report to the Committee, the General Accounting Office recommended that available data should be "supplemented by other information obtained through such means as interviews with mortgagors..."¹¹ That this kind of analysis was postponed by HUD was undoubtedly the result of the subsidy moratorium, which came soon after the Committee hearings and served to deflate the mounting pressures for survey analytic assessments of the program.

Beyond the kinds of post-mortem diagnostic analyses intended to shed light on programmatic problems, a national survey eliciting consumer-based assessments of their 235 experience as a whole can be seen to have other substantial benefits for the analysis of tenure-related issues in low-income housing policy:

1) From the vantage point of those intended to benefit, how worthwhile are lower-income home ownership objectives within the urban context? Do the assessments of 235 program participants confirm the prevailing negative image of the national program, or do they suggest that despite the imperfections of the program, substantial benefits were derived or might be enhanced by more effective policies? What benefits were derived from 235 home purchase? If so, at what risks and costs?

2) What were the distributive consequences of the 235 program in terms of alternative program constituencies? Did the program succeed or fail selectively with respect to different purchaser

11. Ibid., p. 94.

groups -- differentiated by race and income -- or were program benefits and disbenefits equitably distributed across the purchaser groups? Did the functioning of the program largely succeed for some purchaser groups and fail for others? If so, in what ways and for what reasons? What are the implications for potential eligibility and improved equity in future ownership programs targeted at urban lower-income households?

3) What does consumer experience in the 235 program suggest by way of improved policy means and program mechanisms for the delivery of ownership opportunities to urban lower-income households? Can the shortcomings of the 235 program mechanisms be avoided or substantially diminished and future program viability strengthened?

More general arguments can be advanced to support the utility of consumer-based program assessments derived through the means of survey sampling and information gathering. As a rule, all too few programs are evaluated in light of the consumer component of the policy equation, using data drawn at the level and perspective of the affected program constituent. As a result, our judgments of policy rest on often inadequate program statistics, on evolving images of the program in the media, on the opinions of relatively small groups of influential elites, or on biased bureaucratic assessments. Given the tendency to ascribe the malconsequences of many socially oriented programs to their respective consumerships, the general lack of consumer-based data represents a telling gap in program analyses. Apart from the analytic benefits of consumer-related data, there are also values of consumer expression which need

to be considered. In particular, housing and residence have meanings and values attached to them which lie beyond the realm of impersonal, readily objectifiable data, but which should be important considerations in policy formulation and assessment. Although the structured interview is far from an ultimate medium of free consumer expression, if properly designed it can be a useful medium for registering values, judgments, beliefs and expectations that may be of considerable importance for relevant policy analysis and speculation.

The survey sample of 235 home purchasers on which this research is based and the resulting survey data derive indirectly from a study of counseling efforts under the 235 program which was conducted from 1972 to 1974, and which the author directed.¹² Structured interviews of approximately an hour-and-a-half in length were carried out in each of ten metropolitan areas across the country with a randomly selected sample of about 35 home purchasers in each metropolitan area. Factors guiding the choice of metropolitan areas are described in Appendix A as are other aspects of the research design. As a whole, the resulting sample population of 235 home purchasers resembles closely the characteristics of the national population of 235 home purchasers. The sample clustering by metropolitan areas has the further advantage of allowing for some comparisons of program performance and outcomes based on differing local conditions. In its entirety, the consumer sample represents a

12. The study was conducted under HUD funding at OSTI (Organization for Social and Technical Innovation), Newton, Mass.

composite of metropolitan 235 home purchasers across a richly varied set of program contexts, and forms the basis upon which generalizations are made concerning the national performance of the program within the urban context.

Chapter II. URBAN LOWER-INCOME HOME OWNERSHIP: AN HISTORICAL AND THEORETICAL PERSPECTIVE

The question of whether public policy should enable and assist the urban housing-poor to purchase homes aroused considerable controversy prior to the passage of the 235 program. The currency which the concept of lower-income home ownership gained during the 1960's as part of the Great Society housing agenda can be viewed, in part, as a singular occurrence during a unique period in American public policy, characterized by rapid innovation of new programs geared toward redistributive objectives. It can also be seen as a consequence of evolving urban housing and residential patterns, as a continuation of prior federal policies encouraging the expansion of home ownership, and as a reflection of changing views of the function of housing policy within a social welfare framework. This chapter provides an historical and theoretical perspective for the general examination of the role of tenure in urban low-income housing policy and, in that sense, a framework within which to assess the particular strengths and weaknesses of the Section 235 program on the basis of consumer survey findings.

A. Trends in Urban Housing Tenure

The concept of "home ownership for the poor", as the 235 program came to be called, addressed a longstanding duality in federal policy and in American society as a whole. Americans have long prized the institution of home ownership. Periodic consumer preference surveys have

consistently identified an "urge to own" among American families¹ which cuts across socioeconomic strata and which is most intense at the lower income strata.² Since the turn of the century that preference has been increasingly satisfied in what has been a gradual, but massive revolution in housing tenure, one which has taken place with particular rapidity in the urban context.³ The relatively elite one-third (37%) of urban households who owned their homes in 1900 had, by 1970, shifted to nearly a two-thirds majority (62%).⁴ But, although the characterization of America as "a nation of home owners"⁵ has been increasingly realized over the past decades, the distinction between owner and rentor has continued to be stratified largely by income and race.

In 1960, among metropolitan households with incomes of \$10,000 or more an overwhelming majority (79%) owned their homes, while only a minority (43%) of households with incomes below \$5,000 were home

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1. See John P. Dean, Home Ownership: Is It Sound? (New York: Harper & Brothers Publishers, 1945), p. 1-2; Irving Rosow, "Home Ownership Motives", American Sociological Review, XIII, December, 1948, pp. 751-756; and Nathan Glazer, "Housing Problems and Housing Policies", The Public Interest, Spring, 1967, pp. 21-51.
 2. A Fortune survey reported in "Only Once Every 142 Years," Fortune, June, 1935, p. 168.
 3. U.S. Department of Commerce, Statistical Abstract of the United States (Washington, D.C.: U.S. Government Printing Office, 1973), Table No. 1167, p. 689.
 4. Ibid.
 5. Attributed to Calvin Coolidge; see Dean, op. cit., p. 40.

owners.⁶ Even more striking are the tenure barriers for non-white metropolitan households at similarly low-income levels. By 1960, home ownership had reached little more than a quarter (18%) of non-white metropolitan households with incomes below \$5,000.⁷ Given the generally strong preferences expressed for home ownership by non-white families,⁸ and the sizable response of minority families to the 235 program in most cities, these figures can be interpreted as clear indications of discriminatory barriers which have prevailed in the purchase market. Thus, although ownership tenure has been assumed to be a widespread aspiration among American families, and has indeed become the prevailing urban housing norm, the result of the increasing democratization of home ownership in past decades -- particularly since the late 1930's -- had been to sharpen the visible differences in housing consumption between minority and lower-income families, on the one hand, and the rest of urban society.

The long-term shifts in urban tenure patterns raise more than just a question of magnitudes or of changes in prevailing housing norms and expectations. Viewed from a social perspective, the pattern of housing

6. U.S. Bureau of the Census, U.S. Census of Housing: 1960, Volume I.

7. Ibid.

8. See: Nathan Glazer, op. cit.; Dean, op. cit., p. 92; and William A. Stacey, Black Home Ownership (New York: Praeger Publishers, 1972), pp. 20-24.

tenure, which up to the 1930's had bisected a respectable urban middle class into both renters and owners, has increasingly come to represent a more fundamental and visible class schizm or stratification in the housing sector between the mainstream "haves" of urban society and the under-class "have nots", one which achieves its most apparent manifestation in the contrast between the low-density suburbs and the higher-density central cities of the nation's older metropolitan areas.⁹ Among the discontents which lay behind the urban civil disorders of the 1960's, housing retained a fairly high priority,¹⁰ even in the Watts area of Los Angeles where low-density housing was the prevalent form. To the extent that such pressures for housing betterment represented severe dissatisfactions with the conditions of urban tenancy and a continuing preference for owned housing -- and whatever it represents -- the lower-income ownership programs of the 1960's constituted a response to those pressures, one which might not have been politically feasible had not the mainstream of urban society already benefited from expanding ownership opportunities.

B. The Implications of Ownership Tenure: Channels of Mobility

The implications of housing tenure go well beyond the question of

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9. James Q. Wilson, "The War on Cities", The Public Interest, III, Spring, 1966, pp. 31-32.
 10. National Advisory Commission on Civil Disorders (Kerner Commission), Report of the National Advisory Commission on Civil Disorders (Washington, D.C.: U.S. Government Printing Office, 1968), pp. 7-8.

trends and changing norms, or social inequities in the distribution of housing attributes and opportunities. For the relatively marginal urban family who managed to purchase a home under favorable market conditions, the institution of home ownership has tended to serve important functions as a channel of mobility -- of several kinds of mobility: locational, economic, and social.

An observer of the Harlem ghetto of New York City during the 1930's noted the tendency of many black families to purchase homes in outlying areas of the city as soon as they had the means, and interpreted this trend not so much as a quest for ownership but as an attempt to extricate themselves from the squalid and exploitative conditions of the slums and to obtain stable residence in a superior setting.¹¹ Over recent decades the increasing disparity between central cities and their suburbs, in income, race, and housing attributes,¹² has exacerbated the nature of housing tenure as a potential barrier to outward movement. In 1970, a substantial portion of suburban housing units (70.3%) in metropolitan areas was owner-occupied, while central cities were more evenly divided in tenure, with slightly more than half (51.5%) renter occupied units.¹³ Consequently, differences in tenure opportunities, as well as differences in market

11. James Ford, Slums and Housing (Cambridge, Mass.: Harvard University Press, 1936), Volume I, p. 331.

12. National Commission on Urban Problems (Douglas Commission), Building the American City (Washington, D. C.: U.S. Government Office, 1963), pp. 40-55.

13. U.S. Department of Commerce, op. cit., Table No. 1169, p. 691.

levels, which distinguish the central city from the suburb, serve to constrain the geographic mobility of the urban housing-poor and their access to alternative locational opportunities, thereby contributing to the continued relative concentration of lower-income and minority households within the central city and within its older rental areas.¹⁴

The potential economic benefits for the owning family of modest income are well recognized, as are the potential risks. On the benefit side of the ledger are the family savings realized in increasing equity in the property; the "forced savings" aspect of monthly mortgage payments for families who cannot readily set aside capital; the nature of home ownership as a feasible form of investment for families of modest income; the value of real property and fixed loan terms as a "hedge" against inflation; the income tax savings through ownership deductions and sheltered equity income; the decreased housing expenditures and economic security that go along with mortgage fruition. On the negative side are some of the potential risks of the "caveat emptor" home purchase market, such as overpricing for the prevailing market and unexpected, serious defects in the condition of the house, though such risks are avoidable by the cautious, resourceful, and knowledgeable purchaser. However, the experience of the 235 program suggests that such risks may be great for many lower-income purchasers in the absence of effective safeguards against

14. Bernard J. Frieden, "Housing and National Urban Goals", The Metropolitan Enigma, (James Q. Wilson, Ed.), (Cambridge, Mass.: Harvard University Press, 1968), pp. 170-225, pp. 216-217.

consumer misinformation and abuse.¹⁵ Other risks are an inevitable aspect of ownership tenure: increased maintenance and repair burdens, a vulnerability to declining housing market and neighborhood conditions, and to the effects of local and national economic conditions on the viability of ownership and the resale value of the property.

In the wake of the home ownership casualties of the Great Depression of the 1930's -- characterized at its worst by 1,000 foreclosures a day¹⁶ -- there was little reason to be sanguine about the long-term economic benefits of home ownership in light of existential economic uncertainties. In 1945, on the eve of the post-war home building boom, John P. Dean published a caustic and exhaustive study of the institutional setting for home ownership in which he used the hindsight of the Depression to caution against the potential perils of home ownership:

"...it is safe to say that a tidal wave of home building and home buying will sweep over our postwar urban areas. With the American people steeped in the values of home ownership and flush with savings to buy homes, and with an eager construction industry encouraged from all angles to avert a postwar collapse of production, home ownership is likely to run rampant much as it did following World War I... America will no doubt look back on our time as an era in which society encouraged its families to stride ahead through a field deliberately sown with booby traps."¹⁷

15. U.S. House of Representatives, op. cit.

16. Martin Meyerson, Barbara Terrett, and William L.C. Wheaton, Housing, People, and Cities (New York: McGraw-Hill, 1962), p. 223.

17. Dean, op. cit., pp. 170-171.

By 1968, when the Section 235 program was passed, the positive experience of post-war home purchasers over two decades tended to discount Dean's Cassandra-like portents and argue for the potential economic benefits of ownership rather than its risks. An advocate of "home ownership for the poor" argued:

"The entry of millions of the depression poor into the middle class was aided by a rise in home values between the 1930's and 1950's. There should be no objection to the elevation of our current poor in similar fashion... if an owner loses his job and can no longer pay for his house, he still has something to sell. A renter has no alternative but to move, and nothing to salvage from his misfortune."¹⁸

While adverse circumstances were recognized as a potential threat to sustained ownership for the individual home owner, it was common to assume that a prevailing prosperity would continue to support sound purchase markets which yielded equity benefits even when a home owner was forced to sell.

Less visible than the potential economic benefits of home ownership, and less well recognized, are the more intangible functions which attach themselves to the attainment of home ownership among working and lower class families. At various reaches of the American social ladder, the perception of upward mobility and self-betterment -- the next rung up, if you will -- takes on different manifestations and forms. For those at the middle and upper reaches who have managed to secure the accoutre-

18. Robert Kolodny, "Should Poor Families Own?", Home Ownership for the Poor, by Charles Abrams in association with Robert Kolodny, (New York: Praeger Publishers, 1970), p. 197.

ments of higher status -- the advantages of a comfortable income, a socially-valued occupation, or an advanced education -- housing and residential choices may play a part in the perception and realization of one's status, but the choice of tenure tends to reflect a relatively reasoned preference among alternative residential arrangements and opportunities. Upward aspirations take on more widely recognized forms of accomplishment along avenues of occupational achievement, social recognition, power accretion, or individual self-realization. Lacking those advantages and the resources necessary to obtain them, those at the lower reaches of society tend to perceive the next step upward in terms which are more accessible to them. Within this social context, the attainment of home ownership tends to be regarded as a key aspiration and a signal accomplishment, a major differentiator which confers a degree of stability and respectability on the holder. In an historical study of an industrial town in Massachusetts, Thernstrom traces the mobility patterns of laboring families:

"By 1880 the undifferentiated mass of poverty-stricken laboring families, the 'lack-alls' who seemed at mid-century to be forming a permanent class, had separated into three layers. On top was a small but significant elite of laboring families who had gained a foothold in the lower fringes of the middle class occupational world. Below them was the large body of families who had attained property mobility while remaining in manual occupations, most often of the unskilled or semi-skilled variety; these families constituted the stable, respectable home-owning stratum of the Newburyport working class. At the very bottom of the social ladder was the impoverished, floating lower class..."¹⁹

19. Stephen Thernstrom, Poverty and Progress: Social Mobility in a Nineteenth Century City (Cambridge, Mass.: Harvard University Press, 1964), p. 164.

A striking confirmation of the pre-eminence of home ownership among blue collar families occurred in a 1940 study of the characteristics of American home owners:

"Homeowner families also include those who, for reasons of nativity and occupation, do not have the social attributes important for the achievement of status and 'social' security in our society, and so regard homeownership as a compensatory device for acquiring such status. Thus homeowners are more likely to include a greater share of foreign-born white families [than renters], who believe that 'a stake in the land' will provide a greater sense of belonging...homeowner heads of families are more likely to be engaged in physical production occupations than are tenant families and are less likely to be engaged in service occupations, professional or clerical."²⁰

The massive suburbanization that occurred in urban America after World War II, and the role of the media and advertising in casting the owned single family home on a quarter-acre lot as the residential norm, have undoubtedly served to sharpen rather than dull the aspirations of marginal urban families for home ownership.²¹ For those who preferred to own, and whose income and employment were sufficiently stable to validate that preference, the scarcity of affordable home purchase opportunities prior to the 235 program constituted a significant, if not crucial, mobility deprivation and a major constraint on residential opportunity.

C. Tenure and Policy

The lower-income ownership programs of the 1960's are, in a sense,

20. Lillian Cohen, "Family Characteristics of Homeowners", American Journal of Sociology, No. 55, May, 1950, pp. 565-571, p. 566.

21. George Sternlieb, The Tenement Landlord (New Brunswick, N. J.: Rutgers University Press, 1966), p. 6.

the legacy of previous federal policies which consistently promoted expanded home ownership and brought it within reach of the urban majority. The marriage between federal interests in national economic well-being and growth and private sector interests -- those of the building industry, the real estate industry, the banking industry, and organized labor -- has by now become axiomatic. The actualization of that relationship underlies the evolution of federal housing policy as a whole and, more pointedly, of those policies regarding home purchase.

In his study, John P. Dean traces the courtship and marriage of federal concerns with home building interests to the 1920's, during which the federal role took the form of a kind of informal boosterism of home purchase on the part of the Department of Commerce.²² Even earlier, as early as 1913, federal income tax policies had provided indirect incentives for home ownership in the form of tax deductions for mortgage interest and real estate property taxes.²³

22. Dean, op. cit., p. 42.

23. For a discussion of the tenure bias implicit in federal income tax policy and its implications for tax expenditures, see: Harry C. Kahn, Personal Deductions in the Federal Income Tax (Princeton, N. J.: Princeton University Press, 1960), pp. 4-6, 115-116; Patricia Leavey Hodge and Philip M. Hauser, The Federal Income Tax in Relation to Housing, (prepared for the Douglas Commission), Research Report No. 5 (Washington, D. C.: U. S. Government Printing Office, 1968); Committee for Economic Development, Financing the Nation's Housing Needs (New York: Committee for Economic Development, 1973), pp. 62-63; Henry J. Aaron, Shelter and Subsidies (Washington, D. C.: The Brookings Institution, 1972), Chapter 4; and William C. Baer, "On the Making of Beautiful and Perfect Social Programs", The Public Interest, Spring, 1975, pp. 80-98.

But it was not until the onset of the Depression and the rapid failure of the banking and construction industries, the major industrial casualties of the period,²⁴ that the federal government, first under President Hoover and subsequently under President Roosevelt, seriously addressed its attention to direct policy measures within the housing sector. In 1931, Hoover convened the President's Conference on Home Building and Home Ownership which embarked on a study of then present obstacles to viable home ownership and resulted in an unqualified endorsement of home ownership as a national aspiration (at a time when the risks were enormous): "Every American family which so desires and is able financially should OWN THEIR OWN HOME".²⁵ The period from 1932 to 1933 ushered in the first pieces of ownership-oriented legislation intended primarily as economic relief measures geared to stimulating the flow of capital through the banking system, which was impacted by deposit withdrawals and the frozen housing assets of failing mortgagors, and to the simultaneous relief of defaulting home owners. Hoover's Federal Home Loan Bank Act of 1932 strengthened the borrowing power of savings and loan institutions but accomplished little by way of relief to the rapidly increasing rolls of ailing owners.²⁵ Roosevelt brought about direct mortgage relief measures in 1933, through the creation of the Home Owners

24. Meyerson, et al., op. cit., p. 221.

25. President's Conference on Home Building and Home Ownership (Washington, D. C.: 1932), Volume II, p. 15.

26. Thomas B. Marvell, The Federal Home Loan Bank Board (New York: Frederick A. Praeger, Publishers, 1969), p. 22.

Loan Corporation which provided for the federal purchase of mortgages facing imminent foreclosure and for federal refinancing directly from the Treasury under longer terms and, thereby, lower monthly cash payments.

By 1934 the New Deal ownership policies had moved from economic stabilization objectives to economic stimulation through accelerated construction activity. Under the Keynesian macro-economic principles which guided the New Deal strategies, labor-intensive public works and private construction were crucial countercyclical channels for creating jobs and stimulating the levels of consumption in a depressed economy. The federal instrument for economic acceleration through private home building was the Federal Housing Administration (FHA) which was legislatively created in 1934. The FHA provisions represented a radical innovation to the restrictive mortgage system which had prevailed previously and which had been largely geared to relatively affluent purchasers.²⁷ Under FHA, the federal government underwrote long-term, low down payment mortgages through insurance premiums paid by the mortgagor, thereby overcoming the traditional reluctance of mortgage lenders to advance financing to the modest income market and liberalizing mortgage terms at no risk to the lender. The result was the expansion of the effective demand for new houses by bringing ownership within reach of large numbers of modest income families. A network of FHA insuring offices was set up throughout the country, and over a period of time FHA further liberalized mortgage terms and began to actively advocate home purchase

27. Henry J. Aaron, op. cit., pp. 76-77.

through a form of public salesmanship.²⁸ Dean observed the success of the FHA program by 1940 in capturing the modest income market:

"...The FHA plan has been held forth temptingly to families needing homes but able to pay for only modest housing. That these families have been brought increasingly into the fold is attested by the fact that among families purchasing FHA homes a rising proportion have incomes under \$2000: 19.8 per cent of the purchasing families in 1937, 28.5 per cent of the families in 1940, and 34.2 per cent of the families in 1941."²⁹

Despite the home construction standstill that occurred during the World War II mobilization, by 1944 FHA had insured a total of about 1.2 million mortgages accounting for more than a third (35%) of the mortgages advanced during the period. Although FHA mortgage insurance could be extended to multi-family rental properties, the bulk of FHA's business concentrated in the one to four-family house market.³⁰

But the FHA program did not address the housing deprivations of the urban poor and near poor, and intentionally ignored discriminated minorities.³¹ Although the Social Security Act of 1935 led to the provision of welfare shelter allowances for AFDC families, subsequent assessments of the allowance program indicate that it has had a very limited impact

28. Dean, op. cit., p. 50.

29. Ibid., pp. 53-54.

30. U.S. Department of Housing and Urban Development, 1969 HUD Statistical Yearbook, 1970, derived from Table 4, p. 28.

31. See: National Commission on Urban Problems (Douglas Commission), op. cit., p. 100; and Charles Abrams, Forbidden Neighbors (New York: Harper, 1955).

either in opening up home purchase opportunities for families of low income or in providing adequate rental accommodations.³² The public housing program created by the 1937 Housing Act further expanded the federal repertoire of economic pump-priming strategies through increased public construction and signaled an important shift in federal policy toward direct subsidization of housing opportunities for marginal urban households.³³

The Housing Act of 1937 defined as low-income those "families who are in the lowest income groups and who cannot afford to pay enough to cause private enterprise in their locality or metropolitan area to build an adequate supply of decent, safe, and sanitary dwellings for their use." Standards of affordability first incorporated into the Act were reflected in the prescribed maximum rent-income ratios set for public housing, which specified a 20 percent rent burden for families with at most two minors, and a 16 2/3 percent burden for families with three or more minor de-

32. See: U.S. Department of Health, Education, and Welfare, The Role of Public Welfare in Housing (Washington, D.C.: U.S. Government Printing Office, 1969); Martin Rein, Welfare and Housing, Working Paper No. 4, (Joint Center for Urban Studies of M.I.T. and Cambridge, Mass.: Harvard University, 1971); and George S. Sternlieb and Bernard P. Indik, The Ecology of Welfare (New Brunswick, N.J.: Transaction Books, 1973).

33. For a synopsis of issues surrounding the original public housing legislation, see: Lawrence M. Friedman, Government and Slum Housing (Chicago: Rand McNally and Co., 1968); and Leonard Freedman, Public Housing, The Politics of Poverty (New York: Holt, Reinhart, and Winston, Inc., 1969).

pendents.³⁴ Although these standards have since been revised,³⁵ what is significant is that the legislation established a concept of housing poverty -- and a corresponding definition of low-income -- which was based on the twin principles of maximum reasonable rent burden and economic exclusion from the local private supply of quality housing. These have formed the major public welfare underpinnings for federal intervention and assistance in the low-income housing arena ever since.

The two housing programs -- FHA and public housing -- which emerged by the late 1930's formed, by and large, the dual pillars of federal housing policy through the next two decades.³⁶ As such, they represented an implicit dualism in the federal conception of appropriate tenure opportunities for different strata of urban society. FHA promoted expanded ownership opportunities in the private purchase market for the stable and emergent middle class of the Depression and subsequently, together with its sibling

34. Freedman, op. cit., pp. 105-106.

35. See Robert Moore Fisher, 20 Years of Public Housing -- Economic Aspects of the Federal Program (New York: Harper and Row, 1959), pp. 223-227, for a history of rent-income ratio requirements. In 1969, the Brooke Amendment established a maximum rent-income ratio of 25 percent in all federally-assisted housing.

36. The other major ownership-oriented program was the Veterans Administration loan guarantee program legislated under the GI Bill of Rights in 1944. Although separately administered by VA, it was a variation of the FHA model, requiring no down payment or insurance payments on the part of the mortgagor. See: Sar A. Levitan and Karen A. Cleary, Old Wars Remain Unfinished (Baltimore: The Johns Hopkins University Press, 1973), pp. 155-159.

VA program,³⁷ for a rapidly suburbanizing middle class during the post-war years.³⁸ By contrast, the public housing program provided direct federal support for rental housing construction, publicly-owned and developed at the initiative of local housing authorities, targeted exclusively at a newly-defined constituency of "low-income" households.³⁹ In summing up the record of FHA by 1967, after more than thirty years of operation, the Douglas Commission was sharply critical of FHA's exclusionary policies toward lower income and minority households:

"The main weakness of FHA from a social point of view has not been in what it has done, but in what it has failed to do -- in its relative neglect of the inner cities and the poor, and especially Negro poor. Believing firmly that the poor were bad credit risks and that the presence of Negroes tended to lower real estate values, FHA has generally regarded loans to such groups as 'economically unsound'. Until recently, therefore, FHA benefits have been confined almost exclusively to the middle class, and primarily only to the middle section of the middle class. The poor and those on the fringes of poverty have been almost completely excluded."⁴⁰

Viewed as the body of federal housing policy which prevailed for more than twenty years, the two programs established a dual principle which

37. Ibid.

38. It is estimated that as much as 35 to 50 percent of post-war residential construction involved the FHA and VA programs. Meyerson et al., op. cit., p. 219.

39. The notorious "20 percent income gap" clause of the 1937 public housing legislation further excluded families with incomes above 80 percent of the housing poverty line at which maximum "low-income" levels were set. As a result, public housing benefits were not extended to all low-income families. See: Friedman, op. cit., pp. 110-111.

40. National Commission on Urban Problems (Douglas Commission), op. cit., p. 100.

guided federal commitments in the housing sector: an expansionary home ownership policy for the credit-worthy middle class, and public rental housing for the poor and near poor. With regard to tenure, an invisible dividing-line had been implicitly drawn -- largely in terms of income, but also by class and race -- which determined those for whom each form of tenure would receive federal encouragement.

The pervasive tenure dualism in federal policy was gradually eroded during the 1960's. Although the 221(d)(2) mortgage insurance program begun in 1961 was a variant of the FHA model which was legislatively targeted at moderate-income families,⁴¹ in some urban areas -- most notably Milwaukee and Detroit⁴² -- it served relatively large numbers of families with marginal incomes. By 1965, the emerging move-

41. "Moderate-income" was administratively defined as the income range below the local median income but above the maximum income limits for admission to public housing. The upper limit could be extended by exception, and the exception became the rule. See: National Commission on Urban Problems (Douglas Commission), op. cit., p. 145; and The President's Committee on Urban Housing (The Kaiser Committee), A Decent Home (Washington, D. C.: U. S. Government Printing Office, 1969), p. 62.

42. The two cities came to represent polar opposites in terms of 221 ownership programs; Milwaukee's program was considered a positive model to emulate, while Detroit's was the most heavily scandalized. For a description of the Milwaukee FHA-Welfare Department program, see: HEW, SRS Newsletter (Community Services Administration), August 27, 1970; and U. S. Congress, Joint Economic Committee Hearings, op. cit., Lawrence Katz' testimony. For a journalistic account of the Detroit program, see: Brian D. Boyer, Cities Destroyed for Cash, The FHA Scandal at HUD (Chicago: The Follett Publishing Co., 1973).

ment of non-profit housing sponsors,⁴³ which had been catalyzed by new federal programs subsidizing privately-sponsored rental housing, had created a number of local groups that were beginning to experiment with housing rehabilitation and subsequent purchase by low-income families; some of these efforts received federal funding as demonstration programs. The first legislative recognition of the concept of low-income home ownership occurred in 1966 with the passage of the 221(h) program, as a direct and supportive response to the innovative efforts of several non-profit groups. But the program was small in scale, and restricted to housing rehabilitated by non-profit sponsors. Conceived as a piece of special legislation rather than a major housing strategy, it received little more than passing attention from the Congress or the Johnson administration. It was Senator Percy's aggressive crusade on behalf of low-income home ownership in 1967 that first served to focus political and public attention on the issue and to escalate the question of tenure in relation to low-income housing policy to the level of a major national policy issue.⁴⁴ The new-found currency of the low-income ownership concept led to new administrative initiatives, among them the Turnkey III program of 1967 which enabled local housing authorities to provide

43. Langley C. Keyes, "The Role of Nonprofit Sponsors in the Production of Housing." Papers Submitted to the Subcommittee on Housing Panels, U.S. House of Representatives, Committee on Banking and Currency, 92nd Congress, 1st Session, June, 1971, pp. 159-181.

44. Christa Lew Carnegie, "Homeownership for the Poor: Running the Washington Gauntlet", Journal of the American Institute of Planners, Volume XXXVI, No. 3, May, 1970, pp. 160-167.

suitable units to public housing families under a long-term lease-purchase plan.⁴⁵

But this series of discrete low-income ownership programs were overshadowed in both significance and scale by the passage of the Section 235 program in 1968, which represented the final breach in the tenure dualism of the earlier decades. The 235 program extended ownership opportunities for families of lower income beyond the confines of the non-profit sector and the public housing sector to the open purchase market constrained only by limits on purchase price. Consistent with the ambitious federal housing goals embedded in the 1968 Act, the program sought to create incentives on a relatively massive scale which would mobilize private sector involvement in the production of new and rehabilitated homes for 235-eligible families, envisioning the production of as many as 100,000 units annually during the program's early years. The new interest-rate subsidy format potentially lowered the effective rate of interest for purchasers to one percent. Although this form of subsidy tends to be regressive in its distributive effects by income group, providing potentially

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larger subsidies to higher income purchasers, it constituted the deepest

45. For an evaluation of Turnkey III, see: Comptroller General of the United States (GAO), Problems in the Homeownership Opportunities Program for Low-Income Families (Washington, D.C.: U.S. Government Printing Office, March, 1974).

46. Victor E. Bach, "The 235 Home Ownership Subsidy Program: The Wrong Instrument for the Right Purpose", Joint Center for Urban Studies, Working Paper No. 2, Cambridge, Mass., January, 1971, pp. 6-9.

federal subsidy available in the private market. Viewed explicitly as a "socially-oriented" ownership program, which would involve substantial federal risks and costs, the Section 235 program represented an unprecedented federal recognition of the values of alternative tenure opportunities for urban lower-income families.

With the Housing Act of 1968, a new constituency of "lower-income" families was coined. There is perhaps no more confusing a definition of a program constituency in the federal lexicon, for it constitutes a set of program quotas rather than a consistent definition of eligibility. Within each FHA jurisdiction, at least 80 percent of the families assisted under the 235 program were to have incomes within 135 percent of the maximum permissible for entry into public housing. Remaining participants could be drawn from among families having incomes above this limit but within 90 percent of the locally-specified limit for moderate-income families. Moreover, the Act promoted "a preference for families whose incomes are within the lowest practicable limits for achieving homeownership with assistance under this section."

A somewhat clearer image of the 235 program's lower-income constituency emerges from consideration of the "135% provision" in relation to the concept of housing poverty or "low-income" as legislated in 1937. Since maximum income limits for public housing eligibility lie 20% below the locally-established housing poverty line, for a given household the line can be extrapolated as 125 percent of the income ceiling for admission to public housing. A program intended exclusively for the housing-poor defined as low-income by the 1937 Act would have as its income

ceiling the 125% figure based on public housing eligibility. As a result, the 235 program defines predominantly a constituency which potentially includes all low-income families below the housing poverty line as well as families whose incomes lie marginally above the line.⁴⁷ In contrast with previous programs, the lower-income constituency defined in 1968 can be judged to adhere most closely to the original definition of housing poverty advanced by the 1937 Act, while rectifying past inequities -- most notably the 20 percent income gap in public housing eligibility and the exclusion of public housing eligibles from the Section 221 moderate-income rental assistance programs.

Although the Section 235 program was subsequently dubbed "home ownership for the poor", the intended constituency corresponded more closely to traditional concepts of housing poverty than to concepts of income poverty which had emerged during the 1960's. While the housing-poor of the late 1960's were inclusive of the income-poor, they were hardly comparable constituencies. By 1966 standards, a family of four could be eligible for Section 235 purchase under the "135% provision" with an income of as

47. By at most 8 percent. In 1966, the average locally-set housing poverty line for a family of four can be estimated at about \$5,000 annual income. (Derived from: National Commission on Urban Problems, op. cit., Table 14, p. 133.) The "135% provision" -- representing at least 80 percent of the 235 constituency -- would extend that line by only \$400, allowing similar households with incomes of up to \$5,400 to participate.

much as 56 percent above the income poverty line.⁴⁸ Consequently, at its inception the 235 program addressed itself to a relatively broad substratum of urban society, one which potentially included many working class and lower middle class households⁴⁹ as well as the harder-core income-poor.

D. Home Ownership and Low-Income Housing Policy Perspectives

What role should home ownership occupy as part of a coherent national policy addressed to the housing problems of urban low-income families? The question itself invites controversy by challenging commonly-held precepts concerning the poor and the role of public policy. It is significant that among the innovative housing programs of the Great Society period, which forged new subsidy mechanisms opening up private rental housing for low-income families,⁵⁰ the concept of a major strategy of low-income home purchase constituted one of the last frontiers to be crossed. The notion of enabling the urban housing-poor to purchase homes flew in

48. Derived from: National Commission on Urban Problems (Douglas Commission), op. cit., Table 14, p. 133. The "90% of moderate-income" provision would raise eligible income levels even further.

49. For a good working definition of these class distinctions, see: Herbert Gans, The Levittowners (New York: Random House, 1967), pp. 24-31.

50. Most notably the rent supplement and leased housing programs enacted in 1965. For a description of the controversy surrounding the rent supplement legislation, see: Joe R. Feagin, Charles Tilly, and Constance W. Williams, Subsidizing the Poor: A Boston Housing Experiment (Lexington: Lexington Books, 1972), Chapter 3, pp. 47-65.

the face of the conventional wisdom that the market risks, the higher costs, and the encumbering responsibilities attached to home ownership made it a questionable, perhaps unattainable benefit for many families at the margins of urban society. Ownership was an appropriate housing arrangement only for those who could afford it on their own (or with federal mortgage insurance). On the other hand, to the extent that the benefits of ownership might be realizable by lower-income households, there was an inherent incongruence in the notion of subsidizing home purchasers who might ultimately profit from the sale of their homes.⁵¹

The question of tenure choice as an issue of low-income housing policy and its relation to policy objectives, as they might be formulated, is one which needs to be considered within the context of broader perceptions of the nature of urban housing problems and of appropriate policy responses. In so doing, it needs to be recognized from the start that there is no such single policy-theoretical framework on which experts would be likely to agree. On the contrary, there are differing, competing perceptions of the underlying nature of urban housing problems as a policy issue and of the role of public policy in addressing these problems. These alternative views or policy perspectives -- here identified as the adequist, relativist, and functionalist perspectives -- represent significantly different ideological positions or policy orientations in regard to housing and the

51. Realizing this, Senator Percy originally proposed a mechanism for the recovery of federal subsidies upon sale of the house, out of accumulated equity and possible capital gains.

urban poor, based on important differences in underlying values and assumptions. As a result, within each perspective the question of tenure choice takes on a different set of valences and priorities.

The Adequist View

Under the adequist view, urban housing problems are perceived primarily in terms of housing supply and accommodation. Its focal concern is with the adequacy of the urban housing stock both in terms of the quantity of units available to meet needs and in terms of the quality of the occupied stock as judged by accepted, measurable standards of minimally decent housing accommodation. One analyst has termed these paired problem syndromes as the "too little housing" problem and the "bad housing" problem.⁵² According to this view, housing deprivation⁵³ can be conceived in fairly objective, measurable terms which reflect the degree to which housing occupancy fails to conform to minimal criteria or standards, such as standards related to the physical condition and design of dwelling units; housing cost burdens in relation to household incomes; the number of rooms needed to accommodate households of given size and composition; and, at times, standards related to neighborhood qualities and characteristics. The conventional concept of "substandard" housing is itself a

52. Henry J. Aaron, op. cit., p. 2.

53. For a recent operational definition of housing deprivation in relation to housing standards, see: David Birch, et al., America's Housing Needs: 1970 to 1980 (Cambridge Mass.: Joint Center for Urban Studies of Harvard University and M.I.T., December, 1973).

manifestation of the adequist orientation.

Such standards are useful indicators or benchmarks for assessing the distribution and maldistribution of housing consumption in the aggregate, and for planning further policy interventions. But it is not the use of standards, per se, that characterizes the adequist orientation, so much as their application to policy. Adequist housing policy tends to incorporate these standards as policy objectives. That is, policy succeeds or fails in the degree to which it fosters a redistribution of housing consumption which more closely conforms to prescribed standards of housing adequacy. In this sense, adequist policy interventions focus primarily on the aggregate quality of the occupied housing stock and usually involve strategies geared to expanding or upgrading the supply so as to deliver more adequate housing accommodations to the urban housing-deprived. For the adequist, a policy which succeeds in bringing housing occupancy to within standards, at minimal public costs, constitutes a solution of the urban housing problem.

Deriving from nineteenth century concerns about the health conditions and decency of urban slum housing⁵⁴ and grounded in environmentalist precepts relating the betterment of housing conditions to social betterment,⁵⁵ the adequist view has dominated most local and federal policy interventions to the present, with its emphasis on "decent, safe, and

54. Friedman, op. cit.

55. See the early housing reformers: Jacob A. Riis, How the Other Half Lives, (originally published in 1890), (New York: Hill and Wang, 1957); and Lawrence Veiller, Housing Reform, 1910.

sanitary" shelter. Some of the dilemmas inherent in the adequist view are reflected in the shortcomings of past policies which delivered sound housing at reasonable costs, but failed in other respects -- witness the complex of factors that transformed the high expectations for public housing into what has been called a "dreary deadlock",⁵⁶ a "graveyard of good intentions".⁵⁷

The Relativist View

The relativist view is similar to the adequist view in that it also emphasizes the central importance of housing as a commodity of consumption and concerns itself with differential patterns of consumption which characterize the distribution of housing attributes in our society. But it rejects absolute standards of housing adequacy as a useful way of approaching urban housing issues meaningfully, and advocates a social-dynamic interpretation of housing problems and policies. From this perspective, housing deprivation is viewed as socially relative in nature. That is, housing dissatisfactions are seen as emerging from distributive inequities which relegate inferior housing to the poor -- inferior in terms of broad socially-defined norms and expectations concerning what constitutes acceptable housing, regardless of whether minimal standards of housing adequacy are met. Within the context of American society, which prizes upward mobility and maximizes expectations, the relativist argues

56. Catherine Bauer Wurster, "The Dreary Deadlock of Public Housing", Architectural Forum, May, 1957.

57. Term coined by Glazer, op. cit.

that the social meanings attached to housing, and its ability to stigmatize and stratify, lie at the heart of the urban housing problem.

This point of view is best articulated by Nathan Glazer. After comparing physical housing conditions among major industrial nations, Glazer found that American housing was generally superior. Yet this country, more than others, experiences an urgently felt and chronic problem. Considering the apparent paradox, Glazer observes:

"Indeed, the issue may not be whether housing, in terms of any world or absolute standard, is adequate or crowded. It may be: Where does one's housing stand in terms of the standards of the system, and what does falling behind that standard mean? In a society in which quarter-acre lots become the norm, anything less will be correlated with a whole range of measures of poor health, family instability, and social disorganization... But it is not housing as such that has an effect, but housing as mediated through a complex culture and the expectations it variously distributes among its people."⁵⁸

Despite the diversity of urban society, it is generally acknowledged that the poor tend to share mainstream norms and aspirations⁵⁹, in housing and other aspects of life betterment, although they lack the means to achieve them. The effect of the communications media has been to sharpen further the awareness among the housing-deprived of the gap between housing poverty and prevailing middle class standards. Recent improvements in urban housing conditions (by adequate standards) have not mellowed the sense of distributive injustice which has been intensified by the

58. Ibid., p. 26.

59. See: Herbert J. Gans, "Culture and Class in the Study of Poverty" and Lee Rainwater, "The Problem of Lower-Class Culture and Poverty-War Strategy," both in On Understanding Poverty, (Daniel P. Moynihan, ed.), (New York, Basic Books, Inc., 1968), pp. 201-259.

media. Sternlieb observes:

"The effect of slum housing on the 'psyche' of its inhabitants has changed markedly over the years. . . Through the media of communications, the standard of 'appropriate' life in housing has risen very markedly. At the turn of the century there was no common denominator of appropriate expectation for all people. Today the degree of popular knowledge of the discrepancy between the irresistably promulgated standard of what the good life is for middle-class Americans, and that which is actually endured among depressed urban groups is the chief differentiator between the present period and that of the past."⁶⁰

From the relativist perspective, the proper objective of low-income housing policy is to provide upward mobility within the housing sector, that is, to raise the level of housing consumption among the poor to approximate more closely middle-class norms and values:

"...housing policy has permitted the majority of American families to improve their living conditions, and to gain family settings for themselves that were superior to those they left. It has done little for substantial minorities of poor families who have not had the resources to achieve what society considers (and they do, too) minimally desirable housing; for them we must devise income maintenance policies that permit them to achieve such housing, housing subsidies that work to the same effect..."⁶¹

The failures of public housing can be seen as partial confirmation of the relativist view. By producing socially inferior, stigmatized housing for the urban poor, albeit satisfactory by adequist standards, public housing recreated the syndrome stereo-typically associated with slum conditions. Sam B. Warner, the urban historian, noted the sad fate of a philanthropic housing effort in Boston at the turn of the century which had produced only minimal housing, and concluded:

60. George Sternlieb, The Tenement Landlord (New Brunswick, N. J. : Rutgers University Press, 1966), p. 6.

61. Glazer, op. cit., p. 51.

"...slum housing is one of the prices that a society pays for allowing any major amount of its building to proceed at a level below its common understanding among the middle class as to what constitutes a satisfactory home environment."⁶²

By replacing physical standards of housing adequacy with social standards of acceptability, relativist policy aims at a much vaster redistribution of housing consumption than does adequist policy. It is this fact that makes it far more vulnerable to questions of economic and political feasibility. To what extent is society willing to pay the costs of providing the urban housing-poor with opportunities that approximate the housing amenities enjoyed by the middle class?

The Functionalist View

The functionalist view diminishes the importance of relative housing consumption patterns, whether assessed by the adequist's physical standards or by the relativist's social norms, as a basis for interpreting housing issues or formulating policy. Based on an holistic⁶³ view of the life conditions of the economically marginal urban family, the functionalist perspective concerns itself with housing only to the extent that housing constitutes a functional or dysfunctional aspect of broader life choices, conditions, and opportunities among the urban poor. Anthropocentric in

62. Sam B. Warner, Jr., Streetcar Suburbs, (Cambridge, Mass.: Harvard University Press), (A publication of the Joint Center for Urban Studies of M.I.T. and Harvard, 1962), p. 105.

63. For a definition of the term "holistic", see: Robert S. Weiss, "Alternative Approaches in the Study of Complex Situations", Human Organization, Fall, 1966, pp. 198-206.

its focus on the microcontext of the family, and holistic in its broad range of life concerns, the functionalist view attaches primary importance to the role housing plays in the economic and social consolidation of the marginal family, and less importance to observable aspects of housing consumption as a critical factor in isolation from these broader priorities. Housing standards as such -- whether physical or social -- are viewed as externally imposed values often unrelated and, at times, antagonistic to the central needs and concerns of the poor. Policies which elevate those standards as a mandate for public action may conflict with the basic interests of the poor, regardless of their intent. For example, from the functionalist standpoint, it may be preferable for a low-income family to choose to occupy substandard, slum housing because of the income maneuverability which low rent makes possible:

"Most people who live in slums do so because they cannot afford better housing. Their basic trouble is poverty, not poor housing. They need better housing, but they also need better health services, better food, better education. If our institutions have the effect of raising housing standards but make the poor pay the costs in increased rents, we are doing the poor a dubious service. Whatever name we give to what we are doing -- 'renewal', 'rehabilitation', 'improvement' -- if it forces the poor to live beyond their limited means, if it forces them to pay for a certain standard of housing whether or not they wish to do so, we are making poverty more of a box than before."⁶⁴

Although the impoverishments and risks of slum living are recognized in the functionalist perspective, so too are the functions which these areas

64. Lisa R. Peattie, "Social Issues in Housing", Shaping an Urban Future, Bernard J. Frieden and William W. Nash, Jr., eds., (Cambridge, Mass.: M.I.T. Press, 1969), pp. 15-34, p. 32.

potentially serve: access to job opportunities, proximity to social resources represented by kinfolk and persons of similar ethnic origin, the maintenance of satisfying associations within the community.⁶⁵ The imposition of external standards of residence are seen as deriving from materialist and bureaucratic values having little to do with the existential needs of the poor:

"If there were simple or invariable correspondences between material products and human satisfactions (and frustrations) there would be no issue and the problem of standards would be easily resolved... it is perverse to attach human values to things or the measure of things. Yet this is what is done in common housing practice. Housing problems are defined by material standards... more is better; more plumbing is better than less plumbing, more space per person is better than less space... According to those for whom housing is an activity, these conclusions are absurd. They fail to distinguish between what things are, materially speaking, and what they do in people's lives."⁶⁶

The functionalist critique of American housing policy finds its ultimate confirmation in the successful urban squatter settlements of Latin America.⁶⁷ Beginning as rudimentary shanty settlements, they provide rela-

65. See: Oscar Lewis, "Epiolgue: Cruz Moves to a Housing Project", La Vida (New York: Random House, 1965), pp. 661-669; John Seeley, "The Slum: Its Nature, Use, and Users", Journal of the American Institute of Planners, 1959, Volume 25, pp. 7-14; and Marc Fried and Peggy Gleicher, "Some Sources of Residential Satisfaction in an Urban Slum", Journal of the American Institute of Planners, November, 1961, pp. 305-315.

66. John F. C. Turner, "Housing As A Verb", Freedom to Build, (John F. C. Turner and Robert Fichter, eds.), (New York: The Macmillan Co., 1972), p. 152

67. See: John C. Turner, "Barriers and Channels for Housing Development in Modernizing Countries", Journal of the American Institute of Planners, May, 1967, pp. 167-181; and Peattie, op. cit.

tively secure tenure while demanding little cost, and undergo physical transformation and improvement as families prosper within the urban economy. Comparing the American and Latin American institutional context, Peattie begins to suggest what might be the underpinnings of a functionalist housing policy:

"...our institutions do less well in serving the people at the bottom than do the 'less developed' institutions of the Latin American countries. Our general level of housing standards is better, but standards, I believe, are not as relevant to the people at the bottom as are some other aspects of housing: Housing as a means of access to opportunity; housing at costs such as to make income maneuverability possible; house ownership as a means of economic and social consolidation; house construction as a path of entry into the skilled labor market for the unskilled worker."⁶⁸

"We will have to shift from a focus on buildings to one on people and social institutions and social trends, from a focus on housing standards to one on housing needs, to one which treats housing not simply as an economic and social material, but also as an economic and social resource. And then we will have the sizeable job of designing and creating the institutions which will do what needs to be done."⁶⁹

Turner places a high premium on consumer choice and autonomy within an open system of housing resources which can be used flexibly to suit the needs of the individual household:

"...if housing is treated...as a means to human ends, as an activity rather than as a manufactured and packaged product, decision-making power must, of necessity, remain in the hands of the users themselves... This is not to say that every family should build its own house, as the urban squatters do, but rather that households should be free to choose their own housing, to build or direct its construction if they wish, and to use and manage it in their own ways... No house can be

68. Peattie, op. cit., p. 29.

69. Ibid., p. 34.

be built and maintained without land, without tools and materials, without skilled labor (and management), and without an exchange system which allows the users to obtain resources they do not possess themselves... In housing based on open services, the builder, buyer, or householder is free to combine the discrete services in any way his own resources and the norms governing their use allow."⁷⁰

The human resources and energies, manifested in the self-help efforts which progressively transform the squatter settlements, are viewed as wasted in American society where users are relegated to passive roles as consumers of packaged housing rather than as decision-makers and participants in the housing production process.⁷¹ Within the American context, the strongest articulation of functionalist policy has been in the self-help housing movement which occurs largely in rural contexts but has also been applied to urban housing rehabilitation geared to low-income home purchase.⁷² Current policies promoting urban homesteading in declining neighborhoods have strong functionalist implications, but they have not yet proved to be feasible as a lower-income housing strategy.⁷³

70. Turner, "Housing As A Verb", op. cit., p. 154.

71. Ibid., p. 174.

72. See: OSTI, (Organization for Social and Technical Innovation), Self-Help Housing in the U.S.A. (Cambridge, Mass.: OSTI, Inc., 1969); and Turner and Fichter, Freedom to Build, op. cit., particularly William C. Grindley, "Owner-Builders: Survivors With a Future", pp. 3-21, and Rolf Goetze, "Urban Housing Rehabilitation: Two Approaches", pp. 53-72.

73. See: Chris W. Drewes, "Homesteading 1974: Reclaiming Abandoned Houses on the Urban Frontier", Columbia Journal of Law and Social Problems, Spring, 1974, 10: pp. 416-455; and James W. Hughes and Kenneth D. Bleakly, Jr., Urban Homesteading (New Brunswick: Center for Urban Policy Research, 1975).

Alternative Views of Tenure

Under the adequist approach to low-income housing policy, tenure choice issues tend to be subordinate to concerns about the quantity and quality of the housing stock and its capacity to accommodate low-income households within acceptable standards of occupancy, condition, and cost. The direct provision of ownership opportunities for lower-income families is a less focal concern, with limited relevance. The strongest adequist arguments for lower-income ownership programs stress its values in terms of housing conservation through incentives for improved maintenance, and as a way to conserve deteriorating slum neighborhoods:

"There is no question of the significance of landlord residence, particularly of single parcel landlords, as insurance of proper maintenance of slum tenements...It is the resident landlord, and only the resident landlord, who is in a position to properly screen and supervise his tenantry. No one-shot wave of maintenance and paint up-sweep up campaign can provide the day-to-day maintenance which is required in slum areas...Given the dearth of available financing, which is currently the case in the slums, there is obviously no alternative but to provide something in the way of long-term FHA guaranteed mortgages for slum tenement purchases by residents."⁷⁴

Although the adequist view does not necessarily ignore other values which may be attached to home ownership, such values do not assume a very high priority in the scheme of things. By and large, the adequist perspective, to the extent that it considers tenure options for the housing-poor, tends to view home ownership as instrumental to other housing objectives rather than as an end in itself.

74. George Sternlieb, The Tenement Landlord, op. cit., pp. 228-229.

By contrast, relativist concerns with social norms and preferences, and with their role in urban housing issues, tend to place the single-family house and home ownership close to the top of the policy agenda:

"The overwhelming preference of the American family in housing is the single-family home, preferably owned, preferably detached."⁷⁵

At present, attainment of the mainstream norms embodied in the single-family house is strongly contingent on purchase. In 1960 about 70 percent of the national housing stock were single family units; about 89 percent of these were owned by their occupants.⁷⁶ However, the evidence also suggests a strong, independent preference for ownership tenure, an "urge to own" which goes beyond the residential amenities associated with the single-family house.⁷⁷ The constellation of goods that may be packaged in the image of the owned home was neatly described as follows:

"Simple as the attractions of homeownership may appear at first thought, a wide variety of motives may be involved. The constellation 'owned home-suburbs-outdoor space' may be a single image, but it is three ideas which presumably could be satisfied separately. Other motives that people offer are these: feelings of independence; ready ability to adapt an owned home to one's own needs; more economy or a sound long-term investment; ownership represents forced savings; security for old age; rental housing is simply unavailable; greater personal freedom; a more desirable family environment; and neighborhoods are better where one purchases. These are motives that families volunteer."⁷⁸

75. Glazer, op. cit., p. 29.

76. Ibid., p. 31.

77. Irving Rosow, "Home Ownership Motives", American Sociological Review, XIII, (December, 1948), pp. 751-756.

78. Alvin L. Schorr, Slums and Social Insecurity, "Psychological Factors in Buying Housing", U.S. Department of Health, Education, and Welfare, Washington, D.C., 1966, p. 148.

The potential significance of housing as a conveyor of social status and as a perceived channel of upward social mobility is fundamental to the relativist perception of housing issues. To the extent that home ownership is a dominant facet of widely-held cultural values reflected in housing -- as in the "stable, respectable home-owning stratum" of laboring families that Thernstrom describes in late nineteenth century Newburyport⁷⁹ -- it becomes an integral consideration in the relativist formulation of housing policy. It is possible, nevertheless, to conceive of a relativist-oriented policies which raise housing consumption among the poor to a level more closely resembling mainstream standards without necessarily providing opportunities for home ownership. For instance, if public housing provided well-designed, low-density rental units on scattered sites in preferred neighborhoods, this would constitute a substantial improvement over past policies in relativist terms. Whether such policies would constitute a solution to the relativist formulation of the housing problem rests on the ultimate significance of tenure in itself, of owning over tenancy. So long as the conditions of tenancy -- under public or private landlordship -- represent deeply-felt dissatisfactions, dysbenefits, or inequities in regard to the poor, that distinguish them in economic or social terms from the rest of society, the drive toward home purchase will continue to absorb the energies and aspirations of families at the lower socioeconomic reaches. If that is the case, then a relativist formulation of housing policy will need to take into account feasible tenure options.

79. Stephen Thernstrom, op. cit., p. 164.

By contrast, the functionalist approach views tenure choice as a fundamentally significant issue in low-income housing, more so than either of the other perspectives.

"If we are thinking of the 'housing problem' merely as a problem of providing people with places to live, it is not crucial whether those places are owned or are rented by those who live in them. But if we think of the 'housing problem' as part of the whole problem of deploying resources to handle a given situation in life, the difference between rental and ownership can be extremely important."⁸⁰

Turner defines shelter, location, and tenure as the three major functional parameters of housing through which the family's existential goals -- identity, opportunity, and security -- are potentially furthered or thwarted.⁸¹ Ownership is viewed as an opportunity to invest family capital and, thereby, a form of economic consolidation, particularly in a rapidly inflating economy where failure to invest in capital goods means a rapid loss in family savings.⁸² When compared with other channels of investment, house investment is not only the most familiar form of capital realization for most marginal urban families. It is also one which can absorb savings in irregular and small amounts, depending on how much money the family is able to set aside from immediate necessities.⁸³

Ownership is also seen as serving important psychological and social

80. Peattie, op. cit., p. 24.

81. Turner, "Housing As A Verb", op. cit., pp. 164-167.

82. Turner, JAIP, op. cit., pp. 172-174.

83. Peattie, op. cit., pp. 24-27.

functions. Turner speaks of "the security provided by the possession of a homesite",⁸⁴ but he is referring to the freehold ownership -- de facto or de jure -- the Latin American squatter maintains over property rather than the system of mortgages and liens more characteristic of ownership in this country.⁸⁵ But the mortgagor-owner also has a more secure hold over this residence, within the constraints of indebtedness, than does the renter who is more subject to the imposition of a landlord's authority and more vulnerable to rent increases or possible eviction.

Peattie speaks of the sense of freedom and potency, that often go along with ownership, and of the rise in social status that accompanies property mobility among those who have low occupational status and limited mobility channels.⁸⁶ Stable ownership also provides an opportunity for residential consolidation, for the social and psychological benefits that may derive from stable residence in the same neighborhood over a period of time -- maintaining a stable network of associations, avoiding disruptions in the school-life of children, enjoying a familiarity with places, people, and local institutions.

Large households stand to reap the greatest benefits from ownership

84. Turner, JAIP, op. cit., p. 172.

85. U.S. Bureau of the Census, The 1970 Census of Housing, Volume V, Residential Finance, Table 1b, p. 135. Over 87 percent of single-family owner-occupied properties within SMSA's are financed with the use of mortgage instruments. The remaining 13 percent are largely outright cash purchases or house acquisition through a gift or an inheritance.

86. Peattie, op. cit., pp. 26-27.

housing. Apart from the greater amount of elbow room -- both inside and outside -- that a house would afford, the scarcity of adequate low-rent opportunities for large families, and the objections to large numbers of children exposes them to the more marginal, disinvesting landlords willing to accept them, resulting in repeated, frequent moves and consequent disruptions.⁸⁷ In Milwaukee the FHA director, Lawrence Katz, managed to convince the local Welfare Department that it would be cheaper to pay higher shelter allowances for ownership housing than to pay the frequent moving costs many of their beneficiaries incurred.⁸⁸

In summary, each of the three dominant policy orientations -- adequist, relativist, and functionalist -- make differing claims for the priority which should be accorded to ownership tenure within a purposive policy framework for low-income housing. The adequist view attaches no intrinsic value to home ownership, and sees its value primarily as a strategy for housing preservation in the city's impoverished or transitional neighborhoods. For the relativist, the quest for better housing among the urban poor is seen as a mode of mobility striving in a relatively affluent society which induces high expectations. From this perspective, policies which thwart the attainment of mainstream norms -- are doomed to failure; to

87. See: Walter Smart, Walter Rybeck, and Howard E. Shuman, The Large Poor Family--A Housing Gap, Report for the National Commission on Urban Problems, 1968; Sternlieb and Indik, op. cit.

88. Interview with Lawrence Katz, FHA Director, Milwaukee, who developed the Welfare Department home ownership program. (Sept., 1972)

the extent that the single family house and ownership of it are regarded as important societal norms they are crucial relativist considerations for low-income housing policy. The functionalist view recognizes ownership tenure as a source of housing security and as a significant opportunity within the housing system for furthering the economic and residential consolidation of the marginal urban family.

Chapter III. THE FEDERAL EXPERIENCE: A CASE STUDY OF THE FORMULATION AND IMPLEMENTATION OF THE 235 PROGRAM

This account of the Section 235 program through its legislative formulation and the early years of implementation -- as it might have been gleaned by chronicling major program events and reports in Washington -- serves several purposes with regard to the subsequent survey analysis of consumer experience in the program: (1) It provides some understanding of the complex of forces, factors, and constrained choices that account for the particular form and operation of the 235 program mechanism, as one among other conceivable strategies toward lower-income ownership, and that helped shape subsequent consumer experiences, (2) Because the 235 program and its underlying concepts were hotly debated both during its legislative career and during the subsequent controversies that emerged upon its implementation, a chronicle of federal events in the program illuminates many of the issues surrounding the program and frames some of the key foci of the consumer-based assessments that follow, (3) Since the federal images of the program among the policy community evolved largely in the absence of systematic data derived at the level of the program participant, this account provides a potentially useful counterpoint to consumer assessments of their own experience of the program.

A. Formulation of the Program

Sullivan's 221(h) Home Ownership Program

In 1966, the concept of low-income home ownership represented a major departure from previous federal policies. Nevertheless, the legislative inception of an ownership program explicitly intended for low-income purchasers -- the section 221(h) amendment to the National Housing Act -- received only passing attention and no debate at all. In legislative deliberations that were dominated by issues surrounding the formulation of the Model Cities Program, mention of the amendment was infrequent and largely at the initiative of Representative Leonor K. Sullivan of St. Louis who had introduced it. She succeeded in obtaining general, nodding approval both from fellow members of the House Banking and Currency Committee and from Committee witnesses.¹

Sullivan's advocacy of the 221(h) program can be seen as a by-product of the non-profit housing sponsor movement which had been gathering momentum since the early sixties.² The Bicentennial Civic Improvement Association, operating in Sullivan's district, had been attempting to rehabilitate and sell homes to low-income families as part of a broad, community-based strategy of neighborhood improvement. Despite the original willingness of local banks to participate in BCIA's innovative program, their decision to limit their investments in a relatively high-risk area of

1. U.S. House of Representatives, Hearings, Committee on Banking and Currency, Subcommittee on Housing, 89th Congress, 2nd Session, February 28, March 1-4, 8, 9, 1966.

2. Keyes, op. cit.

St. Louis had seriously frustrated BCIA efforts to mount a program on a scale large enough to make a visible difference in the neighborhood.

Sullivan was impressed with the attempt to "rehabilitate neighborhoods as well as houses."³ She was also taken with the idea of home ownership as a social strategy:

"The idea is to give the low-income family a real stake in its own housing -- not as a tenant but as a purchaser. This is the best approach in trying to rescue neighborhoods from blight."⁴

But Sullivan's conception of low-income home purchase, as embodied in the 221(h) formulation, was as a component of a broader strategy of neighborhood rehabilitation rather than as an end in itself. Moreover, it relied on the initiative of local non-profit sponsors and their willingness to act as intermediaries in the rehabilitation and sale of property. Sullivan's observation of the BCIA program had convinced her of the importance of the sponsor's role in selecting families, and in providing assistance and counseling to families making the transition to ownership. Thus, the 221(h) program was not intended as an open market purchase program for low-income families. As a response to a growing number of experimental non-profit efforts around the country which were similar to BCIA's program, all of them encountering the same difficulties in obtaining mortgage capital, Sullivan's program represented a logical, incremental extension of Section 221 rental assistance for non-profit sponsors to meet changing

3. U.S. House of Representatives, February-March, 1966, op. cit., p. 954.

4. Ibid., pp. 74-75.

needs. The limited scope of the program was reflected in the \$20 million authorization it sought; at an average purchase price of \$10,000, the program could promote the purchase of only 2,000 homes by low-income families, by no means a federal commitment to low-income ownership on a major scale. Its limited aspirations and its reliance on non-profit sponsor initiatives, which insulated it from the open market, serve to explain the lack of controversy the Sullivan amendment aroused.

Percy's Publicity Machine

The movement which culminated in the passage of the 235 program, and in a massive federal commitment to the objective of low-income home ownership, had its origins in Illinois rather than St. Louis in Charles Percy's first senatorial campaign.⁵ Spurred on by a campaign assistant, who first sensed the potential appeal of a national program of home ownership for the poor as a major Republican thrust into an otherwise Democrat-dominated set of urban and poverty-related programs, Percy intentionally put himself on record in September, 1966, in the midst of his campaign, as an advocate of low-income home ownership. It was Percy's campaign that first gave some national visibility to the ownership issue and heralded it as "a new dawn for our cities".⁶ Moreover, it established his image as progenitor of the concept, at the same time that 221(h) was quietly making its way through Congress.

5. Carnegie, op. cit.

6. Percy, op. cit.

Shortly after his election, Percy took unprecedented initiatives for a junior Senator and proceeded to work up a major bill. His commitment to the legislation is said to derive, in part, from his own family background -- a series of abortive evictions during the great depression of the 1930's -- as well as from a shrewd political calculus. In the first month of his Senatorship in January, 1967, Percy was able to cull unprecedented support for the bill (S1592) from the Republican side of the Senate -- "from Javits to Tower" -- and had established himself as a Presidential possibility for 1968.⁷ What Representative Sullivan later came to call "Percy's publicity machine"⁸ had clearly placed a Republican stamp on a major new urban program and established Percy as its spokesman.

The Percy bill closely resembled Sullivan's 221(h) program in its reliance on the local initiative of community-based, non-profit organizations as the intermediaries through whom purchase opportunities would be channeled to low-income families. But the similarity ended there. Although the potential neighborhood benefits to be derived from a gradual increase in resident ownership within the inner city were acknowledged, the program viewed home ownership as a primary objective in its own right, rather than as part of a concerted strategy of neighborhood improvement. Where 221(h) had restricted purchase opportunities to units rehabilitated

7. Carnegie, op. cit.

8. U.S. House of Representatives, Hearings, Committee on Banking and Currency, Subcommittee on Housing, 90th Congress, 1st Session, April 20, 1967, p. 213.

by non-profit organizations, the Percy bill extended the eligible housing domain to include newly-constructed and existing units as well. It envisioned the turnover of more than 100,000 units to low-income purchasers during the first year of the program, a scale that dwarfed the 221(h) program by comparison.

The administrative and funding arrangements called for in the Percy bill were a departure from past federal practice and a major threat to the newly-established HUD bureaucracy. The bill advocated the creation of a federally-chartered National Home Ownership Foundation, distinct from HUD, and financed through the issue and sale of \$2 billion worth of federally-guaranteed debentures. The move toward a quasi-independent administering body served two underlying purposes. First, it was an attempt to "de-bureaucratize" federal housing assistance through the creation of a public-private executive board that would run the program on the sound business principles of corporate enterprise in which Percy had come to believe. Politically, divorcing the program from HUD would allow it to establish its own visibility through the Foundation and retain its partisan identity.

The basic functions of the Foundation were to provide loans and technical assistance to grass-roots coalitions with non-profit or limited-dividend corporate charters. Financing arrangements would reduce monthly mortgage payments for low-income mortgagors to an effective interest rate of $2\frac{1}{4}$ percent. However, the subsidies which were realized in the difference between that rate and the market interest rate were to be recoverable from the owner if the unit was sold at a profit or if the owning family realized

substantial increases in income. With considerable foresight, the bill also envisioned the development of a private program of "mortgage relief" or mortgagor insurance that would protect low-income mortgagors against foreclosure by providing mortgage payments in the event of loss of employment, illness, or death -- factors beyond the mortgagor's control which might seriously impair the owner's ability to meet mortgage payments.

Percy's aggressive promotion of his proposals succeeded in elevating the question of low-income home ownership to the level of a major legislative issue. In the wake of the Watts riots of 1965 and growing signs of urban unrest across the country,⁹ the rhetoric which Percy attached to low-income home ownership -- not only as a good in itself, but as a major cure for urban ills -- readily capitalized on the increasing disenchantment with the Great Society's urban poverty programs and threatened to split apart the traditional Democratic urban constituency:

"For a man who owns his own home acquires with it a new dignity. He begins to take pride in what is his own, and pride in conserving and improving it for his children. He becomes a more steadfast and concerned citizen of his community. He becomes more self-confident and self-reliant. The mere act of becoming a homeowner transforms him. It gives him roots, a sense of belonging, a true stake in his community and its well-being. And as it does so, the nation gains in strength.

Thus, home ownership must be a central element in any program for resurrecting American's cities and giving new life to its people; not only for the well-to-do, with their luxury apartments, nor even for the middle class, with modest homes in well-maintained neighborhoods, but also for poor people who now live in the great blighted areas of city slums...

9. National Advisory Commission on Civil Disorders, op. cit.

I am proposing today a new Republican approach to meeting the challenge of our cities and their people -- a plan that will make possible a New Dawn of opportunity for the thousands of today's poor people who yearn to own their own homes...

While the Democratic Party explores new ways of making the poor man not merely dependent, but doubly dependent -- once on the landlord and once on the dole -- the Republican Party must again lead the way to a New Dawn of opportunity for the poor but honest man in whose heart still burns an unquenchable spark of pride -- a golden opportunity to own a decent home of his own...¹⁰

The Percy-Weaver Debate

A counterattack by the Johnson administration was inevitable. In a March, 1967 message on urban and rural poverty, President Johnson summarized the Democratic initiatives that had already put low-income home ownership on the books -- in the form of Section 221(h) -- and declared the administration's intent to make active use of the 221(h) program to the fullest extent. Soon afterwards, HUD Secretary Robert Weaver issued a formal denunciation of the Percy bill as "a panacea", "the single small gimmick... that will quickly solve all our problems", "a snare and a delusion... a cruel hoax." In a subsequent appearance on the media, Weaver also indicated his belief that the Percy program would raise unfulfillable expectations and might be a potential cause of urban violence,¹¹ Nevertheless, the Percy proposal proved to be irresistible. That spring the National Housing Conference -- a vocal and influential coalition of

10. Percy, op. cit.

11. Carnegie, op. cit., p. 163.

housing reformers and interest groups that dates back to the New Deal -- gave its support to the Percy bill and honored the Senator with a standing ovation.

Apart from the tactical aspects of the partisan dueling which shaped the legislative career and ultimate form of the Section 235 program, the substantive debate which emerged in the subsequent legislative hearings confronted many of the key issues and dilemmas which lie at the heart of an expanded home ownership policy for urban low-income families and identified many, though not all, of the problems which were later to haunt the 235 program. In the Congressional hearings, Weaver's testimony laid out a well-reasoned, supportive, but cautious approach to the provision of low-income ownership opportunities, stressing the need for more demonstration programs and gradual learning, under the 221(h) program, as a prelude to any greater federal involvement or commitment to a broad national program:

"...this is something we want to encourage, but we want to be sure we are not getting people led down the primrose path into believing they are going to get homeownership when the cards are stacked against them. We want them to be able to identify what the risks are and when they can safely undertake it."¹²

For Weaver, the risks were three-fold. First, there was the problem of family screening, and the need for administrative learning in determining how to identify those families who could bear the risks of home ownership and stand a reasonable chance of succeeding. Weaver's own background

12. U.S. House of Representatives, April, 1967, op. cit., p. 22.

in public housing administration had probably sensitized him to the need for some form of selectivity apart from the normal income guidelines, and led him to doubt the ability of some families to sustain ownership over the long term. Potential risks both to the program and to the low-income home purchaser called for the exercise of sound judgment in determining who might benefit from the program. Although FHA had already established purchaser approval mechanisms which had proved successful for a largely middle class constituency, the screening of low-income home buyers could be expected to be considerably more complex and treacherous. Weaver's position reflected a cynicism born of the realities of past housing programs, and a mistrust of the sweeping generalities and scale of the Percy program. This led him to press for a moderate-income ownership program, rather than one targeted exclusively at low-income families, and to insist on the importance of gradually accumulating experience in dealing with low-income families within the context of a purchase program.

The second area of risk that Weaver identified in his testimony was the problem of negative or diminishing equity that might occur when families purchased homes in rapidly declining submarkets:

"I am very much worried about this notion that poor families may be euchred -- which is what it would be in many instances -- into undertaking homeownership only to find at the end of three years they have no equity but really a negative equity rather than with any money that has been accumulated in this process."¹³

13. Ibid.

Although Percy's program tended to understate the possible investment advantages to the owning family -- indeed it called for repayment of subsidies if a profit was realized on sale -- and to exaggerate the social-psychological and community benefits, Weaver had a clear realization of the potential importance of economic incentives to the purchasing family and of the consequences that might ensue if families could not realize an increasing equity in the house. Whether the dynamics of a federally-stimulated low-income purchase market were such as to create relatively stable or appreciating property values, particularly in the inner city where the market risks could be assumed to be greatest, remained an open question.

Like Percy, Weaver was also concerned about the risk of default and foreclosure to which low-income families would be vulnerable as a result of periodic crises that might be expected to occur with greater frequency among families living at the margin. Although this issue reflected one of the few areas of consensus between Percy and Weaver, Weaver contended that Percy's insurance strategy was "hopelessly naive" and would be "prohibitively expensive" as a private program. Weaver went on record in favor of a government-owned-and-operated insurance program.

In contrast with Weaver's cautionary posture, Percy's stance during the Senate hearings was to stress the urgency of the program and the need to mount a large-scale program from the start, rather than a small experimental program like 221(h), in order to respond to an urban crisis of major proportions. By the July, 1967 hearings civil disorders had just erupted in Detroit and Newark, and there were rumblings elsewhere of more to come. These events helped shape the climate of the hearings and

gave further cogency to Percy's arguments that without massive and rapid federal action, the despair of the inner city would manifest itself in further violence.

The Administering Agency: FHA vs. NHOFF

No less than four Democratic bills were brought up for deliberation as alternatives to the Percy plan.¹⁴ These proposals uniformly accorded FHA the administrative authority for the program, thereby shunting Percy's attempts to establish an independent foundation (NHOFF). The move was a controversial one, even within Democratic ranks, and ultimately had a profound impact on the experience of the 235 program. Although FHA had been the "blue chip" program of New Deal housing policy and remained a power to be reckoned with in the embryonic HUD bureaucracy, under the pressures of the 1960's FHA had been increasingly laid open to criticism for its largely suburban, middle class orientation and its neglect of the center city. In his submitted testimony, Charles Abrams, the influential New Deal housing reformer who was already deeply involved in developing a low-income ownership program in Philadelphia, labeled the low-income family "the forgotten minority" of FHA and firmly supported Percy's program.¹⁵ Senator Robert Kennedy, testifying in support of his own bill to provide private incentives for the rehabilitation of inner city neighborhoods, viewed FHA as inappropriate and ineffective in the

14. U.S. Senate, Hearings, Committee on Banking and Currency, Subcommittee on Housing and Urban Affairs, 90th Congress, 1st Session, July, 1967.

15. Ibid., pp. 710-717.

inner city and called for the creation of a Low Income Housing Administration within HUD which would be separate from FHA.¹⁶ Even the Democratic proponents of an FHA-administered program recognized the agency's shortcomings. In introducing his bill, Senator Mondale called it "...a charge to the FHA to take risks and to pay greater heed to the housing problems of low-income families...It is a mandate to FHA to take whatever risks are necessary in order to put low and moderate income families in decent housing."¹⁷

The strongest arguments in favor of FHA stressed the agency's long experience and expertness in underwriting and appraisal, in screening potential purchasers for credit approval and in evaluating residential property, as against the relative inexperience of most of the non-profit organizations upon whom Percy's plan would rely. The redundancies and administrative costs that would be involved in setting up a parallel bureaucracy or an independent foundation were articulated by the FHA proponents. Weaver emphasized FHA's ability to "do it better and quicker than a new bureaucracy"¹⁸ and cited 221(h) as an indication of FHA's willingness to revise its family screening procedures so as not to exclude low-income purchasers with a potential for home ownership.

Under its established administrative procedures, FHA was surprisingly

16. Ibid., p. 627.

17. Ibid., p. 912.

18. Ibid., p. 80.

unsuited to making the fine-tuned judgments that might be necessary in working with a low-income clientele to determine the eligibility and potential of an individual family. As a rule, FHA rarely met the families whose mortgages they insured. The primary communication link in the FHA mortgage insurance transaction was between the FHA insuring office and the lender, between the insurer and the insured. It was the lender on whom FHA relied for face-to-face contact with the potential purchaser and for discerning judgments regarding the family's ability to manage the long-term commitments of ownership. FHA's only knowledge of the purchasing family came through the mortgage credit application submitted by the lender.¹⁹ To provide the kind of selective screening Weaver saw as essential to a low-income ownership program, FHA would have to radically alter its administrative procedures. By contrast, the non-profit, community-based organizations -- like BCIA in St. Louis, BRL in Rochester²⁰ -- that were beginning to use 221(h) and would continue to be primary actors under the Percy plan, could claim a high degree of contact with prospective purchasers, offered counseling and advisory services prepar-

19. See: HUD, Mortgage Credit Analysis Handbook (#4155.1), July, 1972, pp. 1-5, which summarizes established FHA policies and procedures. Note the following: "The type and volume of credit analyses inherent in HUD-FHA's mortgage insurance underwriting do not permit, as a general practice, the use of many methods commonly used by other credit institutions. HUD-FHA seldom has the benefit of personal interviews with mortgagor-applicants.

20. For a description of Better Rochester Living, see: Rolf Goetze, "An Illustrative Case of Urban Self-Help Rehabilitation", in OSTI, Self-Help Housing in the U.S.A., op. cit., pp. V/1-V/11.

atory to ownership, and planned to maintain some form of continuity in their contact with home-owning families after purchase. A program which combined the operation of FHA and a consumer-oriented non-profit intermediary, as in 221(h), might have capitalized on the complimentary assets of each -- FHA's administrative expertise and the non-profit's contact with the purchaser -- while it minimized their individual weaknesses. In moving to an extended private market program, how would consumers be dealt with so as to minimize their own risks and the risks to the program? Such administrative details or projected administrative impacts seldom emerged in the Congressional deliberations. Nor were FHA's operations carefully scrutinized to determine their applicability to a low-income program.

Private Market vs. Non-Profit Approach

The question of FHA involvement was a foregone conclusion in light of the consensus among the Democratic proposals that consistently accorded FHA the administrative authority for the program. A key remaining issue was whether the program would be restricted to the activity of non-profit, community-based organizations, as prescribed in the 221(h) program and in the Percy plan, or extended into the private market in accordance with FHA's traditional mode of operation.

Secretary Weaver distrusted the non-profit sector because of its relative inexperience and its poor track record under the Section 221 rental programs. In his testimony, he expressed concern over the consequences of the accelerated non-profit movement that would result from the Percy

proposal.²¹ Moreover, the urban disorders of 1967, during what had come to be called "the long, hot summer", had created a climate in Congress which made a full-scale attack on inner city problems a necessary response. But, to mount the all-out, large-scale effort that was called for, the fullest involvement of the private sector was considered essential -- for capital, for development initiative, for volume construction and rehabilitation activity, and for "know-how". This prevailing attitude was also reflected in the Kennedy-Smathers Bill of 1967, which envisioned the involvement of large corporations in the process of rebuilding the urban ghettos.²² In addition, a strong movement was emerging within Congress favoring the establishment of national housing goals for the coming decade, and concerted action that would, once and for all, solve the nation's urban housing problems. But the images of private industry which dominated the Kennedy presentation and the hearings as a whole were of "General Motors", "Ford", and so on. The potential scale at which non-profit efforts could operate were small by comparison, and the tide clearly moved toward a private sector, open market program. No mention or consideration was given to the speculators -- "the blue suede shoe types" -- who were key private actors in the city's more impoverished housing submarkets, and who were to have a major negative impact on the subsequent experience of the program.

21. U.S. Senate, op. cit., p. 79.

22. Ibid., p. 638.

It was Senator Mondale, whose bill proposed an open market, FHA-administered operation, who was the most fervent opponent of the exclusive non-profit approach which characterized Percy's program.

"...I am reluctant to tie every new housing program directly to nonprofit sponsors. They can play a part...but I do not think we can count on such organizations to service every community in the Nation...Nonprofit organizations may be necessary to promote neighborhood revival...But I do not think every modest-income family needs an intermediary or supporting services to purchase a home. Some may even look on these organizations as patronizing. My proposal aims for flexibility."²³

Mondale was also suspicious of the motives which sometimes lay behind the non-profit designation:

"Many times I think you find that nonprofit organizations -- let's say a church -- wants to build some housing units under a nonprofit provision. But it may be victimized by a promoter who has a fast buck to make either as contractor or possibly in some other aspect of the proposal...He comes in and gets the church organized, but he sees to it that the proposal helps him...He is somewhat like the missionary who came to do good and did very well."²⁴

Although Mondale's allusion to "the fast buck promoter" was one of the few indications during the hearings of an awareness of the sometimes abusive character of the private housing sector, Mondale did not believe that the non-profit intermediary was a sufficient safeguard for the low-income consumer. Nor, obviously, did he believe that the low-income purchaser could deal more effectively with speculators and promoters than could the church. His implicit assumption, one that pervaded the Democratic ad-

23. Ibid., p. 480.

24. Ibid., pp. 491-492.

vocacy of an open market program, was that FHA's administrative oversight of the program would provide sufficient protection for the consumer. Given FHA's proven record in dealing with the private market, there was no reason to assume the contrary.

The Special Risk Insurance Fund: Expected Loss Rates and Supplemental Subsidies

Ironically, the problem most closely associated with the choice of FHA to administer the program, which received major attention during the hearings, was the reverse: How could FHA be encouraged to take greater risks in approving low-income families who could not meet normal credit criteria and to accept properties they would normally tend to reject, particularly in the inner city. FHA had long prided itself on the actuarial soundness of its insurance program which had built up a reserve of close to \$2 billion against potential losses, and had come to manifest an actuarial conservatism similar to any private insurance enterprise. It was this conservatism that largely explained its continuing reluctance to insure property in the graying areas of the center city, or to insure purchases by lower-income families. FHA's effective "red-lining" of the inner city, and its major role in contributing to increasing suburban dominance, had made it a primary target of criticism both inside and outside of Congress.

Apart from the imprecations and mandates issued periodically to FHA by various Congressional leaders, on an order similar to Mondale's charge that it liberalize its policies, FHA also had to withstand criticism from other quarters in Congress concerned that FHA had begun to take too

many risks. Given the tightrope FHA had to walk between the two extremes, any attempt to facilitate its move into higher-risk, more socially oriented programs, would require revising the actuarial incentives under which FHA traditionally operated and modifying or replacing them with service incentives. The strategem that was devised in the Democratic bills was the establishment of a Special Risk Insurance Fund, which could be expected to absorb possible losses from the new higher-risk purchase program. The special risk fund was not expected to be actuarially sound, and the legislation was to make clear that excessive depletions of the fund as a result of losses would be replenished through the annual appropriations process. By insulating the special risk fund and making clear its actuarial weaknesses, FHA could proceed to extend itself into the low-income purchase market without jeopardizing the integrity of its previous insurance program and without incurring Congressional wrath because of risks taken under Section 235 and the losses that might result. Under the new program, FHA was to act on the basis of what it considered to be "acceptable risks," rather than on the basis of "actuarial soundness". Those were the assumptions.

But on what basis was FHA to be accountable to Congress for its actions? What constituted acceptable risks? Given the actuarial uncertainties inherent in insuring older properties in some of the center city's less stable residential neighborhoods and in insuring the mortgages of purchasers with relatively marginal incomes, what loss rates could be expected and how large a loss rate would be tolerable? Although these issues were crucial in estimating the ultimate costs of the program, they tended

to be treated in relatively cavalier fashion during the hearings. Senator Clark, sponsoring a bill of his own, was one of the few subcommittee members to venture his own estimates:

"...if Congress directs the Department to start this kind of program it must acknowledge in the Congressional purpose that we expect foreclosures. Of course, we expect losses, but we hope that the number of persons who will be able finally to achieve ownership will be substantially more, maybe 3 to 1, than the number who suffer foreclosures and of course when you have a foreclosure you don't always lose the equity in the mortgage and the interest on the property either ...I hope we won't call it very risky. I hope we will just call it a little bit marginal and Mr. Brownstein [FHA Commissioner] will look on it with not a jaundiced eye, but with a view that maybe here is an opportunity to get into the core city where FHA has not been successful before."²⁵

The documented committee hearings contain no debate or discussion on the point of Clark's estimate of an anticipated 25% mortgage failure rate under the 235 program. If silence can be construed as acquiescence, the inference was that such a loss rate would constitute an acceptable tolerance for the purposes of subsequent Congressional review and oversight of the program. In addition, HUD's early estimates in the absence of actuarial data subsequently agreed with Clark's estimate of a 25% aggregate failure rate:

"...HUD's actuarial staff has estimated an aggregate foreclosure rate of 25 percent for the Section 235 program. This estimate was made prior to the development of any actuarial data on the Section 235 program...the estimate of 25 percent was based upon the assumption that the program would sustain

25. Ibid., p. 83. Underlining is at the author's initiative and does not appear in the transcript.

greater losses than Section 221(d)(2) and it included allowance for the possible occurrence of a major economic depression. "26

More importantly, an assumed consensus on this point implied that Congress envisioned the possibility of a substantial supplemental subsidy beyond the interest-rate subsidy itself -- a casualty subsidy, if you will, to take into account mortgage casualties beyond the actuarial confines of the special insurance fund -- as necessary to the viability of the 235 program and the furtherance of its social objectives. This was not the first time that special risk insurance funds were utilized for federal mortgage insurance programs where there was much uncertainty about the level of risk involved. The Section 221 programs had also been placed in a special risk pool from the start. But while the 221 fund had been used to segregate differential risk levels among FHA programs and safeguard the original mutual insurance fund, Congressional expectations were that the special insurance programs would ultimately prove to be actuarially sound and that the special risk status of the fund would be temporary. The significance of Clark's 25% loss estimate was that, if taken seriously, for the first time there was recognition that an entirely new form of subsidy would be necessary to the ongoing operation of the 235 program in the form of supplemental casualty subsidies. In that sense, Clark's statement had punctured the illusion that interest-rate subsidies and mortgage insurance

26. U.S. Comptroller General (GAO), Opportunities to Improve Effectiveness and Reduce Costs of Homeownership Assistance Programs, Report to the Congress, (B-171630), (Washington, D. C.: U.S. Government Printing Office, 1972), p. 69.

mechanisms would be sufficient to the viability of the program, and had established the only working definition of supplemental subsidy levels that might be reasonably expected. But, for the most part, the significance of his statement was largely ignored or overlooked.

To the extent that mortgage default and foreclosure were an anticipated consequence of periodic hardships beyond the control of lower-income mortgagors, the supplemental costs of the program would be heavily dependent on available mechanisms for providing mortgage relief for a sufficient period of time to allow defaulting mortgagors to recover and restore the status of their mortgages.²⁷ In such instances, lending institutions may opt to allow for late payments, forbear, or recast mortgages for defaulting owners whom they deem to be reasonable subsequent risks.²⁸ But there was no guarantee that mortgagees would do so even in the most reasonable cases. In addition, under the 1959 Housing Act, FHA could take over a seriously delinquent mortgage through assignment by the mortgagee, and provide its own "indulgence" to deserving mortgagors.²⁹

27. A mortgage is in default status if the owner (or mortgagor) has fallen behind in the established schedule of mortgage payments; a default of at most one payment is often referred to as a delinquency. A foreclosure is a legal action taken by the lender (or mortgagee) by which a title for the property is transferred from a defaulting mortgagor to the mortgagee. Under FHA procedures, a mortgagee may foreclose upon a three-month period of default.

28. Insurance Technical Advisory Group, Insurance Protection Against Foreclosure in Government-Assisted Home Mortgage Programs, (A Report to HUD), HUD Library #332.72/A52i, April 24, 1969, See Chapter I, pp. 19-25.

29. Ibid.

However, such occurrences had been infrequent, and in the case of a lower-income program might require a major commitment on FHA's part to handle a relatively high volume of assignments. Percy's original proposal of a private insurance mechanism which protected owners against involuntary unemployment, death, and disability in terms of their ability to maintain mortgage payments, had the particular virtue of providing automatic mortgage relief as necessary without having to depend on the mortgagee's or FHA's discretion. But the only oral testimony offered during the hearings concerning the feasibility of mortgage relief insurance was solicited at Percy's initiative. Two Chicago-based insurance executives provided support for Percy's insurance strategy, but their testimony ultimately tended to cast some doubt on the risks involved in underwriting mortgage payments in the event of involuntary loss of employment. In the case of death, disability, or illness which impaired the owning family's income-earning capacity, for which actual risks could be estimated, the proposed insurance plan would cover mortgage payments for from 6 months to at most a year at a cost of from \$2.50 to \$3.00 monthly on a \$10,000 mortgage. Proposed unemployment benefits would involve a maximum 6 month limit on mortgage relief and was roughly estimated at about the same cost. But both insurance executives were tentative and cautionary in their assessments of the feasibility and cost of insuring against unemployment:

"Mr. Smith: Insuring against unemployment is a more complex question involving problems which will have to be given further study before final conclusions as to the feasibility and the best way to handle it can be reached.

Mr. Doss: ...these are estimates, you understand. As Mr.

Smith's statement indicated, unemployment is very difficult to rate. There are so many unknown factors here, particularly the characteristics of the group to be insured.

Senator Proxmire: It might take some time or experience. This may or may not be. It would vary greatly. My assumption is a lot of low-income people would suffer from a lot of unemployment. Some would not, but some would."³⁰

In his written testimony, Charles Abrams lauded the Percy proposal's initiatives in the area of mortgage relief insurance:

"If the Percy bill accomplishes nothing else but the production of a formula to prevent unnecessary foreclosures due to temporary hazards, it will be a landmark in American housing legislation."³¹

Abrams, himself, had been thwarted in his earlier attempts to persuade FHA to develop and administer an insurance program protecting defaulting mortgagors. His experience had convinced him that "the real obstacle is not the administrative cost but FHA's traditional aversion to innovation and its resistance to the assumption of any social responsibility."³² In addition to supporting Percy's private insurance program, which was still in the drafting stage, Abrams offered for consideration three alternative strategies for mortgage relief intervention:³³ 1) the creation of a federal loan fund for distressed mortgagors, which had the disadvantage of putting the owner further into debt; 2) federal equity insurance, tied to FHA mortgage insurance, covering at most a three-year period over the life of the mortgage during which the owner was unable to make mortgage payments;

30. U.S. Senate, Ibid., p. 1109.

31. Ibid., pp. 710-717

32. Ibid.

33. Ibid.

and 3) an innovative provision for "take-out" by local housing authorities, a mechanism whereby financially-distressed owners could apply to the local authority for continued occupancy as a subsidized tenant. Under this last proposal, the house title would be transferred to the authority, as well as operating costs and responsibilities, until the original owner was in a position to reinstate ownership. Abrams viewed these mortgage relief strategies not only as a way of protecting the home owner, but as a way of accelerating the flow of mortgage capital to low-income areas, while cushioning the federal mortgage insurance system against the potential consequences of a national economic crisis:

"...the insurance fund would benefit the government by (1) preventing a large-scale loss of homes, a deflationary movement, and a capital depreciation due to a glut in the home market; (2) dispensing with the need for huge federal outlays for mortgage take-overs all at once; (3) making savings and loan societies sounder operations and cutting down on federal advances by the Home Loan Bank System; (4) making owners less inclined to drop their homes when values are down; (5) saving the government major expenditures in repairs, foreclosure charges, and resale costs upon repossession."³⁴

Although the equation which Abrams drew between the viability of the mortgagor and the viability of the federal program was a compelling argument which foreshadowed some of the difficulties the 235 program was about to experience, the aura of uncertainty which surrounded the feasibility of mortgage relief insurance and the question of expected failure rates led to the continued postponement of a Congressional decision on the question.

34. Ibid.

Failure of the 1967 Bill

The bill reported out of the Senate Committee in November of 1967 largely represented the Democratic consensus.³⁵ It established FHA as the administrative body for an acknowledgedly experimental program geared to lower-income families -- then defined as within 70 percent of the moderate income limits under the 221 programs. Declaring the existing housing stock "entirely inadequate", the program was conceived as a production program limited to newly-constructed or substantially rehabilitated units that could be developed within legislatively prescribed maximum price limits. Interest rate subsidies, rather than direct federal loans, were to be used to reduce the effective mortgage interest rate to 3 percent, and lower-income mortgagors were required to pay 20 percent of adjusted income toward the mortgage payment. No provision was included for recovery of subsidy payments in the event of sale or a substantial increase in family income. In recognition of a new generation of social programs under FHA's aegis, the bill called for the creation of a Special Risk Insurance Fund with the explicit provision that the fund was "not intended to be actuarially sound". Another provision set up a parallel program of credit assistance calling for the counseling of families with flawed credit histories or unstable employment; its objective was to provide financial and budget management counseling preparatory to ownership to potential

35. U. S. Senate, Housing and Urban Development Act of 1967, Report to the Committee on Banking and Currency, (Report #809), 90th Congress, 1st Session, November, 1967.

purchasers who were at the margins of eligibility for the program as a result of their questionable credit standing. In the critical area of mortgage relief insurance, the bill was indecisive; it authorized HUD to develop an actuarially-sound insurance program in cooperation with private industry, which would cover loss of income, death and disability.

The only provision which bore any resemblance to the original Percy bill was the establishment of the National Home Ownership Foundation as a mechanism for mobilizing private sector efforts toward low-income ownership and for providing technical assistance to non-profit organizations. But NHOFF had no authority to raise mortgage funds through the sale of debentures. The surgery inflicted on the original Percy proposal allowed NHOFF to maintain visible life signs, but removed the financial muscle tissue which was essential to its having any direct impact on urban housing issues.

However, it was still unclear by November, 1967 that the bill would reach the Senate floor. The long-standing criticism of FHA which had come to a head in the Congressional hearings had shaken the agency. The expectation that it would now be responsible for a battery of low-income programs created mounting pressures for a reorientation of its policies. Toward the end of October, the FHA Commissioner, Philip N. Brownstein, had articulated the new mandate at a national FHA Directors Conference:

"We have got to recognize that stimulating the flow of mortgage funds into the inner city, yes, even into the slums, for the transfer of houses, for rehabilitation, and for new construction, is an FHA mission of the highest priority. I want you to go looking for applications.

Since nobody has ever invested extensively in reviving the re-

building of the inner city and since there has been little private experience in providing housing for low- and moderate-income families, I do not believe anyone is prepared to say exactly how much risk is involved."³⁶

Despite FHA's attempts to reach a state of preparedness for the new program, the bill failed to reach the Senate floor in 1967 largely as a result of the Administration's disinterest in accelerating its passage and the jockeying of several Senators, on both sides of the floor, to block its arrival.³⁷

The Administration's Initiative: The 1968 Housing Act

By early 1968, the ball was firmly in the Administration's hands. It had evolved an omnibus housing bill which dwarfed previous low-income housing programs by comparison, through a massive and explicit federal commitment to national housing goals over the coming decade. The bill was announced in a special Presidential message to Congress in February.³⁸ Weaver referred to it as a "ten year program designed to substantially wipe out substandard housing."³⁹ The lower-income home ownership component designated as Section 235 called for the construction of a million homes in the first five years, one of the key strategies for producing a

36. Philip N. Brownstein, FHA Commissioner, Address to a national FHA Directors Conference, October 23, 1967.

37. Carnegie, op. cit.

38. Message to Congress on "Housing and Cities", President Lyndon B. Johnson, February 26, 1968.

39. U.S. Senate, Hearings, Senate Committee on Banking and Currency, Subcommittee on Housing and Urban Affairs, 90th Congress, 2nd Session, March, 1968, p. 23.

total of 6 million low-income units in 10 years. Moreover, the bill represented an unprecedented expansion of low-income programs into the open, private market for housing production, with FHA at the helm of both the rental and purchase subsidy programs. Politically, the bill reestablished the Democratic dominion over urban programs during a Presidential election year. Percy's association with the home ownership component began to fade. As Christa Lew Carnegie describes it:

"In the January 1968 State of the Union message, President Johnson made H-P a living bill. The administration's proposal resuscitated about 80 percent of S. 2700 although the National Home Ownership Foundation was among the missing. The Sparkman Committee reinstated it without question (NHOF had mostly technical assistance functions). Secretary Weaver enthusiastically supported H-P in the hearings. During the floor debate, subcommittee members ping-ponged compliments among themselves for their excellent work. Sparkman was singled out: 'The Senator from Alabama is truly the architect of the major bill'. With the Republicans voting for the NHOF and the Democrats supporting the administration... , the omnibus housing bill of 1968 was recorded as an outstanding legislative victory for President Lyndon B. Johnson."⁴⁰

The 1968 hearings preceding the passage of the bill reiterated the themes of the previous year and the lower-income home ownership component went through with only a few changes. The interest rate subsidy format was retained, but the President's message had proposed deeper subsidies that would bring the effective interest rate down to 1 percent, the rate ultimately adopted. The definition of eligible lower-income families was revised from the previous Senate definition, restricting the program to at most 70 percent of moderate income limits, to the present

40. Carnegie, op. cit., p. 166.

definition which included a broader and somewhat higher income range. Although Secretary Weaver declared the program to be "basically sound", little more was known about probable loss rates under the program. The Senate Report looked toward "relatively small appropriations" to sustain the Special Risk Insurance Fund, but failed to set any operational standards for acceptable levels of risk or loss. If the tolerance for risk was unclear, the rationale for uncertain risk-taking was explicit:

"It is naturally the hope of the committee that these programs will be capable of sustaining themselves, but the benefits to be gained from them far exceed what we believe to be the risks."⁴¹

The report of the House Banking and Currency Committee went so far as to label the Special Risk Insurance Fund a "subsidy element" of the new programs,⁴² echoing Clark's earlier theme of supplemental subsidies.

Neither the Percy mortgage relief insurance program nor Abram's alternatives were considered in any further detail. In that regard, the Congressional committees were still operating in an information vacuum. The urgency of the bill as a major response to mounting urban pressures, the administration's close identification with the new program, and the climate of an election year, all contributed to a legislative atmosphere in which it seemed good judgment to forsake a more complete rationality for rapid

41. U.S. Senate, Report of the Senate Banking and Currency Committee, Subcommittee on Housing and Urban Affairs, 90th Congress, 2nd Session, March, 1968, p. 23.

42. U.S. House of Representatives, Report, House Banking and Currency Committee, House Report 1585, 90th Congress, 2nd Session, June 25, 1968, p. 14.

action. Recognizing that the development of a mortgage relief insurance mechanism was of vital importance to the program, and, on the other hand, that the information was not yet available, the committee left it to the discretion of the HUD Secretary to determine subsequently the feasibility of an insurance program, and required that HUD report back to Congress in late 1968.

One of the most significant changes in the 235 program during this phase of its legislative career was the inclusion of existing housing units among those eligible for purchase under the program. During the hearings, interest groups representing real estate brokers had pressed for the inclusion of existing units that had neither been newly constructed or rehabilitated. Although Section 235 delimited the proportion of existing housing to be subsidized under the program, what had been conceived originally as a "builder's program" -- a production program -- became in part a "broker's program". NAREB (the National Association of Real Estate Brokers) had scored a major victory. The rationale behind this change was expressed by Percy:

"This will permit the Secretary to get the program underway almost immediately providing a quick impact and visibility which are so important to the success of new programs."⁴³

Moreover, it was felt that by working with existing housing during the early stages of the program, over the lead-time required for new construction, FHA could gradually build experience in the program before it increased in volume.

43. U.S. Senate Report, May 15, 1968, op. cit., p. 205.

In the hearings of the Housing Subcommittee of the House Banking and Currency Committee, it was Representative Widnall of New Jersey, a long-standing Republican committee member who had initiated the leased housing program of 1965, who registered dismay at the forsaking of Percy's original concept of community-based effort as the driving force behind the development of ownership opportunities for lower-income families.⁴⁴ In embedding the program within the FHA operation, initiatives for the production, design, and location of units were to rest largely with private builders, operating under profit incentives, in negotiation with FHA. Although FHA would continue to commit subsidies to local non-profit sponsors, by and large the bulk of program activity would be profit-oriented and fragmented, without any coherent process of planning for community development and community impacts. In response to Widnall's complaint, Weaver raised the issue of volume and questioned the ability of non-profit community organizations to mount a large-scale program:

"... each one of these families requires a tremendous amount of assistance and aid by a nonprofit corporation. These are not volume programs. These are custom programs. They are very significant and we want to continue them, but they are not going to supply the volume that is going to be needed."⁴⁵

The move toward a volume program which would contribute to the meeting of national housing goals had precluded an exclusive reliance on the non-

44. U.S. House of Representatives, Hearings, Committee on Banking and Currency, Subcommittee on Housing, 90th Congress, 2nd Session, March, 1968, p. 59.

45. Ibid., p. 126.

profit production sector.

On the first of August the Housing Act of 1968 was passed and, with it, the first federal program to subsidize home purchase opportunities in the open private market for large numbers of lower-income families. Over its eighteen-month long legislative career, the forging of the Section 235 program reflected the complexities and difficulties inherent in shaping the public purpose within a highly partisan political setting, under pressures of time which called for an appropriate and rapid response to increasingly pressing urban conditions. Many of the program's vulnerabilities were clear from the beginning, particularly among those most involved in supporting its passage. The risks of a relatively high mortgage failure rate were recognized but understated, masked by the unknown "subsidy element" residing in the Special Risk Insurance Fund. Alternatives that might have contributed to a substantial reduction of risk through insurance mechanisms were only partially studied and explored when the program went into operation. Furthermore, the program was to be administered by an agency many Congressmen recognized as unsuited to the purpose. The final irony was that a program as innovative and as fraught with risk as the 235 program, one that required cautious experimentation and sound administrative monitoring, should have been launched as a large-volume program from the start, constituting a key component in meeting national housing goals.

To a large extent, the dominant perceptions that framed the intent of the 235 program represented a clear move away from the adequist foundations of earlier federal low-income housing policies toward a more

relativist formulation of policy. Senator Percy's "new dawn" rhetoric viewed home ownership as a channel of upward mobility in the housing sector, and tenure choice as a means of correcting the inequitable social distribution of housing attributes and statuses among lower-income households. The kinds of functionalist arguments that emerged stressed the values of ownership tenure in enabling a greater degree of social and residential consolidation for the owning family -- the "stake in the community" theme -- echoing Representative Sullivan's arguments for the 221(h) amendment. But the functionalist valences of ownership as a form of family investment and capital accretion were underplayed as arguments for or against the subsidization of ownership opportunities, with Percy himself seeing an inevitable paradox in the notion of subsidizing equity accretion and potential profit for the owning family. In that regard, Secretary Weaver stood alone at the start in pointing to the potential dangers of negative equities resulting from the program.

Viewed within the context of the three policy perspectives, the program formulation more accurately represents a hybrid combination of alternative policy valences. Adequist views continued to prevail in the heavy production orientation of the program, despite its experimental nature; in the imposition of FHA property standards and potentially high housing costs; and in the lack of consumer choice and autonomy within a system controlled by the long-established linkages between FHA and the private housing sector. It was far from the functionalist vision of an open resource system, unconstrained by bureaucratic standards and controls.

In anticipating the potential negative consequences of the program,

the legislative deliberations had registered a clear recognition of the "life at the margin" risks inherent in an ownership-oriented program for lower-income families. This recognition was most strongly manifested in the creation of the special risk fund under relaxed actuarial standards. But the rushed passage of the bill had precluded a legislative decision on proposed mortgage relief insurance mechanisms that might have contributed to a reduction of these risks. The only administrative or "systemic" flaws anticipated in the program were those associated with FHA's traditional conservatism, and the concern that FHA would exclude the more marginal purchasers and higher-risk inner city areas from the program. Except for Secretary Weaver's early concerns about the difficulties of avoiding negative equity situations in declining submarkets, there seemed to be unqualified confidence in the demonstrated expertise of FHA in property inspection and appraisal. No consideration was given to potential "contextual" factors that might make some metropolitan areas unfavorable for this kind of ownership program because of local economic conditions. Like other federal mortgage insurance programs that had come before, the Section 235 program was to be made available at all FHA insuring offices.

B. Implementation of the Program

Early Administration

The sense of urgency, which had led Congress to overlook the uncertainties and risks inherent in the 235 program, resulted in a \$75 million subsidy authorized for the first year, enough to subsidize about 100,000 purchases. By the October, 1968 appropriations hearings, the Johnson

administration registered its intent to kick off the program at a more moderate and cautious pace by requesting an appropriation of \$50 million. With even greater circumspection, Congress cut its request in half during the appropriations cycle, resulting in a figure which allowed for about 33,000 home purchases by June of 1969.

By January, 1969, just prior to the changeover to the Nixon administration, President Johnson's message to Congress on national housing goals reported positively on the general climate of acceptance the program was encountering among the industry and consumers alike:

"There are signs that the 235 program may well be the most rapidly accepted program for low- and moderate-income families. There is tremendous interest in it on the part of the industry and the lenders. It seems to be responsive to the requests from the poor for a housing program for them that will permit homeownership."⁴⁶

However, the report also indicated some concern with the maximum purchase prices set by the legislation:

"The impact upon housing which carries a relatively low price and low statutory maximum mortgages, in order to serve the needs of the low- and moderate-income family, may be a serious reduction in profit and consequent loss of interest on the part of the builder."⁴⁷

The administration recognized that unrealistically low price limits might dampen industry participation in the program and prevent it from becoming the production-oriented, volume program that was intended to help

46. Message from the President of the United States, First Annual Report on National Housing Goals, January 23, 1969, House Document No. 91-63, p. 25.

47. Ibid., pp. 24-25.

meet national housing goals. The question of whether low price ceilings might affect the quality of construction under the program was obscured by the prevailing confidence in FHA's role in maintaining construction and property standards.

Early commitments under the program indicated that only 8,800 units were likely to be produced by the end of fiscal year 1969, most of them representing new construction rather than substantial rehabilitation. If the program relied heavily on produced units rather than existing units, as was intended by the legislation, it would come nowhere close to absorbing its first-year appropriation. In what proved to be one of the most critical of the early administrative decisions concerning the program, the Johnson administration chose to expand the use of existing housing during the program's first year, beyond the 25 percent limit set by the legislation:

"It has been determined that the percentage limitation is based on authorized amounts rather than a proportionate amount of the funds appropriated. Since the appropriation action in October released only one-third of the contract payment of \$75 million per year... and existing home purchases will absorb a large proportion of available contract payment funds, the projected 69 level of new starts and rehabilitations is quite limited..."⁴⁸

Under this administrative determination, as much as three-quarters of the houses purchased during the first year could be existing units.

In an attempt to be responsive to urban pressures, Congress had placed high priority on the early visibility and rapid delivery of ownership opportunities. The administrative decision was consistent with the sense

48. Ibid., p. 24.

of urgency which lay behind the legislation, and with the generic ownership objectives of the program. The limited production capacity of the program during its early stages, due to the long lead-time required, made it clear that the slashed appropriation had not had a profound effect on the program's progress. By the end of 1969, a total of about 26,000 houses had been insured under the program, and a majority of them (57%) were existing units.⁴⁹ Thus, the predominant thrust of the program during its early stages was to extend ownership opportunities within the existing housing stock of the city.

In keeping with the provisions of section 109 of the 1968 Housing Act, an Insurance Technical Assistance Group (ITAG) had been formed in September under Assistant Secretary Brownstein, the FHA Commissioner, composed of officers from a number of major private insurance corporations.⁵⁰ Its mandate with respect to the 235 program was to determine the feasibility and costs of a federally-funded mortgagor insurance program which protected lower-income home owners against risks of foreclosure due to death, disability, and involuntary unemployment. The ITAG report, which was completed in early 1969, based its estimates on a benefit design involving a one-month waiting period after a crisis occurrence, followed by either a 12-month or a 24-month maximum benefit period, dur-

49. U.S. Department of Housing and Urban Development, 1969 HUD Statistical Yearbook (Washington, D.C.: U.S. Government Printing Office, (0-409-124), 1970), FHA Table 4, pp. 28-29.

50. Insurance Technical Assistance Group, op. cit., p. 12.

ing which the owner's share of the mortgage payment would be covered as long as necessary. There were no constraints on the number of times a home owner might submit a claim, provided there was an interval of six months between claims.

Given the range of coverage involved, the premium costs which would be borne by the government seem within reasonable bounds. The cost of the 12-month maximum benefit period (for a mortgagor with an annual income of \$4500, who initiated a 30-year, \$14,000 mortgage at age 35) was estimated at an average monthly cost of \$5.29 over the life of the mortgage, or about \$64 per annum,⁵¹ an amount representing an increase of 10.8 percent of the 235 subsidy received. If all 235 home owners were similar to the one described above, and the program reached a volume of 500,000 homes, the insurance fund would have been sufficient to cover six months of benefits for roughly 12 percent of the insured home owners each year.

The ITAG report described other mortgage relief measures that were available in the absence of a new insurance mechanism -- forbearance by the lender, recasting of the mortgage by mutual agreement -- but these mechanisms depended on the willingness of the lender to adjust or reframe the mortgage instrument in accordance with the merits of each individual case. One of the particular values of mortgagor insurance was that it was not dependent on mortgagee cooperation and obviated any need to alter existing mortgage instruments and payment arrangements.

51. Ibid., p. 66.

The ITAG report also pointed to a number of "unique" administrative and operational problems that would be involved: Administering agencies would have to take responsibility for enrolling purchasers in the program, informing them of potential benefits and procedures for making claims, maintaining ongoing records for determining premium costs and claims payments, and administering claims. In addition, the notion of insuring against involuntary unemployment called for procedures to ascertain that beneficiaries were actively seeking employment during the claims period:

"While death and disability claims are familiar to lenders and insurance companies, and presumably would not present undue difficulties for government agencies, unemployment claims could pose problems. In this regard, it would appear that any claims administration mechanism used would have to rely somehow on the state unemployment insurance system. For example, an insured claiming mortgage payment benefits during a period of unemployment might be required to obtain a certification from the local unemployment insurance office that he was unemployed under some standard definition. Arrangements with the various state unemployment insurance administrators would have to be developed through the Department of Labor."⁵²

Although the costs of these services were to be carried by the administering agency, the report made no estimate of the administrative costs involved.

Whether the ITAG report was completed in January, or submitted to Congress by the outgoing FHA Commissioner, Philip N. Brownstein, is unclear. The report is dated April, 1969, and there is no record of a Congressional submission; its index card in the HUD library is labeled "for HUD internal use only." Brownstein apparently attached a low

52. Ibid., p. 62

priority to the study, believing that mortgagor insurance was "not very feasible or necessary" and that FHA could always extend indulgence to defaulting mortgagors if the situation merited doing so.⁵³ Despite Congress' interpretation of the special risk mortgage insurance fund as a supplemental subsidy element of the 235 program, in early 1969 FHA did not envision that large numbers of defaults and mortgage failures would occur under the program.

Eugene Gullledge, a southern builder who was appointed FHA Commissioner in October, 1969, gave some consideration to the ITAG report but believed that the cost of private mortgagor insurance was too high. Viewing FHA as the "biggest insurance company in the world", Gullledge preferred to depend on internal FHA mechanisms for mortgagor relief if they became necessary, as had Brownstein before him. Although Gullledge had developed some ideas of his own, the reorganization of HUD which Secretary Romney initiated in early 1970 played havoc with FHA's traditional structure by separating it into two branches: the Housing Production and Mortgage Credit branch was made responsible for all front-end HUD commitments to newly-assisted units, including public housing, up to the point when the units were ready for occupancy; the Housing Management branch was made responsible for monitoring the ongoing administration of assisted units, including the handling of FHA-insured mortgages at the stage of mortgage default and foreclosure. Gullledge became Assistant Secretary of HPMC and a new Assistant Secretary, Norman Watson, was appointed to

53. Telephone interview, Philip N. Brownstein, June, 1976.

head up Housing Management. In the resulting chaos, Gullledge claims that "several good ideas were lost" including any systematic provision for relief of defaulting mortgagors under the still embryonic 235 program.⁵⁴ These responsibilities now fell within the province of Housing Management. Burdened by the problems besetting large numbers of housing authorities on the verge of bankruptcy, which commanded a high priority, and by the administrative and staffing problems related to the reorganization, Housing Management did not follow up on the issue of mortgagor relief. Whether there was the competency to do so is also an open question. For by 1972, well after defaults and foreclosures had become a major issue in the 235 program, Housing Management had not yet taken steps to develop an effective system for monitoring mortgage defaults and foreclosures.

After its first year, the program proceeded at an increasingly rapid pace in the FHA insuring offices, and began to generate a "pipeline" of commitments from builders and speculators who had come to recognize its potential. In Washington, the generally encouraging picture of program acceptance "in the field" quelled the debate and uncertainties that had surrounded its inception, and focused attention largely on the issue of expanded appropriations. The new Nixon administration, with George Romney at the head of HUD, had only barely begun to formulate its position on housing policy by the Spring 1969 appropriations hearings, at which it requested a full appropriation for the program. Its popularity with industry and consumers, the need to respond to the burgeoning pipeline of potential commit-

54. Telephone interview, Eugene Gullledge, July, 1976.

ments, all argued strongly for an expanded appropriation which was granted with little controversy. Romney also pressed for and won increases in the maximum purchase prices allowable under the program.⁵⁵

However, the companion section 237 purchase program, which was similar to 235 except that it provided for financial and budget counseling for purchasers who represented high credit risks, was denied an appropriation which would fund private counseling efforts. The low level of use of section 237 at FHA insuring offices and the general optimism which surrounded Section 235 combined to accord a low priority to 237 counseling efforts in a highly competitive budget year.

The general mood of optimism persisted into early 1970. In April, President Nixon's first report on national housing goals recommended an increase of over 150 percent in the targeted program volume for fiscal year 1971.⁵⁶ However, a second request for a 237 counseling appropriation was refused by Congress on the grounds that voluntary agencies -- such as non-profit sponsors, local Urban League offices -- had already stepped into the breach to help prepare marginal families for program eligibility and to provide financial counseling related to ownership.

55. U. S. House of Representatives, Hearings, Subcommittee of the Committee on Appropriations, 91st Congress, 1st Session, April, 1969.

56. Message from the President of the United States, Second Annual Report on National Housing Goals, April, 1970, p. 49.

The Disclosure of Abuses in the Program

By mid-1970 early tremors of program difficulties and abuses began to become audible in Washington. Over a period of months, the flow of complaints to HUD and to relevant Congressional committees had begun to accelerate. Individual purchasers, concerned citizens, and local housing officials attested to a multiplicity of abuses occurring under the program: windfall profits; fraudulent sales practices; serious defects in the condition of the houses purchased; and questionable FHA inspection and appraisal procedures. Moreover, the complaints seemed to be concentrated with particular frequency in several cities, among them Washington, D. C., Philadelphia, Seattle, and several cities in New Jersey.

The House Banking and Currency Committee became one of the major recipients of complaints. Following routine procedures governing the disposition of the scattering of specific allegations that accompany all federal programs, the Committee had initially referred the material to the relevant executive agency, in this case to HUD. But, by the summer of 1970, it had become apparent to members of the Committee that there might be serious and systematic shortcomings in the program. Perceiving that HUD was limiting itself to a case-by-case investigation of complaints, rather than undertaking a more thorough review of the program's possible weaknesses, by September the Committee, under the leadership of Representative Wright Patman, endorsed a Congressional investigation

to be conducted by the Committee's own staff.⁵⁷

The staff investigation undertook to confirm the reported abuses through direct field investigation and to develop an assessment of the causes that lay behind them. In so doing, the staff confined its efforts to areas and types of units that were the predominant sources of complaints. It did not undertake a program-wide investigation, nor did it make claim to a more comprehensive program evaluation.

The staff report⁵⁸ issued in December of 1970 provided strong confirmation of the presence of serious and widespread abuses in a number of field locales, particularly Washington, D. C. , Paterson (New Jersey), Philadelphia, Seattle, and Spokane. Despite the limited scope of the field investigation, the systematic nature of the abuses uncovered in these areas, as opposed to a random scattering of isolated instances, and the implication of FHA in the miscarriage of the program stirred the Committee staff to sound a national alarm for the program as a whole:

"The Department of Housing and Urban Development and its Federal Housing Administration may well be on its way toward insuring itself into a national housing scandal. This conclusion has been reached because of the role that FHA has played in the operation of the section 235 and other programs."⁵⁹

57. HUD did begin to revise some of its procedures. See FHA circulars: "Appraisal of Existing Dwellings -- A Policy Change", July 31, 1970 and "Intensified Valuation Review in Problem Areas", December 23, 1970.

58. U. S. House of Representatives, op. cit., December, 1970.

59. Ibid., p. 1.

The catalog of abuses developed in the report spanned both existing housing and newly constructed units sold under the program, and laid the blame squarely on FHA, in its inspection and appraisal procedures, for "turning its back to" questionable or fraudulent market practices on the part of builders, speculators, and real estate brokers.

"The Federal Housing Administration is insuring existing homes that are of such poor quality that there is little or no possibility that they can survive the life of the mortgage or even attempt to maintain any reasonable property value. FHA has approved housing for the 235 program which, within months after purchase, has been condemned by municipal authorities. . . In many cases, FHA appraisers and inspectors have failed to live up to even the most basic agency requirements in inspecting or appraising houses. . .

In the area of new 235 construction, FHA has appraised houses for figures that are inflated by several thousands of dollars above the true value of the home. The construction of these homes is of the cheapest type of building materials; and, instead of buying a home, people purchasing these homes are buying a disaster. . .

In many areas of the country, the 235 program is 'carrying' the real estate market. In one county in the State of Washington, 80 percent of the real estate transactions in 1970 were made up of 235 houses. With this type of volume, FHA must make certain at the very least that the houses it insures will retain a market value roughly equal to the mortgage amount throughout the life of the mortgage. It is doubtful if such a situation will exist in the 235 program. "60

The concern with mortgage failure rates that had permeated legislative discussions of the program had its source in the anticipated risks associated with a lower-income consumership, in the inability of lower-income owners to sustain mortgage payments under adverse family circumstances that were involuntary in nature. The staff investigation is significant in

60. Ibid.

having uncovered further risks in the program that were systemic in nature -- abusive market practices, negligence or collusion on the part of FHA -- beyond those grounded in "life at the margin" perceptions of incapacity on the part of the lower-income purchasers. The report envisioned an accelerated number of voluntary "walk-away" mortgage failures, a wave of house abandonments as families attempted to extricate themselves from faulty housing which they could ill afford to repair or to sell at a loss. The inadequacies in FHA's operation of the program, particularly in its inspection and appraisal procedures, raised the spectre of thousands of FHA-held properties, which would add substantially to the program's anticipated risks and costs:

"When this happens, the FHA will either have to sell the property at a fraction of the mortgage balance or rehabilitate the property at a tremendous cost of additional funds. In either case, the Government will have wasted millions of dollars and there will be no way to improve the overall housing condition in our country."⁶¹

The supplemental subsidy implicit in the Special Risk Insurance Fund would have to provide coverage against "walk-away" mortgage failures as well as against involuntary foreclosures, and absorb any losses involved in bringing FHA-owned property into resaleable condition. The sense of FHA's expertness in the administration of mortgage insurance programs, on which Congress had so totally relied during the formulation of the program, had been badly shattered by the Committee's disclosures.

Although the staff report did not presume to constitute an assessment

61. Ibid., pp. 1-2.

of the program as a whole, it came to dominate the evolving national image of the program. In the subsequent Committee hearings, members made it clear their intention was not to condemn the program, but to seek administrative and legislative remedies to abusive practices as a way of preserving and continuing it. It was inevitable, however, that the staff report, though it constituted the findings of a "trouble-shooting" investigation in designated problem areas, would begin to be generalized to the program as a whole. The findings were certainly serious enough to merit program-wide attention.

A parallel study of the program conducted by the Civil Rights Commission during the summer of 1970, just prior to the staff investigation, had arrived at far more sanguine conclusions concerning the operation of the program.⁶² The Commission study concentrated on the racial and ethnic impact of Section 235 as evidenced in four metropolitan areas: Denver, St. Louis, Philadelphia, and Little Rock. Although the Commission report was published a half year after the Committee staff report, and might have been influenced by the Congressional findings, it reached somewhat more positive conclusions concerning the overall quality of 235 housing:

"While most of the housing purchased under the 235 program, existing as well as new, was of good quality -- superior to the housing in which the buyers had previously lived -- some was of poor quality. Speculators had been permitted to profit under the program at the expense of lower-income buyers, many of

62. U.S. Commission on Civil Rights, Home Ownership for Lower Income Families, A Report on the Racial and Ethnic Impact of the Section 235 Program (Washington, D.C.: U.S. Government Printing Office, June, 1971).

whom are unsophisticated in the complexities and technicalities of housing and home finance. Most of the poor quality housing was existing housing located in the central city and nearly all had been purchased by minority families."⁶³

The two reports, when coupled, suggest a high degree of variation and differentiation in local program outcomes, certainly more than the Congressional staff report by itself would suggest. However, the Commission report echoed the Congressional findings concerning the presence of widespread market abuses, FHA's failure to prevent such abuses, and its "caveat emptor" orientation to the program:

"...FHA continues to play only a passive role in the operation of the program, disclaiming any responsibility for the quality of housing produced or the impact of the location of 235 housing on racial residential patterns. Although builders and brokers frequently use FHA's name illegally in their advertising, leading unsuspecting buyers to conclude that the agency is prepared to protect their interests, no such protection is afforded. As FHA officials have pointed out, the agency's relationship is with the mortgagee, not with the buyer and although FHA appraises houses under the 235 program, the purpose of the appraisals, as one FHA official explained, is 'to assure the moneylender, not the property buyer.'..."

Thus FHA, the agency charged by Congress with responsibility for administering the 235 program, has abdicated its responsibility and, in effect, has delegated it to members of the private housing and home finance industry."⁶⁴

Factors Accounting for the Abuses

In retrospect, there are a number of factors that account for the early

63. Ibid., p. viii.

64. Ibid., p. x.

malfunctioning of the program:⁶⁵ To begin with, the program had unleashed an enormous, suppressed demand for home purchase among urban lower-income families in a market characterized by a limited supply of readily available, purchaseable, quality housing. The excess of demand over supply contributed to a price inflation bounded only by the program price ceilings. Routine FHA appraisal procedures, when followed seriously, were often unworkable for existing housing units in the untried submarkets represented by older, inner-city neighborhoods where there were no comparable sales on which to base a sound appraisal. In such market areas, 235 purchases of existing units began to form their own basis for future appraisals, a base which could be readily manipulated by speculators to their own advantage, thereby creating an "uncheckable" and uniquely inflated submarket. Moreover, the early emphasis on the sale of existing units under the program brought into play an extremely exploitative sector of the housing provider system -- the speculators, "fastbuck promoters", "blue suede shoe types", as they were later to be called -- who had brokered in minority-dominated rental markets and knew their territory and their clientele. They were a far cry from the images of private industry which had dominated the legislative hearings

65. Much of this account of field conditions during the early stages of the program was developed by William C. Grindley as part of an OSTI field study of the 235 program in 20 cities conducted from 1972 to 1973. For a fuller account, see OSTI (Organization for Social and Technical Innovation), A Study of the Effectiveness of Voluntary Counseling Programs for Lower-Income Home Ownership, (Report prepared under contract to HUD), Newton, Mass., May, 1974, Chapter III, pp. 64-94.

in Congress.

Newly-constructed 235 housing units, often located in large subdivisions consisting of 235 units exclusively, were also subject to inflationary pressures due to the sizeable demand. In high market areas where construction costs were a major constraint, the program's price limits acted as a disincentive to quality construction and materials. Builders and developers who viewed the program as an important opportunity were forced or encouraged to cut corners wherever possible to complete the house at saleable prices under the program. In addition, the program often attracted a new generation of builders without established reputations in the middle-income market, and without experience.

These problems were further compounded by the fact that most 235 purchasers could be expected to be relatively inexperienced and unsophisticated in negotiating the purchase market. Even in a marketplace free of fraudulent practices, "caveat emptor" -- "let the buyer beware" -- is a worthwhile axiom adhered to by the most knowledgeable purchasers. In dealing with first-time home buyers, builders and brokers clearly had the upper hand in the bargaining, a factor which may have encouraged them to go to extraordinary lengths to maximize profits. In that sense, the sizeable demand only served to exacerbate an already exploitative market. Builders and brokers could afford to choose among competing purchasers, even for the more impoverished properties. A buyer who looked potentially troublesome could be ignored or put off; there was always someone else who might buy. Among the more unethical mortgage companies, there were strong incentives for choosing properties and purchasers most likely to slide

rapidly into foreclosure; the greatest profits were reaped at the "front-end" upon sale and advancement of the mortgage loan, and an accelerated foreclosure rate meant that mortgage capital could be retrieved through FHA insurance and rapidly turned over toward additional sales.⁶⁶ In short, whether or not abusive and exploitative practices were endemic to the 235 purchase market, the market conditions themselves presented a fertile opportunity for various kinds of fraud and consumer abuse, well beyond the normal risks of a "caveat emptor" purchase market.

The turbulent market conditions under which the early program operated placed a premium, if not an absolute necessity, on the effective administration and operation of the program by FHA field offices. That FHA had, in some places, so badly fumbled the program or looked the other way as market practices went unchecked, must have been a rude awakening for those in Congress who had strongly advocated FHA's stewardship of the program. Although the quality of FHA performance seemed to vary from one insuring office to the next, depending on local directorial prerogatives and orientations as well as on local housing market conditions, there are a number of factors that tend to account for the likelihood of broad, unintended lapses in FHA performance. First, there was the character of FHA itself as a bureaucratic culture that had evolved over a period of more than thirty years when Section 235 was passed. In making the

66. Interview with Jack Blum, majority counsel, Senator Hart's Senate Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, September, 1972. Also see: Boyer, op. cit., Chapter 14, "Jack Blum", pp. 205-220.

transition from an actuarially sound, middle-class program in which the lender was viewed as the insured client, toward what Congress had termed a "social program" involving high risks, a loosening of long-standing credit and property standards, and a new, unfamiliar cast of suppliers and buyers, FHA must have experienced a form of administrative "culture shock". Grindley summed up the impact on FHA in the following way:

"In the post-Depression period, the Administration had built an impressive record on a well-defined role. FHA prided itself on its ability to return money to the Treasury. It had dealt only with mortgagees, had known each succeeding year's approximate budget and staffing requirements and, even more importantly, knew how to 'read' an applicant mortgagor's file. Their applicants had generally been stably-employed, middle and lower-middle class families headed by two parents, most of whom had purchased during periods of growing prosperity... Suddenly, in 1968, personnel who were familiar with a certain pattern of doing business were given a monumentally larger and unfamiliar clientele. New forms, new records, new reporting requirements, were all coming into a new, unfamiliar Department. Caseloads for credit and property review tripled and quadrupled. Applicant mortgagors with different surnames, with records of unemployment, questionable credit histories, marital instability, and no prior home ownership experience were asking for insurance of units with heretofore avoided addresses. Pressure for high production from Washington and the Director pushed an overburdened staff to process applications and insure mortgages in record time. The result was overloaded personnel, frustration, bitterness, and, occasionally, callous irresponsibility...

There were also the administrative problems which generally accompany all new programs. Nearly every builder and broker complained of what appeared to be constantly changing application forms, guidelines for determining applicants' qualifications, lines of authority, and acceptability of existing or rehabilitated properties. While many of these changes could not be avoided, given the haste with which the program had been designed and implemented, they were the cause of conflicts in external working relationships and a residue of ill-will between Area offices and private housing suppliers."⁶⁷

67. OSTI, William C. Grindley, op. cit., pp. 67-68.

Other retrospective accounts of the program confirmed the "administrative shock" phenomenon at the FHA field offices. In his own study of the program, Anthony Downs came to believe that the result took a form of deliberate sabotage of the program by FHA itself:

"...[HUD failed] to prepare most of the administrators of the program who had been working on suburban 203 units to encounter the different kind of inspection and other difficulties they are likely to encounter. Many people we talked to said they thought there was intent by some FHA officials to deliberately take a buyer-beware attitude because they did not think the program was a proper one and they did not think it should work... This is a kind of charge that is very difficult to substantiate. It is a hearsay kind of thing that our interviewers, when talking to people in regional offices of HUD, encountered among both developers and HUD members. They did not feel that this was a universal phenomenon among all the people in FHA. Rather, some of the FHA personnel felt that they were not very sympathetic with the program and they did not like it; therefore, they would administer it by sort of sticking directly to the rules without the use of the kind of cautions---" [statement interrupted]⁶⁸

In addition to the newness of the program, and its particular character, the rapidly accelerating volume of the program strongly contributed to its early administrative flaws at the local level and to the resultant abuses.⁶⁹ While some FHA field offices were able to establish a cautious, low profile involvement in the program -- particularly where the Office Director and private market actors did not press for commitments -- the incentives

68. Anthony Downs' testimony, Hearings, Joint Economic Committee, U.S. Congress, December, 1972, op. cit., pp. 299-305.

69. See HUD Office of Audit, Audit Review of Section 235 Single Family Housing, (05-2-2001-4900), (Washington, D. C.: U.S. Department of Housing and Urban Development, December 10, 1971). Also M. Carter McFarland, "Unlearned Lessons in the History of Federal Housing Aid", City, Winter, 1972, pp. 30-34.

for a high volume, production orientation to the program were difficult to ignore. The institutionalization of national housing goals in the 1968 Act, led Washington to press for rapid program visibility and increasing volume performance in the field. Moreover, structured incentives within the FHA establishment had consistently rewarded high volume insuring offices with increased funding and staff positions for the future. As a result career motivations formed a basic incentive for joining the ranks of the "high producers" among the insuring offices. Under the earlier mortgage insurance programs, which were unconstrained by subsidy allocations, office volumes were merely a reflection of local market activity as well as the ability of the FHA office to work with the network of local private suppliers and mortgagees. The ceiling on 235 subsidy appropriations only served to heighten the competition for allocations among insuring offices particularly in those jurisdictions with a high demand for commitments from the private sector.

As a result, the actuarial caution which had characterized the early FHA programs was set aside in an attempt to produce commitments rapidly with too few personnel operating an untried program. FHA's new mandate and ethos -- to serve lower-income and minority families, and insure inner city properties -- must also have helped rationalize the risks being taken under great pressure and the resultant relaxation of standards.

The failure of the Nixon administration and of Secretary Romney to seek increased appropriations for HUD staff sufficient to meet the new volume of business at field offices further exacerbated FHA's processing

problems.⁷⁰ Staffing limitations had a profound and direct impact on the occurrence of abuses, for the FHA insuring offices resorted to hiring fee appraisers and fee credit examiners in order to handle the increased volume, estimated by Romney at 1 million appraisals a year.⁷¹ As a rule, fee personnel are hired out of the local real estate industry during peak volume processing periods, on the assumption that they are experienced and expert at inspection, appraisal, and credit examination. But their major alignments and affiliations were with the private housing sector; many of the reported abuses were the result of collusion between fee personnel and local brokers or speculators, or, at the very least, a tendency to overlook normal standards.⁷²

Tighter central monitoring of field operations from Washington might have uncovered problems at the insuring office level early enough to prevent continued malperformance in the field. Undoubtedly, the changeover to a new administration, which was grappling with its own formulation of housing policies and priorities, lessened the likelihood of effective central administration from the start. Moreover, FHA's established reputation and long-tested procedures tended to place it beyond suspicion. Romney later admitted:

70. U.S. House of Representatives, December, 1970, op. cit., p. 165.

71. Ibid., p. 153.

72. Also see: HUD Office of Audit, op. cit.

"FHA had such a good reputation for what it had done basically through the years, that I had no reason to suspect that this relaxation had taken place, and that the procedures were as loose as they were."⁷³

Apart from the lack of administrative oversight of the program, major administrative decisions being made in Washington with regard to the reorganization of HUD tended to weaken further the ability of the field offices to operate effectively. Among several reorganizational strategies put into effect soon after the administrative changeover, the effort to decentralize HUD field operations below the regional office level to what came to be called the area office level had a telling effect on local performance in the 235 program. The confusion of pressures and priorities at HUD central during the early days of Romney's leadership was best described by Romney himself:

"Congressional leaders and private experts were cynical about the new administration's interest in meeting housing needs and were questioning my acceptance of responsibility for meeting the new national housing goals...I concentrated on solving these problems. In retrospect, it was a mistake -- in part -- not to realize that the FHA was not prepared for its new role in central cities and its exposure to speculators and fastbuck artists. But we succeeded in meeting the mortgage money crisis. We pushed production of all kinds of housing -- subsidized and unsubsidized -- to all-time record levels...And, we did all this at a time when we were implementing new programs, organizing and decentralizing the Department, and formulating and implementing fair housing policies.

I am proud of this record. But I didn't recognize until the summer of 1970 that the major change which had occurred in the role of FHA would require a corresponding and substantial

73. U.S. House of Representatives, Hearings, Subcommittee of the Committee on Appropriations, 92nd Congress, 2nd Session, Part 3, April, 1972, p. 1421.

change in administrative philosophy, procedures control, personnel skills, and extensive monitoring at the local level to avoid the flagrant abuses that have since come to light."⁷⁴

The effect of the HUD decentralization was two-fold. Increased autonomy at the area office level made FHA field operations more vulnerable to the prerogatives of politically-appointed office directors and to local influence networks.⁷⁵ In addition, the creation of new roles at the area offices and the realignment of roles in accordance with the reorganization induced a high degree of staff mobility, in grade, location, and assignment. The result was to dilute the expertise of FHA staff in the traditional processing roles. As a former insuring office director under the Johnson administration observed:

"The problem... is due to the decentralization process which had taken people out of the central office or from the outside and placed them into second, third, fourth, and fifth positions from the top without experience in the specific jobs they were supposed to do... If you were to go to many of the HUD offices today, the wise, the knowledgeable sponsor-builder would find that the man sitting across the desk knows much less about housing than he does. The HUD representative is not the director, the director may know his business but he has other things to do. We are talking about the people in middle management in the HUD offices. There are some exceptions, there are some able people. But the new people who have gone in, have gone in without training. They were sent out from regional offices into field offices and filled slots based on their grade; slots that were open due to the new structuring of the office. Men without management experience suddenly

74. Ibid., pp. 29-30.

75. See testimony of Philip I. Emmer, Hearings, Joint Economic Committee, U.S. Congress, December, 1972, op. cit., pp. 292-293.

found themselves in charge of five or six or eight technicians. Unfortunately, they knew less than the technicians knew..."⁷⁶

Although Katz agreed that the decentralization move was a valid strategy toward improved administration of HUD's various programs, his criticism faulted the suddenness of the transition. Instead of bringing about a new field network gradually, "a date was declared and HUD announced that an office had become operable, but it was not operable because new people came in and did not know which end was up."⁷⁷

Administrative Reaction to the Abuses

By early 1971 the administration had begun to respond to the widespread criticism of FHA's handling of the program and to mobilize a defense which served to reinforce its longer range views of the federal role in housing policy. To begin with, there were a series of FHA circulars issued in late 1970 revising FHA appraisal procedures.⁷⁸ But it was not until late November that Romney publicly acknowledged the presence of abuses in the program, in a press conference intended to "scoop" the imminent release of the House Committee staff report.⁷⁹ In the months that followed it became increasingly clear that the exposure of the abuses

76. Testimony of Lawrence Katz, ibid., pp. 260-261.

77. Ibid.

78. FHA circulars, op. cit.

79. Secretary Romney press conference, November 25, 1970.

had served to politicize the program.

The polarization of views was already apparent in the December, 1970 hearings on the abuses. Romney's stance was understandably defensive; it was natural to attempt to place blame on the previous Johnson administration for encouraging a relaxation of FHA standards in the inner city. Although sources close to Romney tend to confirm his strong commitment to the housing subsidy programs, his testimony was also aggressive in its attempt to deflect from the issue of maladministration by questioning the viability of the basic program concept of lower-income home ownership:

"The committee staff concentrated its attention on the problems uncovered in its study of the day-to-day operation of the section 235 program, without attempting to relate them to the fundamental premises and issues underlying the program's operation. Serious as these operational problems may be, they still are basically the symptoms rather than the basic causes of some of the important weaknesses found in the 235 program. I believe it will be essential for us... to examine the direction followed in the administration of the program and to raise fundamental questions that go far beyond the question of proper management."⁸⁰

Romney attacked the staff report as exaggerated and misleading, writing off the abuses as unavoidable errors: "Mistakes are made when you do a volume of 1 million appraisals a year."⁸¹ He rejected the staff report's concern about growing numbers of "walk-away" home abandonment, despite the fact that such abandonment was already occurring in large numbers under the 221(d)(2) program in Detroit. By and large,

80. U.S. House of Representatives, December, 1970, op. cit., p. 137.

81. Ibid., p. 153.

Romney's counterarguments stressed the problems of life at the margin as the primary cause of mortgage failure among lower-income families. Although Romney's recommendations to the Committee included funds for increased FHA staffing, more liberal forbearance policies on the part of mortgagees, and the provision of financial assistance to home owners in the event of emergency repairs, he also suggested that other ways be found to house low-income families more suitably. His implication was that the program was not administerable.

During the proceedings, the Committee repeatedly made clear its belief that the program was viable and that the investigation should serve to improve the program's operation. Against suggestions from individuals on the Committee that the program be suspended temporarily until the administrative problems could be ironed out, Romney was ambivalent. About three weeks later Secretary called a press conference at which he described the Committee report as "inaccurate, misleading, and very incomplete."⁸² Only a week later Romney conceded to the press that the abuses were more prevalent than had previously been suspected,⁸³ and announced a suspension of the existing housing component of the 235 program⁸⁴ until HUD launched its own investigation and could take measures

82. Secretary Romney press conference, January 6, 1971.

83. Secretary Romney press conference, January 14, 1971.

84. The existing housing component of the program was gradually reinstated as HUD took steps to remedy procedures. By April 1971, the existing housing program had been reinstated at 30 insuring offices in 17 states. By April, 1972, the suspension had been lifted at all but the Washington, D. C. insuring office.

to prevent the recurrence of abuses and to compensate current victims of abuse.

By March of 1971, the HUD Office of Audit submitted an interim report to the Secretary which confirmed the presence of widespread deficiencies and abuses throughout the 235 program. A random sampling of 235 units in 52 FHA insuring jurisdictions had uncovered serious defects in both new and used homes sold under the program. The most serious problems emerged in the used housing sector, particularly in large cities which had maintained a high volume of 235 insurance applications. Among the used homes, a strikingly large proportion (43%) were judged to have "serious deficiencies". While a much smaller proportion of the new homes (11%) were judged as similarly deficient, the report indicated an additional 15 percent manifested inadequacies in workmanship or in materials used. As a corollary, HUD Audit found that a majority (53%) of homes insured in the "inner city" manifested serious deficiencies, while roughly a third (35%) of those located in suburban, rural, or small town areas were in similarly poor condition.⁸⁵ The report confirmed what had been feared, that the abuses uncovered in the trouble-shooting investigation of the House Committee staff had permeated much of the national program effort as a whole and had assumed systemic proportions. It concluded:

"While most of the home buyers under the Section 235 program have received good value and undoubtedly are living in better houses than they previously lived in, we believe many unsophisticated buyers of older inner-city housing have not been fairly treated. The values stated on appraisals have been high and the

85. HUD Office of Audit, op. cit., p. 65.

condition of a number of properties at final endorsement have been poor to bad. We believe this general condition results from a combination of factors including the relaxing several years ago of inspection and appraisal requirements in declining urban areas. Also, when production goals versus quality appraisals and inspections were at issue, the matter was resolved on the side of production."⁸⁶

Although the HUD Audit report echoed many of Secretary Romney's criticisms of the program -- "unsophisticated buyers", earlier relaxation of FHA standards -- it also pointed to the strong production orientation at the FHA insuring offices as a factor contributing to the malfunctioning of the program. In the space of one year, the program had accelerated from 26,000 insured houses at the end of 1969 to 131,000 insured units by the end of 1970. In the Spring of 1971, when HUD's Audit report was prepared, it was on its way to insuring a cumulative total of 275,000 units by the end of the year. Increased appropriations in keeping with the national housing goals embedded in the 1968 Act; the strong production incentives at the FHA insuring offices; the popularity of the program with builders and brokers which had created an irresistible pipeline of commitments; and the enormous consumer demand for 235 homes had resulted in a rapidly accelerating program in which normal administrative cautions had been set aside and the occurrence of abuses had assumed serious proportions.

Further oversight hearings on the 235 program were held by the House Banking and Currency Committee on March 31, 1971. Although the HUD Audit report was already in existence, the results were not provided by HUD to the Committee on the grounds that the study was not yet completed.

86. Ibid., p. 70.

During the hearings, Secretary Romney provided modest confirmation of the abuses transmitted by the Committee to HUD, while avoiding any program-wide assessments. He pointed to several problems that had been uncovered in the FHA field operation: failure to coordinate insurance commitments for existing housing with local code enforcement authorities; negligence in checking on mortgagee certifications that required repairs had been carried out, and systematic underestimation of utility and maintenance expenses. As to whether HUD would compensate victimized owners for necessary repairs, Romney responded that FHA was not authorized to expend funds for that purpose.⁸⁷ Instead, he recommended the following actions: 1) Where defaulting owners had been subject to overappraisal or major repairs resulting from faulty inspection, they would be allowed to submit a deed in lieu of foreclosure -- an alternative which allowed the owner to turn over the deed for the property to HUD without any jeopardy to his or her credit record and without endangering their ability to purchase another house under the program. 2) HUD would exert pressure on builders to make the necessary repairs under threat of disqualification from FHA mortgage insurance programs. 3) HUD would take steps to strengthen the quality of FHA field operations. 4) HUD would develop regulations, under an amendment to section 518, for processing complaints. 5) HUD would set up a task force to develop a counseling program for 235 applicants, to be carried out by voluntary agencies with possible fee

87. U.S. House of Representatives, Hearings, Committee on Banking and Currency, 92nd Congress, 1st Session, March 31, 1971, p. 21.

incentives and to provide applicant purchasers with counseling in the areas of budget management, ownership responsibilities and costs, home purchase procedures, housing values and availability, and property maintenance. Romney indicated that 70 voluntary organizations were already participating in 235 counseling efforts.⁸⁸

Thus, the exposure of abuses in the program had several direct impacts on FHA program operation. It had led to a 4 to 6 month suspension of existing housing purchases under the program; to corrective actions designed to prevent further abuses through a tightening of FHA standards and procedures; to remedial action which attempted to enforce supplier responsibility for repairing serious defects at no cost to FHA; to measures which allowed victimized owners the option of walking away from their homes without negative legal sanctions (and without compensation); and to an increased, though still unformulated commitment to consumer counseling.

But the exposures also had important negative consequences for the program. At the local FHA level, news of the impending scandal had by late 1970 diffused throughout the FHA system. Well before the temporary suspension in 1971 and the subsequent April guidelines concerning speculator-dominated areas, many Area/Insuring offices had already responded to these events by slowing down or halting lending in those areas which seemed most similar to those described in rumors and reports of the abuses. Regardless of whether the FHA office was vulnerable to the charge

88. Ibid., p. 14

of maladministration, the net effect was to halt nearly all inner-city program activity and most insurance for existing housing. Neither the lifting of the suspension, nor more accurate information on the extent of the scandals and abuses, sufficed to reinstate existing or rehabilitated inner-city housing as substantial sectors of local program activity. For historical reasons, section 235 evolved into a largely suburban new construction program, thereby limiting its ability to contribute to the revitalization of older urban neighborhoods and withdrawing the market supports for owners who had already purchased in such areas on the assumption that the program would continue to have positive neighborhood effects which would sustain and possibly appreciate the value of their property. Moreover, the exposures induced a degree of caution within the FHA insuring offices that probably hindered the entry of many eligible families into the program. Minority families, whose options were more limited to the older core neighborhoods as a result of discriminatory barriers to outward movement, had fewer opportunities available to them. In addition, FHA's increased caution and unwillingness to take risks extended to the FHA mortgage credit examination. As a result, families at the lower end of the income range, those with minor credit infractions or questionable employment histories found it much harder to be approved by FHA, particularly in tight housing market areas where more credit-worthy purchasers could readily be found. The news of tighter credit standards gradually made its way to the local builder and mortgage community, and forced them to tighten their own screening standards as much as possible in order to avoid costly rejections. The result was that the program began, more

than ever before, to "cream" the pool of applicants in a way that excluded otherwise eligible families at the lowest income levels, in opposition to the "maximum feasible extent" provision of the legislation.⁸⁹

At the federal level, the exposures had even more telling effects. From the start, the concept of lower-income home ownership was extremely vulnerable; it constituted a controversial and untried federal strategy of housing betterment for the urban housing-poor. The abuses seemed to provide a clear confirmation of the belief that the poor could not manage the responsibilities and risks of home purchase and ownership, and publicly stigmatized the program as a failure, as yet another "graveyard of good intentions."⁹⁰ Although the problems stemmed largely from abusive market practices and faulty administration of the program, factors which were potentially remediable within the program, it was convenient to believe that the program concept was at question and that a strategy of low-income home ownership on a national scale might involve unattainable objectives. More importantly, the abuses provided an early target for forces in the Nixon administration hostile to the Great Society housing subsidy programs. Secretary Romney's questioning of the fundamental program concept during the Committee hearings, was suggestive of the long range agenda of the new administration.

89. OSTI, William C. Grindley, op. cit.

90. Glazer, op. cit.

Rising Default and Foreclosure Rates

During the latter part of 1970, Secretary Romney was beleaguered by yet another problem within the FHA system. Mounting foreclosures were occurring with particular intensity in the city of Detroit, largely among homes insured under the moderate income 221(d)(2) program. By the end of the year, properties acquired by HUD in Detroit as a result of owner abandonment represented about 11 percent of HUD's total inventory; high default rates were indicative of more foreclosures to come. By September, Romney had dispatched a HUD team to investigate the default situation in Detroit. The conclusions reached after a survey of a sample of defaulting 221 home owners undoubtedly colored Romney's concerns with the 235 program, as well as the position he took at the subsequent hearings:

"...While we found some failings on the part of underwriting and we are recommending corrective steps, nevertheless, what we found as the causes for default could be expected. There are no changes in underwriting procedures which can reduce the incidence of foreclosure without restricting our involvement in the inner-city. We are dealing with high risk properties and high risk purchasers. Losses will inevitably be high. The alternatives are stricter credit and property standards which would have the effect of depriving those most in need from the areas and housing they can afford. The high incidence of default and foreclosure must be expected to be substantially greater than in the past.

We found that people in the inner-city are extremely vulnerable to periodic losses of income whether from illness (loss of pay, or doctor bills, or both) or job loss; and they have no reserve funds. Illness, loss of job and family problems accounted for 70% of the defaults in our survey. These problems are compounded by the attitude of mortgagees who are completely unsympathetic of any delinquency and foreclose at the first opportunity. The properties are old and require much maintenance while the low in-

come purchasers are least able to afford high maintenance properties. The results are often neglect, deterioration, and eventual abandonment."⁹¹

By the Spring of 1971, the news of Detroit had swept the media, focusing public attention on the large number of abandoned properties which had fallen into HUD's hands under the unsubsidized 221(d)(2) program. It became commonplace in newspaper and television commentary to refer to Secretary Romney as "the largest slumlord" in the country. Although Detroit was relatively unique as a problem area for the 221(d)(2) program, the images conjured up by the press left no room for the more positive experiences of the program, such as the carefully worked-out program in Milwaukee which had been targeted at welfare families without the disastrous consequences of Detroit.⁹² But in the urban imagery of the 1960's, Detroit had occupied a special role as a center of some of the worst conditions and disorders of the period and as a subsequent target of remedial federal attention. That the 221 program had contributed to turning many of its vast, black, inner-city neighborhoods into a virtual ruin of abandoned housing was a compelling image of the failure of federal efforts to improve the fundamental quality of urban life among the poor.⁹³ The news

91. U.S. House of Representatives, Hearings, Subcommittee of the Committee on Appropriations, 92nd Congress, 2nd Session, Part 3, April, 1972.

92. See U.S. Department of Health, Education, and Welfare, SRS Newsletter, op. cit.

93. For a journalistic account of the Detroit FHA program, see: Boyer, op. cit.

of Detroit, coming soon after the disclosure of 235 abuses, further stigmatized the question of lower-income home ownership and made any report of excessive defaults or failures under the 235 program a newsworthy item. Despite the Congressional realization from the start that the program would be actuarially unsound, and its crystallization in Senator Clark's estimate of a 25 percent failure rate, the image of Detroit served to exacerbate the vulnerability of the 235 program to subsequent judgments of failure and to sensitize the issue of defaults and mortgage failures under the program.

By 1971 the 235 program seemed well on its way to developing its own Detroit, though for somewhat different reasons. Although by the end of the year the cumulative 235 mortgage failure rate was about 3 percent nationally, the failure rate for metropolitan Seattle was estimated at 14.5 percent and generally interpreted as a direct consequence of recent setbacks in the city's dominant aerospace industry. At the same time 235 defaults in the Seattle FHA insuring office were running at about 10 percent. Though Seattle maintained a uniquely high mortgage failure rate, some other FHA insuring offices were beginning to experience alarmingly high default rates -- Washington, D.C. (21%), Columbia, S.C. (11%), San Antonio, Texas (8%), and Newark, N.J. (8%) -- against a national default rate of about 4.6%.⁹⁴ Informed speculation offered a different

94. The data supplied here were provided by HUD's 235 Branch, Housing Production and Mortgage Credit, Research and Statistics.

reason for each of these trouble spots in the program. In Washington, it represented the aftermath of an abusive, speculator-dominated, existing housing program; in Columbia there were reports of serious deficiencies in much of the new construction; and so on.⁹⁵ But the prospect of walk-away foreclosures, first predicted in the House Committee staff report, as well as the spectre of Detroit, had stimulated a major concern with the gradually rising wave of defaults under the program and a tendency to view them as next year's mortgage failures.

The question of 235 defaults arose during the Spring, 1971 hearings of the House Appropriations Committee, to which Secretary Romney responded:

"It's mixed. Oh, sure, we have had some defaults. It's mixed. In some places it's not good. I have seen areas where it is just not good. It's one of those programs I describe as a very complex program. . . It's one of those programs that I think we need to take a look at from the standpoint of whether or not that is the best way to do it."⁹⁶

Romney's perception of mixed results was accurate. Unlike Seattle or the other isolated trouble spots in the 235 program, most insuring offices maintained respectably low default as well as mortgage failure rates. Even in the high-volume offices in Denver and Milwaukee, default rates were no more than 2 percent and failure rates less than 1 percent, well

95. Informal conversations with members of HUD's Housing Management Branch in the fall of 1972.

96. U.S. House of Representatives, Hearings, Subcommittee of the Committee on Appropriations, 92nd Congress, 1st Session, Part 2, April 20, 1971, p. 62.

within the bounds of the more conventional FHA programs.⁹⁷ Although the national rates had not yet escalated to a level that merited any alarm the Committee probes of HUD officials reflected a central concern with imminent mortgage defaults and failures, undoubtedly related to the recent Detroit experience. Assistant Secretary Gullledge's testimony provided a partial confirmation of renewed Congressional concern with the actuarial risks of the program: As of March, 1971, the 235 failure rate was 1.4% against the 1% rate that would have pertained under the standard FHA program.⁹⁸ Assistant Secretary Watson cited the high costs of bringing HUD-acquired 235 properties into resaleable condition, averaging \$3400 per unit.⁹⁹

Although the prognosis for the program was not promising, it was hardly disastrous in early 1971. But the commitment on the part of Congress to a high-risk, actuarially unsound program, which in 1968 had been considered worthwhile because of its social objectives, had begun to erode in the wake of Detroit. Ironically, when asked about the pattern underlying the 235 defaults, Watson cited the results of a recent survey of 221(d)(2) defaults in Detroit, in which illness, loss of income, and family problems had accounted for the majority (70%) of defaults.¹⁰⁰ The

97. Source: HUD 235 Branch, Research and Statistics.

98. U.S. House of Representatives, April, 1971, op. cit., p. 244.

99. Ibid., p. 62.

100. Ibid., p. 458.

implicit administrative critique of the 235 program was the "life at the margin" argument:

"No amount of sound underwriting analysis can predict in advance when or where these events will occur".¹⁰¹

The issue of default and mortgage failure had shifted the question of whether the program involved worthwhile, though high risks to whether it was at all viable from the perspective of the consumer. It had also served to deflect the blame for the program's malfunctioning from the administration to the home owner.

A year later, in March of 1972, a report developed by the House Appropriations Committee sounded a clear alarm concerning rising defaults in the program.¹⁰² Interviews with HUD field staff and mortgagees had indicated an expectation of high failure rates due to the inability of 235 families to sustain long-term ownership commitments. The reasons cited included incomes too low to enable families to make necessary repairs and a general lack of familiarity on the part of mortgagors with normal ownership responsibilities. The report indicated that some mortgagees anticipated failure rates from 20% to as high as 50%.¹⁰³ Despite Romney's guarded position concerning the program concept, he attacked these speculations as biased and exaggerated. At the subsequent appro-

101. Ibid.

102. U.S. House of Representatives, "Surveys and Investigations Staff Report", contained in Hearings, Subcommittee of the Committee on Appropriations, April, 1972, op. cit., pp. 1294-1344.

103. Ibid., p. 1323.

priations hearings in April at which Romney requested a first appropriation, \$195 million, for the special risk insurance fund, he indicted the press for equating default with mortgage failure in estimating the number of HUD-owned 235 properties.¹⁰⁴ Against a rising tide of criticism from the media and from an increasingly cautious Congress, and an increasingly unsupportive President, Romney and his staff mustered their best, though belated defense of the program.

But the figures were undebatable. By March of 1972, the mortgage failure rate had risen to 4.4%, with every expectation that there would be upsurges to come.¹⁰⁵ And defaults were rising as well. The administrative loss for reconditioning HUD-acquired units was also inflating to an estimated \$5,000 per unit, and becoming a major subsidy element in the program. Against these facts, Assistant Secretary Gullede took a position of moderated optimism; claiming that losses could be expected to peak within the first few years of the program and then subside and that steps had been taken in the field FHA offices to strengthen the the quality of future 235 mortgages.¹⁰⁶ Romney cited a departmental analysis which indicated that a majority of 235 home owners (62%) were receiving decreased subsidies because of corresponding increases in their income levels; only 25% were receiving increased subsidy amounts.¹⁰⁷

104. Ibid. , p. 62.

105. Ibid. , p. 178.

106. Ibid. , p. 315.

107. Ibid. , p. 121.

A departmental submission to the Committee stated:

"We find no evidence on a national basis that the section 235 program is approaching an actuarial unsound basis, nor do we project such a position to occur."¹⁰⁸

Simultaneously, a GAO study issued in late 1972 found that 235 families who had purchased homes during the first half of 1969 had by June, 1971, experienced a mortgage failure rate of 11.3 percent.¹⁰⁹ Although the figure was high enough to unsettle the optimists, it provided some comfort to those who tended to believe the earlier estimates provided by mortgagees. However, it went unrecognized that the cohort sample used by GAO consisted of early purchasers in the 235 program at a point when the existing housing component of the program was disproportionately large. As a result, the figure represented an overly high estimate of mortgage failures that might be expected during the first two to three years of 235 ownership. Moreover, improved administration of the program would be likely to lower the failure rate as well. Against the early HUD estimates in 1968 of a cumulative mortgage failure rate of 25%, made well before actuarial data was available on the program, the GAO report was reassuring:

"...the data indicate that the program is not sustaining as heavy a foreclosure rate as the Section 221(d)(2) program and that the [actuarial] estimate of 25 percent is much too high... The publicity given the foreclosure rate and associated problems in central-city areas of several metropolitan areas do

108. Ibid., p. 1438.

109. U.S. Comptroller General (GAO), op. cit., pp. 92-93.

represent very real and very vexing problems, but should not be allowed to distort our impression of the overall experience in the low-cost subsidy programs."¹¹⁰

Despite increasing evidence that the occurrence of mortgage defaults and failures under the program would remain well within the bounds of acceptable tolerances originally set by Congressional intent -- even in the face of unanticipated market abuses and serious administrative shortcomings -- there were clear signs that the President was about to perform radical surgery on the program. Romney's increasing alienation from the President had been well publicized by the press, and taken as an indication of executive disdain for many of HUD's programs. By late fall of 1972, Romney had submitted his resignation.

In December, 1972, during the last days of the program, the hearings of the Joint Economic Committee were used as an opportunity by Congressional defenders of the program to defuse the issue of mortgage defaults and failures. The GAO conclusions were cited, and Senator Proxmire pressed for a "systemic" interpretation of mortgage problems, attributing them to failings in program administration rather than to the program concept itself. The Senator noted the differences between the 221(d)(2) programs in Milwaukee and Detroit and ascribed them to differences in HUD management.¹¹¹ In response, Elmer Staats, the director of GAO briefly forwarded an alternative interpretation, the "contextual"

110. Ibid., p. 69-70.

111. U.S. Congress, Joint Economic Committee, December, 1972, op. cit., p. 34 and p. 37.

hypothesis, that local economic conditions might also contribute to strong variations in default rates from one locality to another.¹¹²

In a prepared statement, Henry Aaron, of the Brookings Institution, chided that the doubts over the soundness of the program had been "mis-directed and out of proportion" and pointed to the fact that only a small minority of 235 units were in default in a program that could be expected to have high risks.¹¹³ Anthony Downs had recently completed a study of the federal housing subsidy programs for the National Association of Home Builders.¹¹⁴ His testimony before the Committee supported the values of the program as a production strategy; by the end of 1972, after four years of operation, it had insured close to 400,000 homes. In his view, the administrative problems in the program were being remedied:

"I think the administration has already taken a tremendous number of steps to alter the way 235 is administered. In fact... they have gone the other way. FHA is practically paralyzed with fear of being over-regulated, to the point that we understand in many offices they are over-cautious now in making commitments. They have gone from one extreme to the other. I do not think the problem [of administrative negligence]... is now a significant one."¹¹⁵

A letter to the Committee from William Whitbeck, the HUD Area Office Director in Detroit, echoed the GAO finding that the causes for

112. Ibid., p. 37.

113. Ibid., p. 277.

114. Anthony Downs, Federal Housing Subsidies: Their Nature and Effectiveness and What We Should Do About Them (Chicago, Ill. : Real Estate Research Corporation, October, 1972).

115. U.S. Congress, Joint Economic Committee, December, 1972, op. cit., p. 305.

default were poorly understood, and that a systematic study of the default process should be undertaken rapidly. Whitbeck's letter was critical of HUD's failure to evaluate its own programs, and of the "unreality" that seemed to pervade the issue of default.¹¹⁶

The eleventh-hour deliberations of the Joint Economic Committee had focused largely on a reassessment of the program's viability in terms of expected loss rates, and attempted to consolidate expert testimony and Congressional support for the continuance of the program. There was little discussion of the plight of defaulting mortgagors who had already purchased under the program, or of possible interventions that might assist them in the remedy of default situations. Surprisingly, no mention was made of mortgagor insurance, nor was the 1969 report of the Insurance Technical Assistance Group considered. HUD had not exercised its prerogatives of indulgence for mortgagors who had involuntarily fallen into default and were likely to recover in time, as former FHA commissioner Brownstein had expected. Nor had there been any systematic effort on HUD's part to encourage mortgagees to exercise forbearance wherever possible.¹¹⁷ Indeed, HUD had not yet operationalized an effective system for the timely reporting of defaults and foreclosures

116. Ibid., p. 264.

117. OSTI (Organization for Social and Technical Innovation), An Evaluation of the HUD Concentrated Default Counseling Program, (Report contracted by HUD), Newton, Mass., January, 1974.

by mortgagees.¹¹⁸ Interestingly, the GAO estimates of aggregate of failure rates for the program had been based on implicit "status quo" assumptions reflecting the continued absence of any supportive intervention for defaulting mortgagors, whether in the form of insurance, indulgence, or forbearance mechanisms. Whether appropriate remedial interventions during the default process might serve to reduce the GAO estimate of anticipated mortgage failure rates was unknown. The prevailing bias among supporters of the program was to look toward preventive strategies rather than remedial strategies.

The Whitbeck letter, calling for a consumer-based study of default, proved to be the only HUD presence at the late 1972 hearings. Romney refused to testify himself or to send another representative of HUD: "I just do not feel this is the proper time to appear."¹¹⁹ It could be inferred that Romney was too busy briefing his successor, James T. Lynn, to prepare to testify before the Committee. On the other hand, it was one of the clearest signs of the imminent administrative abandonment of the 235 program.

The Moratorium Period

There were other, earlier signs of waning administrative support for

118. Ibid.

119. U.S. Congress, Joint Economic Committee, December, 1972, op. cit., pp. 2-3.

the program, even in the face of continuing Congressional support. In what seemed a surprising administrative turnabout, HUD made no request in 1971 for a counseling appropriation under Section 237 for fiscal year 1972. Though such an appropriation had already been twice refused by Congress in preceding years, this was the first time HUD had failed to make the effort. On the other hand, in the wake of the exposures of abuses in the program, key Congressional supporters of Section 235 had come to believe that pre-purchase counseling might be an effective means of protecting consumer interests during the purchase process and reducing the risks of subsequent voluntary, walk-away foreclosures. Existing counseling efforts among voluntary agencies had reached only a small proportion (3%) of 235 purchasers and were of uncertain and uneven quality.¹²⁰ To enable HUD to mount an effective pre-purchase counseling effort on a national scale, Congress passed a special appropriation of \$3.25 million for fiscal year 1972.

It was significant that the appropriation went unused by HUD until the last months of the fiscal year, and even more significant that Secretary Romney chose to divert the funds from pre-purchase counseling toward a new program of concentrated default counseling. The default counseling program was launched in the summer of 1972 as a way of providing advisory assistance to defaulting mortgagors in 19 high-default cities across the country. Although the program ultimately proved to have

120. OSTI, May, 1974, op. cit.

positive results in ameliorating defaults and reducing administrative losses due to repossession,¹²¹ Romney's move was viewed as a cynical expression of priorities which favored pragmatic remedial efforts over new preventive strategies that would improve the prospects for ongoing purchases under the program.

During 1972, reports grew more frequent of a continuing feud between Nixon and Romney over the lack of Presidential support for HUD's urban programs.¹²² In the face of accelerating inflationary trends, the administration showed increasing reluctance to support residential construction and other federally-assisted construction efforts. It proposed to substitute a housing allowance approach for the existing housing subsidy programs. During the 1972 presidential campaign, both Nixon and McGovern went on record as favoring housing allowances over the continuation of the subsidy programs.¹²³ In the glare of the negative publicity the 235 program had received, attacks on the subsidy programs occasioned little public debate. Although the Downs study was completed by

121. OSTI, January, 1974, op. cit. Also see: U.S. Department of Housing and Urban Development, Counseling for Delinquent Mortgagors, An evaluation Report, August, 1975, and Counseling for Delinquent Mortgagors, A Staff Study, November, 1975.

122. The New York Times, March 29, 1972, 42:1, and August 13, 1972, 87:1.

123. See: Arthur P. Solomon and Chester G. Fenton, "The Nation's First Experiment in Housing Allowances: The Kansas City Demonstration", Land Economics, August, 1974, pp. 213-23; and HUD: First Annual Report of the Experimental Housing Allowance Program, 1973, and Housing Allowances: The 1976 Report to Congress, February, 1976.

October,¹²⁴ its positive findings had little impact on the negative image of the program.

Shortly after Nixon's reelection in November, Romney submitted his resignation. By December, reports had begun to leak of an impending 18-month moratorium on new commitments under the subsidy programs.¹²⁵ The rumors stimulated a number of FHA insuring offices to step up their application review procedures in order to make as many commitments as possible before the deadline was announced. In one of his last official acts, Romney issued a memorandum in early January, 1973 announcing the immediate imposition of the moratorium.

Congressional protest was intense but hardly effective. The Joint Economic Committee report charged that:

"...the Administration has...chosen to abandon Federal housing subsidy programs without justification, and without alternative proposals...we strongly oppose the Administration's arrogant solution by elimination."¹²⁶

The report supported the view that the program's shortcomings were largely the result of administrative mismanagement. Despite continuing Congressional challenges to the power of the executive to impound appropriated funds, which elevated the issue to a constitutional question pending

124. Anthony Downs, op. cit.

125. See The New York Times, December 23, 1972, 1:1.

126. U.S. Congress, Housing Subsidies and Housing Policy, Report of the Subcommittee on Priorities and Economy in Government, Joint Economic Committee, March 5, 1973, pp. 2-3.

further consideration by the courts, the "18-month" moratorium has persisted well beyond its proposed duration. Further administrative initiatives under the lower-income program have been largely remedial in nature: continuation of funded counseling assistance to defaulting mortgagors, attempts to improve mortgagee cooperation in remediating serious defaults, and efforts geared to the turnover and resale of HUD-acquired properties.

During its short and unhappy life span from 1968 through 1972, the 235 program had subsidized the purchase of close to 400,000 homes; the overwhelming majority of them (81%) were newly constructed.¹²⁷ Its sibling rental program -- section 236 -- had produced a roughly equivalent amount of units. Taken together, the two constituted an unprecedented production record for federally-assisted low-income housing.¹²⁸

More recently, the concern and controversy over anticipated mortgage default and failure rates under the program has tended to subside for a number of reasons. The increased availability of actuarial trend data over time made it possible to predict aggregate failure rates with greater certainty. A HUD task force study undertaken in early 1973, shortly after James Lynn became Secretary of HUD, concluded:

127. U.S. Department of Housing and Urban Development, 1974 Statistical Yearbook, Table 131, pp. 120-121.

128. Since the moratorium an additional 72,000 units have been purchased under Section 235 as a result of outstanding commitments to builders and developers.

"The latest simulations conducted for the program, based on four years of experience as well as the last 26 years of the basic [FHA] mortgage insurance program, indicated that the insurance fund for Section 235 was actuarially sound but at the break-even point. A final default termination rate [i. e. aggregate failure rate] of 18.6 percent has been calculated. . . "129

Moreover, recent trends in the program confirm the expected "Rayleigh" effect¹³⁰ of a plateauing of mortgage default and failure rates after the mortgages age beyond the first few years. (See Table III.)

Viewed from the legislative vantage point of 1968 when the program was first passed, section 235 has undoubtedly confounded the optimists who believed a program of lower-income home purchase could be readily accommodated within the existing FHA structure and would manifest the actuarial soundness of the more conventional FHA programs. For those who were more cautious or pessimistic from the start -- like Secretary Weaver or Senator Clark -- the record of the program is somewhat more remarkable in that its failures seem likely to fall substantially below the original 25% prediction. That it has managed to fare as well as it has, despite a number of unpredictable and devastating occurrences -- abusive market practices, careless if not negligent administration, "double-digit" inflation in the price of consumer goods (particularly utility costs), a major national economic recession which has resulted in unemployment

129. U. S. Department of Housing and Urban Development, Housing in the Seventies, October 6, 1973, p. 4-54.

130. R. Jeffery Green and George M. von Furstenburg, "The Effects of Race and Age of Housing on Mortgage Delinquency Risk", Urban Studies, 1975, 12, pp. 85-89

TABLE III. NUMBER OF INSURED 235 PURCHASES, CUMULATIVE MORTGAGE FAILURES, AND END-YEAR DEFAULTS, BY CALENDAR YEAR, 1968-1975¹³¹

Year	Cumulative Number of Insured Purchases	Cumulative Mortgage Failures*	End-Year Defaults**
1968	39	---	---
1969	25,613	0.16%	0.55%
1970	130,613	0.93%	1.96%
1971	275,090	2.93%	4.61%
1972	394,337	6.26%	6.49%
1973	452,010	9.65%	7.77%
1974	465,972	13.75%	7.01%
1975	471,667	16.39%	6.03%

* as percentage of the cumulative number of insured purchase, referred to by HUD as cumulative "default terminations".

** as percentage of insurance in force at beginning of year, referred to by HUD as "in default".

131. Source: HUD-Washington, Management Information Systems, Home Activities Branch. The table excludes Section 235(j) purchases through non-profit sponsors, which represented less than one percent of 235 units.

rates second to those of the Depression -- seems even more remarkable.

The controversies that came to surround the implementation of the 235 program were the result of both unanticipated program consequences and those which had been envisioned during the legislative process. The early exposure of administrative and market abuses in the program had shocked program advocates who had reasonably expected much more of FHA. But the rising wave of mortgage defaults and failures had been clearly anticipated by Congress as an inherent risk within the program. Nevertheless, the issue of defaults and repossessions had been sufficiently publicized and politicized in the interim to foster Congressional amnesia concerning acceptable loss tolerances and to reignite the question of program losses as a telling criticism of the program and its underlying precepts.

The debates that ensued in Washington represented a politicized polarization of views and interpretations of the program's increasingly apparent shortcomings between a predominantly Democratic Congress supporting continuance of the program and a new Republican administration assuming a defensive or hostile stance toward continuing criticism. The latter camp tended to rally around the "life at the margin" explanation of the program's negative outcomes and questioned the validity of the lower-income ownership concept itself. Congressional proponents asserted the "systemic" interpretation, attributing negative outcomes to HUD's faulty administrative management of program operations and sought remedial changes in the program.

However, the unexpected stability of the program over the longer term

and the fact that it has tended to remain within prescribed, acceptable loss tolerances, despite exogenous occurrences that could be expected to unseat many owners, should give pause to both the "systemic" and "life at the margin" propositions as dominant explanations of program realities. To the extent that either of them is valid, their impacts are more finite than would have been expected and confined to a limited sector of the program. Certainly neither seems to have been a pervasive influence on the program in terms of sheer numbers. The relatively bounded nature of apparent problems in the program over the longer range suggests that there are far more differentiations within the program -- as among different program areas or contexts, and among different kinds of owning households -- than either of these views can take account of. It is also an indication of the unfortunate tendency toward negative stereotyping of the program that occurred during its initial years of implementation. The survey analysis of consumer experience in the program, which is presented in subsequent chapters, is an attempt to make some of the key differentiations that will more accurately account for the program's emergent outcomes.

Chapter IV. CONSUMER EXPERIENCE: PRELUDE TO PURCHASE

The analysis of consumer experiences in the 235 program, which begins with this chapter, is intended to serve three primary objectives:

(1) To determine the extent to which and the ways in which 235 ownership proved to be functional or dysfunctional among urban purchasers as a whole, and among various subgroups of purchasers distinguished by income and race. In this regard, one of the key foci for assessment is the degree to which the adequist, relativist, and functionalist perspectives respectively illuminate the role of tenure choice among urban lower-income households as an aspect of public policy

(2) To assess the relative contribution of alternative factors -- income differences among purchasers, deficiencies in house condition at purchase, and local employment conditions -- to the process of 235 mortgage degeneration indicated by default and aborted ownership. These factors are intended to correspond respectively to alternative interpretations or theories of 235 mortgage degeneration: the "life at the margin" interpretation, the "systemic" interpretation, and the "contextual" interpretation.

(3) To learn from consumer experiences in the program whether and how future policies might be more effective in providing viable ownership opportunities.

The implied scope of concerns calls for the use of longitudinal assessments before and after purchase, and for the chronological development

-- in survey analytic terms -- of the purchase and ownership scenarios of program participants, from the initial decision to move and purchase through the early years of 235 ownership. As a result, the choice has been made to structure the analysis chronologically. This chapter describes the characteristics of the urban purchaser sample and analyzes their pre-purchase residential characteristics, their early orientations to home purchase, and the process of house search and selection. Chapter V, which follows, analyzes the housing outcomes immediately consequent to purchase and the occurrence of pre-purchase abuses as perceived by the new owners. Chapter VI treats key experiences over the initial years of ownership, including an analysis of mortgage default and failure episodes, as well as terminal consumer assessments of their ownership experiences as of the point of the survey interviews. The concluding chapter VII represents an analytic synthesis of the survey material in terms of conclusions regarding the three foci described above.

The analysis makes frequent reference to tabular material summarizing survey responses and analytic indices. For the purpose of maintaining the narrative flow of the analysis, the tables have been consolidated in Appendix B, unless otherwise indicated.

A. The Urban Purchasers: Who Participated?

Despite the frequently-held images of Section 235 as a minority housing program, a two-thirds majority (66%) of the urban purchasers in the sample were white households. The remaining families in the program

were, with few exceptions, either black or of Spanish surname in a ratio of roughly two-to-one respectively. Considering the earlier exclusionary tendencies of FHA, it is worthwhile considering whether minority purchasers were adequately represented among urban home buyers in the 235 program. For the purpose of drawing a comparison between the potential urban constituency for the program and its actual constituency in terms of minority representation, a convenient reference group was chosen consisting of families in the ten metropolitan areas sampled whose incomes lay between the poverty level and twice the poverty level,¹ an income interval which was assumed to be representative of most households for whom entry into the program was likely. The results indicate that minority families were better represented among urban 235 purchasers than they were in the reference population at large. Only 15 percent of the reference population were minority families as opposed to 33 percent of the urban purchasers, with a corresponding under-representation of white households among the Section 235 purchasers. In short, relative to their numbers, the rate of participation in the program among minority households was somewhat greater than that for white households, indicating that the program -- whatever its faults -- succeeded in opening up FHA purchase opportunities for minority families as had been intended.

Although the median annual income of urban purchasers (\$6,537) approximates the figure for the national program as a whole (\$6,500), it

1. Figures obtained from 1970 Census of Population, Vol. 1, part 1, section 2, Table 347.

is striking to note the wide range of incomes served by the program.² Roughly a quarter (23.4%) of the urban purchasers had incomes below \$5,000; another quarter (24.3%) had incomes of \$8,000 or more. Even when household size is taken into account to estimate per capita income levels (See Table IV.1.), it is apparent that the urban 235 program serving a diverse constituency ranging from the urban poor to families who would be considered to have modest, but comfortable income levels. It would seem that the "life at the margin" images of 235 home owners, to the extent they are valid, are likely to apply only to a particular sector of the program.

The diversity of the program's urban constituency is even more evident if one disaggregates household characteristics by purchaser groups, defined in terms of race and income. (See Table IV.2.) The most disadvantaged among the purchaser groups are minority households at the lower levels. Constituting nearly a quarter of the urban purchasers (22.5%), they manifest the lowest median income levels and the largest household sizes; low occupational skill and educational levels; a high rate of single-adult household structures; and the strongest dependency on public assistance. At the other extreme are white purchasers with relatively high incomes, whose profiles indicate a substantial advantage in every respect over minority purchasers within either income category and over other white purchasers as well. That this group constitutes nearly half of the urban purchasers (44.1%) -- the largest among the purchaser groups --

2. Refer to Table A-4, Appendix A.

is only mildly significant as a maldistributive effect of the program considering the general under-representation of white households among the home buyers. But it is a telling indication of the distortions that emerged in the evolving images of the 235 program.

In short, the urban 235 program attracted a constituency which was diverse both in terms of income and race. Whether it promoted residential integration in those terms is a question to be addressed subsequently in this study. However, the differences in the demographic profiles of minority and white home buyers suggest that the program tended to function dichotomously in the selection of families from each group. Minority purchasers tend to cluster at the lower end of the income and social class range, white purchasers at the upper end of the range. This tendency of the program to allow entry to poor or lower class minority families at the same time it admitted more advantaged white families is confirmed by key profile variables. The median income for white purchasers in the urban program is over \$7,000 as compared with \$5,800 for minority purchasers; median per capita incomes are \$1,670 against \$940. Similar differences are observable in educational and occupational attainment levels. In attempting to account for the dichotomous nature of the program's urban constituency, it seems reasonable to assume that the pattern is not the result of differing preferences among potential minority and white purchasers,³ or of a scarcity of minority families at

3. Consumer studies tend to argue against this assumption. See: Ford, op. cit., Fortune, op. cit., Rosow, op. cit., and Glazer, op. cit.

the upper income levels of the eligible range.⁴ It is more likely the pattern emerges as a by-product of structural factors within the 235 purchase system, such as the nature of the housing sub-markets in which the two groups tended to participate and the screening practices of housing suppliers. This assertion will be discussed further in the subsequent analysis.

As a whole, employment and occupational characteristics of the urban home buyers fall generally within the expected range for the targeted "lower-income" constituency. Only a small proportion of buyers (7%) reported no income from employment, and a substantial majority (81%) of wage earners had been stably employed for three or more years.⁵ Job stability was fairly high; most job-holders (87%) had held the same job for at least a year before purchase, and the majority (51%) had maintained the same job base for more than three years. Occupational designations show a fairly even split between "white collar" clerical occupations and "blue collar" manual occupations, clustering around the semi-skilled level and the skilled manual level. (See Table IV. 3.)

To the program's credit, it was effective in serving large households within the lower-income range, a group often neglected by previous federal

4. In the metropolitan areas studied, there were substantial numbers of black renters at the higher income levels.

5. A stable employment period is one in which the wage earner did not experience an unemployment episode of more than one week's duration.

housing programs.⁶ The median household size among urban 235 buyers was 5 persons per household -- high compared to the national family median of 3 persons⁷ -- and more than a quarter of the households (27.6%) consisted of seven or more persons. (See Table IV.4.)

In summary, the characteristics of urban purchasers indicate a surprisingly rich variation in socioeconomic and racial characteristics. The strong income differences provide a useful framework within which to assess the extent and influence of "life at the margin" problems among Section 235 home owners with regard to different socio-economic levels. The already observed dichotomous nature of the program constituency, in terms of differences between white and minority home buyers, allows for an examination of the influence of racial differentiation in the 235 program process in terms of the distribution of purchase opportunities. The over-riding importance of income and racial factors in the program is the principal reason for maintaining the purchaser group differentiations defined here -- by income and race -- in the succeeding analyses.

B. Pre-Purchase Residential Characteristics

The pre-purchase housing arrangements of urban 235 purchasers manifest a good deal of variation with the exception of tenure itself. However, not all 235 purchasers were tenants just prior to purchase; a small

6. Smart, et al., op. cit.

7. Statistical Abstract of the United States, p. 41, Table 54.

proportion (6.2%) owned the houses they were living in and subsequently moved to a 235-subsidized house. Nor did all renters move upon purchase; a few purchasers (3.0%) were occupying rental houses with an option to buy and the 235 program facilitated the purchase.

Apartment living as opposed to single-family housing predominated among purchasers (58.1%), including the sixth of the purchasers (16.0%) who were living in public housing developments. That a sizeable proportion of buyers (41.0%) rented single-family houses prior to purchase suggests that the simple desire for single-family housing accommodations was not a pervasive motive among many lower-income buyers. Whatever the inducements to 235 purchase, or the comparative advantages consumers associated with it, for many families they had little to do with the desire for a single-family house.

By conventional standards of housing deprivation -- excessive rent burdens,⁸ unit overcrowding,⁹ and substandard housing conditions¹⁰ -- nearly all 235 households (84.9%) had been living in units which were unsuitable on one or more counts during the period just prior to purchase. The most pervasive housing deprivations among the urban purchasers

8. Defined as housing costs, including utilities, in excess of 25 percent of household income.

9. Defined as a household density greater than one person per room.

10. Survey response categories indicating substandard conditions reflected either structural deficiencies or inadequacies in the working condition of the plumbing, heating, or wiring systems.

were in the form of excessive cost burdens, to which over two-fifths of the families were vulnerable (42.3%). About a third (32.2%) were living in overcrowded conditions, not surprisingly, considering the relatively large households served by the program. Over a quarter (28.1%) reported either structural deficiencies in their pre-purchase units, or inadequacies in the plumbing, heating, or wiring systems.

As might be expected, the impact of high cost burdens was particularly frequent among purchasers at the lower income levels, where about two-thirds of the families (65.0%) paid more than they could reasonably afford on housing. (See Table IV.5.) But, on the whole, the incidence of intense housing deprivation -- on two or more counts -- fell with particular severity on the minority purchaser group at the lower income levels (61.6%). (See Table IV.6.) A quarter (25.0%) of minority households with incomes below \$6,000 were housing-deprived on all three counts in contrast with a much smaller proportion (9.5%) among white families at similarly low income levels, though the latter tended to be the second most seriously housing-deprived of the purchaser groups. To the extent that pre-purchase housing stresses under the conditions of tenancy bear on the motives of families to purchase under the 235 program, they are likely to be particularly strong factors for the lower income purchaser groups, and especially so for minority households.

To some extent, these differences in housing stress were also reflected in consumer assessments of their degree of satisfaction with their pre-purchase housing and neighborhoods -- though less dramatically so -- with a consistently higher degree of dissatisfaction registered by lower

income minority purchasers. The majority of 235 buyers (55%) expressed satisfaction with their pre-purchase housing, while a similar proportion of lower income minority households registered dissatisfaction.

While two-thirds of the other purchaser groups had been satisfied with their neighborhoods, only somewhat more than half of lower income minority households (57%) felt similarly.

In general, the majority of purchasers who had been satisfied with their pre-purchase neighborhoods stressed the desirable physical and social features of the neighborhood -- convenience of location, accessibility to key activity centers, physical appearance and character, as well as the general "neighborliness" of local residents and the presence of friends and relatives.¹¹ The most frequently mentioned neighborhood dissatisfactions prior to purchase tended to be socially-centered rather than physical in nature, though the mention of impoverished physical conditions was also frequent. These concerns included social irritants -- harassing teenagers, drunks and other undesirables, bad influences on young children -- and fears of house theft and street crime. This catalog of social discontents was consistently repeated with particular intensity among public housing residents.¹² The following open-ended

11. See: Fried and Gleicher, op. cit., for confirming findings.

12. See: Lee Rainwater, Behind Ghetto Walls, Black Families in a Federal Slum (Chicago, Ill.: Aldine Publishing Company, 1970); "Fear and the House-As-Haven in the Lower Class," Journal of the American Institute of Planners, January, 1966, pp. 23-37; and "The Lessons of Pruitt-Igoe", The Public Interest, Summer, 1967, pp. 116-126.

response, provided by a black family with four children living in an Indianapolis housing project, is fairly typical:

"People were moving in and tearing up the houses and the neighborhood isn't where you would want to bring the children up in. All kinds of wild people living there. Children weren't safe playing outside at all. [interviewer probe] You just didn't know what would happen to them. [interviewer probe] We felt at home. We had a good family of friends in the area. At first when we moved in everyone was nice. People moved out though and a different type moved in. But the area became wild. Sometimes I was afraid. [interviewer probe] They would steal everything you owned. Before we moved out the area changed completely. "

The more frequent tendency among the lower income minority purchaser group to live in public housing, or in what can be inferred to be the tougher declining areas of the city, undoubtedly accounts for their greater degree of neighborhood dissatisfaction.

Thus, among the urban purchasers, minority families at the lower income levels were situated in the most adverse residential circumstances prior to purchase, adverse in terms of both housing deprivation and residential dissatisfactions. As a result, it is more likely that for this group residential "push" factors -- the push of stressful housing and neighborhood conditions -- may play a strong role in the decision to move to 235 ownership. For the other 235 purchaser groups, one might expect previous housing and neighborhood circumstances to play a lesser role in the decision to purchase, and a correspondingly increased "pull" toward greater residential amenities and toward ownership tenure itself.

C. Initial Tenure Orientations

In the controversy that arose over abuses in the 235 program and over rising rates of default and foreclosure, it was convenient for administrative spokesmen to attempt to account for the failings of the program by calling on images of the "first-time home buyer" and "the inexperienced home owner":

"You get in some instances welfare families who have been in public housing, put in a 235 existing unit and they don't even know when to have a toilet repaired to stop the water from running so that they won't get a \$60.00 to \$70.00 water bill at the end of the month."¹³

Such instances did indeed occur and, because they were frequently cited during the various oversight hearings, came to dominate the evolving image of the program. But, as a whole, the pre-purchase backgrounds of urban home buyers suggest a high degree of "acculturation" to home ownership well before they transacted a 235 purchase.

Surprisingly, more than one out of six urban purchasers (17.5%) had previously owned a home. (See Table IV.7.) A majority (53.0%) had not been previous home owners, but had experiential resources suggesting a high degree of familiarity with ownership, including at least one set of parents who had owned a home,¹⁴ as well as close friends or relatives who had owned for at least five years. Another quarter (23.4%) had some

13. Testimony of HUD Secretary George Romney, (Appropriations Hearings), April, 1971, op. cit., p. 63.

14. on the part of the purchaser or spouse

degree of contact with ownership through either parents or close acquaintances. An extremely small portion of the urban purchasers (6.2%) had no familiarity with home ownership at all. While such experiential resources do not guarantee sophistication on the part of the home buyer, they represent the resources most families bring to their first purchase, regardless of their income level.

Nevertheless, minority purchasers tended to have far less familiarity with ownership than white purchasers, within both the higher and lower income groups. (See Table IV.8.) This pattern is undoubtedly a consequence of the lower frequency of ownership among minority families nationally, which reinforces the observed differences in housing backgrounds. Most importantly, the pattern suggests that the a priori risks of purchase -- those which might have been due to ownership inexperience -- were somewhat greater for minority families who decided to participate in the program.

It is to be expected that individuals participating in a home purchase program would manifest a strong tenure preference for owning over renting. The initial tenure preferences of 235 buyers at the point they were considering a purchase move indicate that a substantial majority (77.5%) clearly favored ownership tenure. However, roughly a quarter of the purchasers (22.5%) were either initially indifferent to tenure (13.4%) or clearly preferred to rent (9.2%). The finding indicates that the "pull" of home ownership among 235 purchasers, however strong, was not universal. Moreover, though a majority of each of the purchaser groups shared a preference for owning, the preference was somewhat weaker among

minority buyers, and weaker at the higher income levels. (See Table IV. 8.) It is possible that the stronger ownership preferences among white purchasers stem, in part, from their greater familiarity with ownership. But, to account for this pattern more fully, it is necessary to understand the motives and concerns that lay beneath the purchase move.

D. The Purchase Decision Process

The events which led urban families to undertake a 235 purchase include a number of organically inter-related decisions and processes which are difficult to isolate sequentially, each of which exert a partial influence on the final purchase decision. Among them are (1) the initial decision or impetus toward a move, which may or may not involve tenure valences; (2) the decision to buy, which may have occurred with or without a specific house in mind; and (3) the search process through which buyers selected a specific house for purchase. With the caveat in mind that the purchase decision process manifests these inherent complexities, this section will describe each of these components of the process.

(1) The Decision to Move

Among the numerous reasons purchasers cited as the initial impetus for the consideration of a move, physical housing factors -- as distinguished from tenure -- constituted the dominant concerns. (See Table IV.10.) These concerns were most frequently associated with needs for more space, followed by dissatisfactions with the basic condition of the

pre-purchase rental unit, and, thirdly, by an assortment of other housing disequilibria, such as the lack of yard space, dislike of "apartment living", or concerns with specific housing features beyond space and condition. This finding is consistent with what is generally known of the important role of disequilibria in physical housing accommodations in determining residential mobility orientations,¹⁵ and with the pre-purchase housing stresses experienced by 235 purchasers.

Though, in that sense, 235 families were more "housing-oriented" at the start than "tenure-oriented", tenure concerns constituted an important, if secondary motive for the initial orientation to a move. Most such concerns -- among a third (34%) of the families -- related to the intrinsic, less tangible aspects associated with ownership, primarily "owning" as a value in itself and secondarily as a way of achieving greater housing autonomy or extricating oneself from landlords. A sixth of the families (16.9%) attached more instrumental valences to ownership tenure as a form of investment or a way of achieving housing economies, typified by the following statement: "With rents going up so high, it seems like so much money going down the drain with nothing to show for it." However, to the extent that tenure contributed to the initial mobility orientations of 235 families, the less tangible valences attached to owning, rather than its potential economic advantages, were dominant.

15. Peter H. Rossi, Why Families Move (Glencoe, Ill. : The Free Press, 1955), p. 9.

Less prominent as factors motivating the move were neighborhood concerns, a pattern which reinforces the already observed satisfactions among purchasers with their prior neighborhoods. Similarly, "quality of life" factors -- concerns about safety and crime, residential stability or "roots", family life and child rearing -- were relatively infrequent, though hardly rare reasons underlying the impetus to move.

With regard to the factors that impelled them to consider a move, the urban purchasers can be considered to divide into two predominant categories: those who were seeking housing and residential betterment independent of tenure -- whether in rental or purchase units -- and those for whom the prospect of a home purchase constituted a primary incentive for the move. The trade-offs between these bivalent aspects of the move, and their differential importance among the purchaser groups, can best be seen in the primary motives families attached to the purchase decision itself.

(2) The Decision to Buy

Once families perceived the option, the decision to buy a house was dominated by the valences attached to ownership tenure. (See Table IV. 11.) That a substantial majority (78.2%) of families cited tenure-related reasons among the motives underlying the purchase decision is less surprising than the fifth (21.8%) who did not. That is, a considerable portion of the urban purchasers -- albeit a minority -- viewed their participation in the 235 program as instrumental to other residential goals having little

to do with home ownership, and were relatively impervious to the so-called "urge to own".

The more frequently mentioned tenure-related reasons involved the less tangible aspects of home ownership -- owning as an end in itself, the values of autonomy and independence, and other subsumed values.¹⁶ In some such instances, owning had been a persistent expectation and an assumed norm. When asked the reasons for deciding to buy, a Pittsburgh woman responded:

"Just one of them things. Even before we were married we talked about a brand new house. We have always wanted a home of our own."

In other instances home ownership was imbued with deeply-ingrained images of the healthy, stable family life and the values of independence:

"When they are small the children have to have a place to play, make friends, go to school, and be happy as well as ourselves. Now there's only one way as far as I'm concerned and that's to have your privacy and independence and you have to start with a home of some sort and to me that's to buy it and put into it all you can for everyone."

The second most frequent tenure-related reason for buying concerned the potential economic advantages of ownership.¹⁷ Many such responses

16. Rosow, op. cit., pp. 752-753. Although Rosow's sample was small (n=33) and involved middle class respondents, the findings are in general agreement with his, regarding the multiplicity of motives for buying on the part of respondents and the pre-eminence of intangible attachments to home owning. Also see: Alvin E. Coons and Bert T. Glaze, Housing Market Analysis and the Growth of Home Ownership (Columbus, Ohio: Ohio State University, Bureau of Business Research, 1963), pp. 87-90.

17. Coons and Glaze, op. cit., pp. 132-135. The lesser importance of cost and investment factors in the purchase decision tends to confirm the Coons and Glaze finding that purchaser behavior more closely reflects a consumer role rather than an investor role.

showed a practical concern for the waste of capital that rent payments engendered:

"Because how can you build up a future in rent? Your money is gone and you have nothing to show for it but paper receipts and upkeep for someone else's property. You put money into it to keep things going that the landlord won't do and you have nothing to show you even spent the money -- it's all down the drain."

Other economic responses radiated to broader concerns with property mobility:¹⁸

"If we wanted to get ahead in life, why give someone else your money like for rent if you can spend it for yourself? It's a future and a way to get ahead and have something some day even if it isn't the best. It's an opportunity to get ahead."

In some instances, families simply calculated that the monthly mortgage payments and utility costs under the 235 program would be less than they currently paid for rental housing.

But, by and large, the reasons offered for the purchase decision were richly varied and defied simple classification.¹⁹ Though physical housing factors, quality of life issues, and neighborhood concerns were less frequently mentioned as motives for home purchase, many responses subsumed both tenure valences and a range of other, more palpable

18. Thernstrom, op. cit. and Peattie, op. cit. The association of tenure mobility with class mobility is also discussed in Nelson N. Foote, et al., Housing Choices and Housing Constraints (New York: McGraw-Hill Book Company, 1960), pp. 204-206. Opposing findings are cited in Bennett M. Berger, Working-Class Suburb (Berkeley, Calif.: University of California Press, 1960), Ch. VI, "Class Consciousness", pp. 80-89.

19. Rosow, op. cit., p. 752, cites an average of 4.5 different motives for home ownership reported by each respondent.

residential concerns. In that regard, the following responses are typical:

"We had spent 14 years paying rent to someone. You don't see anything, it's gone. We were going to have to move because the landlord was selling the house and it was later torn down. Kids were getting bigger and we needed more room. The neighborhood was getting bad. You like to raise your kids where you feel it is safe to walk the streets."

"When you rent a house you move around a lot because of the change in rent. [interviewer probe] You don't like to put money into fixing up someone else's house. [interviewer probe] Owning a house gives the children a chance to settle down and put down roots. They don't have to keep on changing schools. They have a feeling of permanence."²⁰

Because of the complexity and number of reasons respondents can supply for the purchase decision, an analysis by frequency of mention is only helpful in isolating which motivations are pervasive and those which are relatively rare. By itself it is less illuminating in determining primary motivations or priorities on the part of purchasers. When respondents were asked to identify "the most important reason for deciding to buy", the array of responses indicated a rich diversity of priorities among the purchasing families. (See Table IV.11.) The attractions of ownership tenure -- both the affective and the economic valences -- continued to dominate, but among only a bare majority of purchasers (54.2%), most of whom cited the less tangible valences attached to ownership. And a substantial sector (45.8%) viewed the purchase primarily as a means toward other residential ends. Over a fifth of the purchasers (21.6%)

20. Coons and Glaze, op. cit., found residential stability a frequent reason for purchase.

viewed it as a means to housing betterment; another fifth (20.1%) were primarily concerned with the quality of life benefits attached to the purchase -- a better place to raise children, benefits to family life, and increased residential stability. Relatively few attached primary importance to possible neighborhood benefits.

Thus, although over three-quarters of the households indicated tenure mobility as a contributing motive for the 235 purchase, the prime reasons offered for the decision indicate a sharper dichotomy among the urban purchasers in the relative importance they attached to ownership tenure itself. Roughly half (54.2%) may be said to have been primarily "ownership-oriented", the other half (45.8%) "residentially-oriented" in that residential betterment concerns superceded tenure concerns. These differences in purchase orientations are further sharpened and clarified by considering their incidence among the purchaser groups. (See Table IV. 12.) Though none of the groups maintained either orientation exclusively, the strongest differences emerge between white and minority purchasers. A majority of white purchasers (61.5%) were primarily ownership-oriented while minority purchasers (59.4%) retained a strong residential orientation to the purchase decision. More specifically, a significantly larger portion of minority purchasers were primarily motivated by housing betterment concerns. (See Table IV. 13.)

Coupled with what has already been observed of the weaker ownership familiarity and preferences among minority buyers, the findings as a whole indicate that minority households were more likely than white households to view ownership primarily as a means toward residential better-

ment,²¹ and particularly as a way of relieving pre-purchase housing stresses to which they were more vulnerable than whites. The so-called "urge to own" or "quest for home ownership" was more typical of white purchasers, particularly those at the higher income levels. The quarter of the purchasers who either were indifferent to tenure or who preferred to rent were, in a sense, "duress buyers"²² for whom the purchase was a necessary prerequisite to residential arrangements and amenities they preferred. In that respect, there were a larger number of duress buyers among minority purchasers, particularly at the higher income levels.

Within the framework of the alternative policy perspectives regarding tenure choice, the motives and orientations of lower-income home buyers toward the 235 purchase are illuminating. They suggest that the adequate view seriously understates the role of ownership as a significant aspect of the way in which marginal urban families view their housing and residential futures. On the other hand, they also suggest that the emotional or social valences implicit in the "urge to own" are not as pervasive as has been thought. Even among families who were primarily oriented to tenure mobility, a substantial portion viewed it as property mobility, stressing the more practical economic advantages of ownership arrangements. Viewed within the relativist context of norm attainment, the

21. Tends to confirm Ford's observations of Harlem families. Ford, op. cit.

22. Foote, et al., op. cit., pp. 200-201, discusses the phenomenon of "duress buyers".

intangible attachment to owning as an end in itself -- apart from its economic implications -- manifested itself among most lower-income purchasers. While this provides a partial confirmation of the importance of ownership norms, the fact that such concerns were not more pervasive suggests that home ownership is one among many possible elements packaged in the relativist image of the "good life" in residential terms. The primary motives for the purchase decision provide a strong reinforcement of the functionalist perceptions of tenure choice and its caveat against generalization. Most families viewed ownership primarily in instrumental terms depending on their particular situations -- as a form of family investment, as a means to better housing accommodation, to a better life situation for the household, or to a superior neighborhood setting. To the extent that the 235 program was to function well for its participants, it would be to provide viable ownership situations which would permit these diverse objectives to be achieved.

(3) The Search and Selection Process

For most families the search process for a purchasable house took a relatively short period of time and involved a fairly limited range of choice among available alternatives. A majority (63.1%) spent at most three months in selecting and purchasing a house; a third (33.9%) took a month or less. While most home seekers undertook some comparison shopping, in that they looked at houses other than the one they ultimately purchased, it is particularly striking that for a majority (55.0%) the

purchased house was the only one seen that they considered in the affordable price range. (See Table IV.14.) In addition, over a quarter (26.2%) of the families purchased the only house they had seen. It is possible that the perception of a limited range of choices and the sense of a one-time opportunity, motivated many families to make a rapid choice. In part, it was also the result of normal sales pressures:

"I had a five minute walk through the house. I feel I was hurried through the deal by the real estate people, by the statement 'If you don't grab it, someone else will take it.'"

For many purchasers, the imprimatur of a government-backed, FHA program provided a sense of security that made the risks of a hasty choice seem negligible:

"Well, we were both pretty dumb about that sort of thing, and like I say we were desperate, and we looked for the number and size of rooms. We didn't know too much about construction and we felt safe because it was with the government and new, never been lived in -- just felt safe."

However, most purchasers (59.2%), reported having received some form of useful outside assistance during the search and selection process. Whether the remaining group (40.8%), who reported no useful resources, had not availed themselves of resources or had not found the help received to be useful is unclear. Reported sources of useful pre-purchase assistance include a variety of actors: friends or relatives, private market actors, counseling agencies, lawyers, and FHA.²³ (See Table IV.15.) Given the "caveat emptor" assumptions one makes about the private

23. Rossi, *op. cit.*, p. 160. A similar variety of channels of assistance occur in most moves.

purchase market, it is particularly striking that private market actors were frequently considered helpful in retrospect. This is less surprising if one takes into account that such actors were the "gatekeepers" of the program, the controlling intermediaries.²⁴ Whether a family entered the program or not depended on the selective screening -- at times, discriminatory -- of builders and brokers who had properties to sell. About a third (33.4%) of the urban purchasers indicated they first found out there was a "real opportunity to buy" through private market intermediaries, though more (47.5%) claimed they found out through friends or relatives. If problems emerged with purchaser eligibility or with mortgage approval, the desire to make a sale made consumer advocates of builders and brokers and, in that sense, purchasers appreciated their role in facilitating the purchase.²⁵

It is less surprising that counseling agencies were infrequently considered useful sources of assistance. Only an extremely small number (3.0%) of urban purchasers were clients of the voluntary counseling agencies HUD had certified, a factor which indicated the limited extent of HUD's volun-

24. For a discussion of the influence of market intermediaries in the functioning of federal housing programs, see: Frieden, "Improving Federal Housing Subsidies: A Summary Report", op. cit.

25. The frequent advocacy of the purchaser against FHA's questioning of purchaser eligibility was evident in field interviews with brokers and builders. (OSTI, op. cit.) One real estate agent was critical of FHA: "FHA just doesn't understand, and they keep turning back welfare families. Why, with \$15 they can buy \$81 worth of food stamps, and that's enough to feed that caliber of people."

tary counseling program.²⁶ However, those few who were clients frequently found the counseling agency the most reliable source of pre-purchase assistance.²⁷ Few families made use of independent legal assistance, and many subsequently regretted not having done so. That FHA was so rarely mentioned as a source of useful help, considering its role in inspection and appraisal, is indicative of the subsequent owner dissatisfactions with the agency's role in carrying out those functions.

Apart from the facilitation of the mechanics of the purchase, where builders and brokers could be most effective, the more reliable sources of important pre-purchase assistance were largely friends or relatives.²⁸ The lower level of familiarity with ownership on the part of minority families is an indication that they had lesser access to such network resources. As a result, during the house search and selection process, minority purchasers were more likely than white purchasers to be forced to rely exclusively on their own resources in the absence of helpful networks, or to rely on private market intermediaries instead. This pattern is particularly apparent in the channels through which families found the purchased house. Most families (56.7%) found their homes either through their own independent search efforts -- following the ads, walking or driving around -- or through the assistance of friends or relatives.

26. Ibid.

27. Ibid. , pp. 155-156.

28. Ibid.

(See Table IV.16.) But minority purchasers at the lower income levels were distinct among the purchaser groups in their predominant reliance on real estate agents. (See Table IV.17.) The substantial majority (68.2%) of lower income minority purchasers found their homes through real estate agents, while the other purchasers primarily used independent and network-related search efforts to locate their homes.²⁹

The greater reliance on real estate agents among lower income minority purchasers can be accounted for by several factors: lesser access to network resources who could help in finding a house; lower levels of familiarity with purchase markets and home ownership; the lack of transportation resources that would enable them to undertake the search on their own (real estate agents provided transportation); a greater preference for and familiarity with submarkets that tended to be broker-dominated, and the possible tendency of real estate agents to target lower income minority families for these submarkets.³⁰ Whatever the reasons

29. Rossi, op. cit., p. 162. In Rossi's study of family moves, the finding was opposite: high status movers tended more to use agents and newspapers, others to use informal network resources. The inversion found in this study may result from the fact that the purchaser sample is consistently in the lower status range -- where relative status may imply greater network resources -- and from the exclusive focus on purchase-related moves. Moreover, the agents used by Rossi's high status families were not likely to be the types who dominated specific 235 submarkets, so that the parallel may simply be lost.

30. See: U.S. Commission on Civil Rights, op. cit., pp. 47-61; and Rose Helper, Racial Policies and Practices of Real Estate Brokers (Minneapolis, Minn.: University of Minnesota Press, 1969).

were, the data indicate that lower income minority buyers -- more than the other purchaser groups -- were guided to their homes through real estate intermediaries.

E. Other Expectations of Home Ownership: Costs and Permanence

The motives that led families to undertake a 235 purchase offer some indication of the range of expectations they had of home ownership: owning as a form of gratification in its own right; its potential economic benefits; improved housing amenities; and positive changes in the quality of family life. It is also appropriate to consider what expectations purchasers held, at the point they selected a house and made arrangements for purchase, of the relative cost burdens of ownership compared to rental and of the degree of permanence attached to the purchase move.

Against the conventional wisdom that owning would involve greater out-of-pocket costs -- for mortgage payments, utilities, repairs and maintenance, new furnishings and equipment -- it is surprising to find that about half (50.3%) of the home buyers expected that owning would be cheaper than renting. (See Table IV.18.) Only a fifth of the purchasers (20.7%) anticipated greater expenses, while the remaining purchasers largely believed that there would be little difference in costs. Although the subjective basis for cost comparison is uncertain -- whether it was with the previously rented unit or prospective rentals on the market -- what is apparent is that many families viewed the purchase as a move toward greater economies in housing. Whether this was a false perception,

based on inadequate information or unreal expectations of the house, is a question that remains to be addressed. Significant differences in cost expectations were not observed between higher and lower income purchasers, or between minority and white purchasers. As a group, however, higher income minority purchasers tended to be more cynical of the potential economies of the move. (See Table IV. 19.)

Expectations of residential stability after purchase are particularly striking in that most purchasers (61.0%) viewed the ownership move as a permanent one rather than as a "stepping stone" or "waystation" toward another home -- a preferable one -- at some point in the future. (See Table IV. 20.) Despite the seemingly constrained choices made during the house search process, the dominant tendency was for families to view the 235 house as a potentially permanent homestead. However, there are significant differences among the purchaser groups in this regard. Minority purchasers and those purchasers at the lower income levels manifested stronger expectations of residential stability. (See Table IV. 21.) Higher income, white purchasers were the only group that strongly deviated from the permanent homestead-valuing norm. This finding suggests that the "stepping stone" or "waystation" view of lower-income home ownership may have a strong ethnocentric, middle class bias which distorts the meaning of ownership tenure among the more marginal urban households.³¹ By and large, lower income and minority

31. George Sternlieb is a proponent of this view.

purchasers in the urban 235 program viewed the opportunity to purchase, in part, as a step toward greater residential stability and a permanent home.³²

32. Coons and Glaze, op. cit., also found great emphasis on anticipated residential stability as a motivating reason for the purchase.

Chapter V. CONSUMER EXPERIENCE: AT PURCHASE

This chapter deals with some of the consequences of the ownership move immediately upon purchase, including general characteristics of the purchased house, the new housing cost burdens imposed by initial mortgage payments, the condition of the house upon purchase, the degree to which purchasers were aware of the condition of the house at time of purchase and, in retrospect, the degree to which purchasing families felt they were subject to abusive treatment during the purchase process. An analysis and assessment of the general "impact" of the ownership move along several dimensions is set aside for the subsequent chapter treating ownership experiences up to the point of the survey interview.

A. General Housing and Residential Characteristics

For nearly all purchasers, the 235 move resulted in ownership of a single family house (97.3%), usually detached (86.1%), on an entirely (87.6%) or predominantly (8.3%) residential street. Only in a few instances did the immediate housing environment fail to conform to a solidly residential pattern, whether the family had moved to a neighborhood in the inner city or in an outlying area. Moreover, purchasers had been able to resolve many of the space needs that had contributed to the decision to move. The mean house size was 6.2 rooms, excluding bathrooms, as compared with 5.4 prior to purchase, and overcrowding among the purchaser households was reduced from nearly two-thirds before

purchase (64.8%) to about a third (36.7%). Considering the number of large families participating in the program, this is probably the best that could be expected.

Although it was not possible to code and characterize the neighborhoods of origin and destination for 235 purchasers in a multi-city survey sample, when purchasers were asked whether the 235 move was intraneighborhood, to a nearby neighborhood, or further away, most families (70.0%) reported that they considered it a relatively distant move from the pre-purchase neighborhood. (See Table V.1.) And there was little difference among the purchaser groups in this regard.

The observations of OSTI field teams visiting the ten cities included in the survey sample confirmed a general pattern of new construction in outlying areas which were "suburban" in character, while existing housing purchased under the program tended to be located in older, central city neighborhoods, usually those with large minority concentrations. This pattern of racial and locational stratification between new and existing 235 housing submarkets was also reported in a 1971 Civil Rights Commission study of the program in four cities:

"In Little Rock and Denver, the two metropolitan areas in which a substantial amount of new housing was being produced ... it was found that nearly all was being located in suburban parts of metropolitan areas. Much of this new, suburban housing was being purchased by white families. By contrast, most of the existing housing purchased under the program was located in ghetto areas or 'changing' neighborhoods in the central city. Nearly all was being purchased by minority families."¹

1. U.S. Civil Rights Commission, op. cit., p. viii.

An analysis of the age of the houses bought by the various purchaser groups in the survey sample tends to confirm this composite pattern. Although most of the 235 houses were newly constructed (58.9%), only a small proportion of minority families (23.2%) purchased new homes in contrast with a substantial majority of white purchasers (79.8%). (See Table V. 2.) Significant differences by income level were also observed with a greater tendency on the part of purchasers at relatively higher income levels to buy new homes. Lower income minority families remained almost exclusively within the existing housing submarket.

In part, the differences in submarket participation can be seen as the consequence of prevailing price differences between existing and new housing opportunities; the median price level for existing 235 purchase was \$13,400 against \$20,800 for newly constructed homes. In that sense, the pattern reflects what the various purchaser groups could afford or chose to afford. (See Table V. 3.) The generally lower income levels among minority purchasers undoubtedly restricted their range of options for new homes. Their greater reliance on real estate agents, which was noted earlier, served to reinforce the effects of discriminatory marketing practices and to expose them to specialists in the ghetto housing submarkets.² A relative lack of helpful network resources, greater unfamiliarity with ownership in general, a more central concern with better housing rather than with investment values, a preference for

2. Ibid. , pp. 45-51.

familiar surroundings or a reluctance to break through discriminatory barriers, all may have contributed to the resulting pattern of racial differences in 235 submarkets. Undoubtedly, segregative preferences on the part of white purchasers, preferred treatment accorded to them on the part of builders and developers, and a stereotypical preference for suburban surroundings contributed as well.

Whatever the complex of forces were that served to produce this pattern, the consequences are clear. By and large, minority purchasers -- particularly those at the lower income levels -- bought existing houses in older neighborhoods of the city, while white families more consistently opted for new houses in newly suburbanized outlying areas.³ In effect, the urban 235 program had functioned dichotomously to support two distinct purchase submarkets, sharply differentiated in terms of location, in the kinds of purchaseable houses available, and in the racial characteristics of home buyers.

B. Initial Mortgage and Housing Cost Burdens

Initial mortgage cost burdens are here defined as the percentage of average monthly household income, based on earnings over the year just

3. It is a mistake to assume that all new subdivisions were dominated by white purchasers. In general, however, OSTI and Civil Rights Commission observations found the new subdivisions to be segregated, some functioning exclusively for whites, others for particular minority groups. Ibid., p. viii.

prior to purchase, represented by the purchaser's portion of the monthly mortgage payment at purchase. Mortgage cost burdens of 20 percent were legislatively prescribed for the program, on the assumption that an additional 5 percent burden would be required for utilities and maintenance and that the result would be comparable to the 25 percent cost burden under the earlier rent supplement program.⁴ But the 20 percent figure is obscured by several factors. Calculations are based on an "adjusted income" figure derived by deducting from gross income \$300 for each minor child in the household. The purpose of this adjustment is to establish lower cost burden expectations for households with larger numbers of dependent children. A simple calculation confirms that these adjustments should lead to a mortgage cost of burden of less than 20 percent for 235 purchasers with minor children. However, this is further complicated by maximum subsidy levels which are set at the difference between mortgage payments at the market interest rate and those at a one percent interest rate. Where purchaser incomes are so low as to require the maximum subsidy, the purchaser's portion of the mortgage payment may exceed the prescribed 20 percent mortgage burden.⁵ Paradoxically, families entering the program at lower income levels could be

4. Frederic S. Le Clercq, "Entitlement Under Section 235 of the National Housing Act", South Carolina Law Review (Columbia, S.C.: University of South Carolina), Vol. 25, Number 1, 1973, pp. 1-92, p. 18.

5. Ibid., for explanation.

expected to bear higher mortgage cost burdens, even beyond the 20 percent prescribed, while purchasers with higher income levels might more readily approach the legislatively deliberated standards. In that sense, those at the lower income levels were expected to pay more for the opportunity to purchase.

The initial mortgage cost burdens of urban purchasers tend to confirm these income disparities in mortgage cost burdens. (See Tables V. 4 and V. 5.) Only a third (33.3%) of the purchasers with incomes below \$6,000 had undertaken initial mortgage burdens of 20 percent or less; the substantial majority of those with higher incomes (83.1%) were within that limit. Interestingly, among the purchaser groups white families at the lower income levels undertook excessive cost burdens more frequently than any other purchaser group and stretched themselves to the limit to afford a 235 purchase, usually in one of the newer subdivisions with higher priced homes.

Although these differences in initial mortgage cost burdens are undoubtedly related to what families chose to afford as well as what they could afford, they have important inferences regarding screening procedures for entry into the program, those employed by builders, real estate agents, mortgagees, and FHA credit examiners as well. Lower income white purchasers were more likely to be approved despite high anticipated cost burdens. Whether this was the result of preferential treatment for whites over minorities, or of the particular leverage builders may have had with FHA, or of both in combination, is uncertain.

An analysis of approximate housing cost burdens at purchase,⁶ which take into account utility costs and initial mortgage payments, yields roughly similar results to those for initial mortgage burdens. (See Table V. 6.) Most lower income purchasers (56.9%) tended to face excessive cost burdens -- burdens in excess of 30 percent -- and, among them, white purchasers were the most overextended subgroup. While it is considered normal for middle income home purchasers to stretch their budgets and savings to the limit during the early months of ownership, it is striking that a lower-income ownership program would result in such high burdens for families at the lowest income levels, considering the additional costs that might be incurred for normal maintenance and repairs.

The purchase move consistently produced an upward shift in housing cost burdens for all purchaser subgroups, even in the absence of anticipated maintenance and repair costs. (See Table V. 7.) This does not necessarily conflict with the prevailing belief among many purchasers that owning would be cheaper than renting, since the implicit comparison was between the purchased unit and available or comparable rentals rather than a comparison with pre-purchase rental costs. The comparative economies between a 235 purchase and alternative rentals are un-

6. Housing cost burdens at purchase were approximated rather than obtained directly, because utility costs were requested only for the period at which the interview was conducted in order to conserve interview time. Purchasers had owned by then for from 1 to 3 years. Utility costs at purchase were estimated at 90% of the utility costs obtained directly.

known. It is clear, however, that on the whole purchasers committed a larger portion of their incomes to the 235 purchase than they had in their pre-purchase housing expenditures.

C. House Condition At Purchase

The Congressional disclosure in late 1970 of abuses in the 235 program,⁷ and the subsequent confirmation in the 1971 HUD Audit Report of the widespread nature of deficiencies in FHA inspection and appraisal procedures,⁸ had telling effects on the perception and operation of the program. They led directly to a temporary suspension of the existing housing component of the program, where deficiencies in housing condition and inflated appraisals seemed most numerous, and to expectations of an imminent wave of "walk-away" foreclosures by families abandoning sorely deficient houses. As a result, the question of house condition at purchase is a key aspect of consumer experience and a possible determinant of owner behavior within the program.

The analysis of the initial condition of purchased houses which follows relies on the use of a cumulative index of house condition based on purchaser responses to a validated instrument. (Table V.8 contains a description of the index.) The results tend to confirm, by and large,

7. U.S. House of Representatives, December, 1970, op. cit.

8. HUD Office of Audit, op. cit.

those of the HUD Audit Report which were based on expert inspection, and help to refine some of those findings and determine their incidence among purchaser groups.

Considering that most of the houses purchased under the program were newly constructed, it is surprising that only a third of the houses (34.6%) were in fully adequate condition at purchase (on all six counts of house condition). (See Table V.8.) That so large a proportion fall into the "inadequate" category (25.2%) provides a further confirmation of FHA laxness in inspection procedures and of the risks purchasers took in relying on FHA standards. Even more striking is the observation that only about two out of every five (39.7%) new houses were reported to be in fully adequate condition upon purchase, and that one out of every six (16.1%) were reported inadequate.⁹ The most frequently reported problem areas with new construction were ceiling and wall cracks (29.6%), and leaks at the basement or foundation (25.1%). Open-ended questions concerning things wrong with the house at purchase elicited frequent responses concerning the "quality of construction" in the newly-built homes.

There were sufficient problems with new construction to merit some of the attention which was focused on the existing housing component

9. There is good reason to suspect that the quality of construction has been steadily declining nationally, even for new houses in higher price brackets. See: Ralph Nader, "Falling Apart Houses", The Nation, May 27, 1972, p. 11.

during the early Congressional disclosures. However, the condition of existing housing purchased under the program was far worse. A somewhat smaller portion (27.3%) were in fully adequate condition upon purchase, and a much larger portion (33.1%) were in inadequate condition. (See Table V. 8.) But, interestingly, the incidence of severe house condition problems was not endemic to the existing housing component as a whole, and there were significant differences depending on the age of the houses purchased. The condition of existing houses no more than 30 years old at purchase -- houses built during the late Depression or the subsequent post-war period -- was nearly identical with that of new houses, based on the composite index of condition. But major sources of problem conditions differed for the post-war houses, and plumbing (25.9%) and wiring (29.6%) problems predominated as well as basic structural problems. By contrast, the initial condition of older existing houses -- those over 30 years old -- was disastrous. An extremely small number (18.5%) were in fully adequate condition at purchase, and more than half (51.9%) were in inadequate condition. (See Table V. 8.) For these older houses, the range of negative responses on the six counts of house condition was extensive.

It was a mistake in late 1970 to assume that the existing housing component of the program was its only "problem child", given the incidence of problems purchasers were experiencing with new houses. However, to the extent that the primary crisis in the program focused on the condition of existing sales, it was a problem that strongly differentiated itself by house-age submarkets within the existing market. The problems with

used post-war houses -- a submarket in which FHA had had considerable experience -- were on the whole no better or worse than those with new 235 houses. However, the much older housing purchased under the program not only suffered from worse condition as a result of its age, a condition that FHA frequently overlooked; it was also a market context with which FHA tended to be relatively inexperienced, both in terms of the nature of the housing stock and the neighborhoods in which the older housing tended to be located.

In an analysis that represents a composite of 10 metropolitan areas, there are uncertainties attached to any attempt to draw concrete images or characterizations of alternative housing submarket characteristics. But the strong differences among house-age submarkets in terms of program functioning make it worthwhile to set aside that caveat for the present. It has already been suggested that the three house-age submarkets -- new housing, post-war housing, and older housing submarkets -- represented different levels of previous experience on FHA's part, which may have contributed to FHA's poorest performance levels in the oldest submarkets. The three submarkets also tend to have different locational characteristics, differences in the degree of participation on the part of minority purchasers, and differences in the kinds of private market actors that dominate each submarket. Typically, the older house submarket would tend to be located in the older pre-war neighborhoods of the inner city. The clear majority of purchasers participating in this submarket were minority families, particularly those at the lower income levels. (See Table V. 9.) The particular reliance of these purchasers on real

estate agents -- rather than network resources or independent search -- conforms to the stereotype of the speculator- or broker-dominated ghetto housing submarket, the image which arose over and over again during the abuse hearings and the subsequent oversight hearings. Not only were these older submarkets the most exploitative and abusive in terms of market practices, they were also the neighborhoods in which FHA inspectors were likely to make the most cursory "windshield" inspections.¹⁰ The post-war existing housing submarket was more likely to be located in the fringe or outer sections of the city which were developed during a later period of relative suburbanization -- where, by the way, many FHA offices are presently located when they are not in the downtown business district.¹¹ Interestingly, in the post-war submarkets both white and minority purchasers tended to manifest similar levels of submarket participation. If the 235 program succeeded in providing opportunities for greater residential integration, it was most likely to have occurred within these submarkets. The new housing submarkets tended to be large-scale subdivisions which were predominantly white, mediated by builders and their marketing agents, and located in outlying areas of

10. For an overview of the problems and issues raised by public servants providing on-site services in the more impoverished neighborhoods of cities, see: Michael Lipsky, "Toward a Theory of Street-Level Bureaucracy", delivered at the American Political Science Association meeting, New York, September 20, 1969, and "Street-Level Bureaucracy and the Analysis of Urban Reform", Urban Affairs Quarterly, June, 1971, pp. 391-409.

11. OSTI field team observations.

the city.

The composite pattern of combined locational and racial stratification of the program, represented by these submarkets and the differences in house condition among them, suggests that differences in FHA performance were, in part, differences in the degree of bureaucratic deference on FHA's part -- whether intentional or unintentional -- toward submarkets outside of the inner city and toward those submarkets in which relatively large numbers of white purchasers tended to participate. However, the weaknesses of FHA performance in detecting serious defects, even in the new house submarket, confirms a widespread negligence on FHA's part and a pervasive operational problem in exercising normal administrative safeguards.

Because of this pattern, the incidence of inadequate house conditions affected the various purchaser groups differently. (See Table V.10.) The process favored higher income over lower income purchasers, and white purchasers over minority purchasers, with houses in better functional condition from the start. In this regard, the strongest differentiation among the purchaser subgroups occurred among higher income white purchasers, where a substantial majority (85.9%) obtained houses in fully adequate or only subadequate condition. Differences among the other subgroups were not great, but the incidence of inadequate house condition at purchase was greatest among the lower income minority purchasers (36.8%). Although this group constituted little more than a fifth (22.5%) of the urban purchaser population, the relative exploitativeness and high "housing age" risks of the submarket in which they tended to

participate -- older existing housing in older city neighborhoods -- made them the most vulnerable, as a group and in absolute numbers, to severe inadequacies in house condition at purchase. Lower income minority purchasers constituted about half (49.4%) of the purchasers buying houses in inadequate condition. It is perhaps for this reason that the 1970 abuse hearings and subsequent deliberations tended to focus on this particular submarket, a factor which accounts for the evolving national image of the 235 program -- as a "slum" program, as a "welfare" program, and as a "minority" program.

D. Consumer Awareness of House Condition Problems At Purchase

In any house purchase there are trade-offs to be made between price and preferred housing attributes, among which house condition would be a factor to be considered. The normal price effects of differential house condition in the conventional purchase market are somewhat obscured in the FHA mortgage insurance programs where minimal property standards have been established and presumably exercised in the FHA inspection process that precedes a purchase. It is for this reason that the poor state of many 235 houses at purchase represents an aberration in the FHA purchase market, though it would not be considered such in the conventional market.

It is nevertheless reasonable to question whether 235 purchasers were aware of the presumed protection afforded by FHA standards, if properly administered, or where they were aware of FHA's defined role, whether

it was set aside in the decisions purchasers made in order to get the best house for the price they could afford. That is, 235 purchasers may have behaved as if they were operating within the conventional market and, in many instances, may have consciously opted for housing in poor condition on the assumption of reasonable price trade-offs. The differences in the median price levels paid by the purchaser subgroups correspond roughly to the incidence of inadequate house condition, with lower prices paid for housing in worse condition. Whether this pattern represents an intentional "quid pro quo" decision on the part of purchasers depends on the extent to which they were aware of initial house condition problems at the point of the purchase transaction.

In the course of the survey interview, purchasers were given an open-ended question asking them in retrospect for "the major things that were wrong with the house when you bought it" and were subsequently asked which of these items they knew about beforehand. Nearly half (47.8%) of the urban purchasers as a whole had been unaware of any of the initial house condition problems they experienced at the time of purchase, although a third (32.4%) indicated they had had no condition problems at all. (See Table V.11.) Among those purchasers who found things wrong with the house at purchase, a substantial majority (70.6%) had been completely unaware of the problems when they bought their homes. This finding indicates that purchasers, by and large, were not taking account of deficiencies in house condition as a basis for a "quid pro quo" trade-off on the sales price. For the most part, purchasers had expected the houses they bought to be in fully adequate functional condition.

A scaled index of the severity of the house condition problems purchasers experienced at purchase allowed a more concrete determination of the seriousness of the problems cited, and of the degree to which severe deficiencies had been unexpected. (See Table V.12.) Most of the problems cited (64.5%) were major deficiencies, either in the structural condition of the house or in the basic functioning of utilities. More than two out of every five home buyers (43.6%) had moved into houses with major deficiencies, and nearly all of these problems were unexpected at the time. These findings provide further confirmation of the severity of the house condition problems many purchasers experienced, and of the fact that they were largely unexpected.

The incidence of major initial problems with the house -- unexpected or otherwise -- seems to have been substantially greater for minority purchasers than for white purchasers, with only relatively minor differences between income levels within each of these two groups. (See Table V.13.) Interpreted at the consumer level, it suggests that minority purchasers either had fewer options among which to choose or were less circumspect in their selection of houses, perhaps due to a lesser familiarity with ownership and fewer network resources to call upon. Interpreted at the systemic level, FHA's failure to enforce its own property standards was enormous considering the incidence of major deficiencies for both white and minority purchasers. But the frequency of such oversights or callous neglect was more than one and a half times as great among the minority purchasers FHA served. The nature of the particular submarkets in which minority purchasers participated, the actors who dominated

those submarkets, their relationships with FHA personnel, a differential pattern of bureaucratic deference toward certain classes of purchase, all seem to have contributed to a pattern of program performance which was racially discriminatory and which strongly favored white purchasers over minority purchasers.

E. Pre-Purchase Consumer Abuses

To determine the nature and extent of consumer-perceived abuses during the purchase process, survey respondents were asked "were there people you dealt with that you feel cheated you or took advantage of you?", and subsequently asked to explain positive responses. About a third of the purchasers (32.0%) reported a sense of victimization in retrospect as a direct result of the purchase and its immediate consequences. Most reports of such abuses -- over a quarter of the purchasers (27.5%) -- were related directly to defects in the initial condition of the house. (See Table V.14.) Whatever risks there were in a "caveat emptor" purchase market, the abuses which reflected themselves in defective house condition were uppermost in the purchasers' perceptions. Moreover, the pattern of felt abuses directly related to initial house condition followed closely the distribution of inadequate house conditions among the various purchaser groups. (See Table V.15, as compared with Table V.10.) By and large, minority purchasers at the lower income levels more frequently reported abusive treatment in the purchase process that was closely related to serious defects in initial house condition.

In the open-ended descriptions purchasers provided of their experiences, the scenarios differed depending on whether the house purchased was new or existing. In the older housing submarkets, purchasers were usually first shown the houses in "as is" condition, and given promises by the real estate agent that all improvements would be made prior to purchase. As a result, initial consumer expectations were based less on their inspection of the house, during which numerous defects were readily observable, than on their trust that the agent -- under the watchful eyes of FHA -- would see to it that the house was put into proper condition. Usually, cosmetic repairs were made that camouflaged the defects without fully remedying them and enabled purchasers to move into a house that appeared to have been "rehabilitated". The full realization of what had happened occurred only after the initial months of occupancy, followed by desperate attempts to locate the responsible parties. Few families succeeded in having the defects corrected; they either mustered what funds they had to make some of the key repairs, or decided to live with the defects, or moved at the earliest opportunity. One St. Louis woman, who managed to extricate herself from her house before it was condemned and demolished, described her experience as follows:

"When the realty man showed me that house, it was in bad shape. It needed so much. But he told me not to worry, that everything would be put in A-1 shape and I believed him. He told me that they always show the house before repairing it and after someone look at the house and want to buy that's when he have it repaired. Well, I fell for that and when I moved in, the house looked good. Five months after I was in that house, it fell in on us. I never knew that people doing business could be so cold. I cried and begged that realty man to trade homes with me since I couldn't live in that one. He wouldn't. I asked him to give part of my money back. He

wouldn't. I finally call the mortgage company long distance. They told me to call FHA. I call FHA they told me to call Legal Aid. I called Legal Aid and made an appointment. The house was falling in. The pipes were busted in the wall. The sewer was backed up in the basement. Worms were in the basement. The condition of that house was sad. The saddest part was that I never missed a payment but that didn't mean a thing to the mortgage company or realty company. But thanks to Legal Aid they got me out of that house without making my credit bad. What I really needed was legal advice before I bought."

Although FHA was less frequently cited as a culprit and the blame was more directly laid on realty companies, only those purchasers who knew enough to rely on FHA inspection and approvals were most likely to implicate it. Even when FHA made a careful inspection of a house and listed its defects on the necessary forms, under usual procedures these were generally communicated to the mortgagee submitting the application and not necessarily to the purchaser. FHA proved to be extremely lax in its follow-up of written certifications at purchase that the defects had been remedied.¹² The pervasive sense of victimization -- by government as well as private market actors -- and an ensuing feeling of helplessness was traumatic for a few families. One St. Louis father described the state he was in prior to the family's abandoning their house:

"I thought anything the federal government was in that it had to be alright. But I have learned the hard way that the federal government is just as crooked as anyone else...that house wasn't fit for anyone to live in...I didn't know what to look for. All I was interested in was a big house because when I went to see the house it was a mess but they told me everything would be fixed like new and I believed that lie...All the ceilings were

12. U.S. House of Representatives, December, 1970, op. cit.

falling. The plumbing were bad. The house was just falling apart. I couldn't take it any longer. I was losing my mind. The worst thing is thinking you got a house for your family and find out -- it is a shock with everyone trying to get rich off you. "

Although most families who felt exploited had decided it was worthwhile remaining in their homes and managed to pay for some of the essential repairs, they were rueful about the lack of legal recourse available and offered bitter rationalizations about what they had learned. A respondent who had remained in an existing house in Denver reported:

"When [XXX] Realty who sold this house -- they covered over flaws and didn't tell us the truth...I thought FHA and the Realty did a better job of inspecting a house but it sure wasn't true... I wish we had turned on the heat to see if it was in working order. It might have saved us \$1,000. ...You can't trust anyone -- real estate people at all. You have to check everything. Even if it's a hundred degrees, you have to turn the heat on, check the wiring, try the lights...I just think the [XXX] Real Estate knew all the conditions of the house but covered up just to make it look good and make the sale to us...I wish there was a way that the real estate people could be held liable for the fraud. "

Initial defects in new houses were less discernible from the start. The effects of shoddy construction practices -- what some purchasers referred to as "hurry-up building" after they had made their selection on the basis of more carefully constructed model homes -- became apparent after repeated use and exposure to the elements. Attempts to extract corrective action from the builder over the one-year warranty period were often frustrated by long delays on the part of the builder and a series of only marginal attempts to remedy serious defects after repair people were sent out. The result in many cases was that defects were not corrected during the one-year warranty period, and purchasers were left

with the consequences. The kind of "corner-cutting" that took place in some new construction was detailed by one Louisville Home owner as follows:

"For the construction of the house they used half inch plywood on the roof. The two-by-fours were turned to the two-inch direction. The metal louvre doors, they want to come loose, they are in need of constant repair. Poor workmanship on the concrete slab -- it was not smoothed down before the floor was laid. Plumbing rattles when you turn on the faucets. The brick wall on the outside leaks when it rains. The windows in the house, they're constructed from inferior products, they leak. Used second grade lumber. I had to completely rewire this house. I found some breakers were overloaded. The driveway and sidewalks are breaking up because they used more stone and less concrete."

Few families were as fortunate in being able to make repairs themselves, and most relied on the willingness of the builder to stand behind the product, as well as FHA's ability to pressure for such willingness. The following description from an Omaha purchaser provides much of the typical scenario home owners encountered in attempting to obtain a response to construction defects:

"The builder done such a bad job that everyday we have to spend for some little thing. The door jambs are all loose and just hanging with little nails. The basement had to be all cleaned up. The yard had to be seeded and fertilized. We had to repaint everything. The paint was chalky and you couldn't clean where they got it dirty. You name it and we're doing it ourselves... The copper pipes leak. The water heater leaks and we did call and tell them but the process of them coming back to do anything was a big problem. They make a short appearance, do a little thing, and take off again. We had a guarantee for things for a year that went wrong but a year went by and we never got anything fixed right -- or got anything done. The concrete is bad and all chopped out in hunks and the house is only three years old and most all things turned up before the first year was up and they didn't do anything about it after we complained... The builder made a clean up on the home, he didn't finish. He said he'd be back to do this and that but never returned. Could never get a hold of him at all... The FHA are bad too, to let bad things

happen like this. We called them constantly but they didn't do a thing about it. It's a shame to let him get by with all this... The FHA should be more protective toward the buyer. It seems that they lean toward helping the builder. They don't inspect the homes well enough or often enough to see all the loopholes. Or else they close their eyes to it."

In a program administered by an agency which had the gilt-edged reputation enjoyed by FHA previously, it is at least mildly shocking to discover the extent of serious defects in house condition that seem to have pervaded the program and the number of unconscionable consumer abuses that occurred. It is even more discomfoting to have to pose the corollary question of whether the 235 program resulted in families moving into purchased housing which was in better or worse condition than the housing they had occupied previously. Although it is difficult to compare with any precision the condition of pre-purchase housing with the initial condition of the 235 house,¹³ a rough comparison based solely on positive-negative responses concerning the functioning of plumbing, wiring, and heating yields striking results. Nearly three-quarters (72.5%) of the pre-purchase housing units were adequate on all three counts, while little more than a half (56.5%) of the 235 purchased houses were in similar functional condition at the start. On the whole, purchasing families had moved into housing in worse functional condition than they had occupi-

13. The house condition index previously used relies on observations of roof leaks, basement and foundation leaks, cracks in ceilings and walls -- factors not always observable by renters concerned primarily with the units they occupy within larger structures. As a result, this "rough" index relies exclusively on three functional counts: heating, wiring, and plumbing.

ed just previous to the move. Although families may have benefited in terms of spatial accommodation, in having achieved ownership tenure, in terms of the residential settings into which they moved, and in other terms they saw for themselves, on the whole the program had resulted -- at least during the early stages of ownership occupancy -- in extracting greater portions of family income for housing that was in inferior functional condition compared with the units they had occupied previously. The exposure of abuses in the program in 1970 represented more than an attempt on Congress' part to "gadfly" a less than effective administrative operation; it represented the uncovering of a major perversion of the program's intent.

Chapter VI. CONSUMER EXPERIENCE: THE EARLY YEARS OF OWNERSHIP

This chapter covers selected aspects of the 235 ownership experience of urban families subsequent to purchase and up to the point when interviews were conducted. The major foci include shifts in income and employment among owning families, residential and economic consequences of the purchase, the occurrence of mortgage default and failure, consumer assessments of their ownership experience, and projected residential stability.

A. Duration of 235 Ownership

The sampling universe of urban purchasers excluded 235 families who had purchased later than 1971, since the intent was to interview home owners (in 1973) after at least a year of ownership experience was behind them. A random drawing from HUD insurance files, and subsequent attempts to contact purchasing families that were sampled, yielded both families who were still resident owners of the 235 houses they had originally purchased and those who had moved elsewhere having either aborted ownership or simply sold the house. The overwhelming majority (92.3%) of the resulting purchaser sample were still 235 owner-residents. (See Table VI.1.) The remaining 26 families had moved, most of them -- 17 out of the 26 -- having experienced mortgage failure.¹

1. The resulting rate of mortgage failure within the sample is 4.7 percent, a figure that closely approximates the average cumulative failure rate of 4.4 percent among the ten metropolitan areas as of March, 1973, just before the interviews were conducted.

Nearly all (96.7%) of the purchasers had at least two years of 235 ownership behind them at the point they were interviewed. That so few families had owned for less than two years is not surprising considering the suspension and deceleration of the program in 1971 subsequent to the disclosure of abuses. Thus, as of 1973, several months after the 235 moratorium was imposed, the program seems to have manifested a good deal of stability despite the earlier abuses. As a whole, the urban purchaser sample represents a group of fairly seasoned 235 home owners, who by mid-1973 had owned for a median duration of about three years.

B. Changes in Household Characteristics Since Purchase

Over an average period of three years of ownership, urban purchaser households underwent only marginal changes in size and composition. About a quarter of the purchasing families were single-adult households at purchase (27.5%) and at the time of interview (28.1%). A small proportion of the single heads (10.8%) had married since purchase; an even smaller proportion (5.3%) of the two-adult households at purchase had separated over the course of ownership. The "life at the margin" arguments against lower-income home ownership often stress family separation as one of the intermittent crises which make for ownership instability, but the experience of the urban purchaser sample suggests otherwise, that family separation was not a frequent or significant occurrence during the early years of ownership. Indeed, household consolidation had occurred at a larger rate than household separation. As might be expected, household sizes did not undergo major shifts over the few years that had lapsed since purchase. Although home owning families under-

went minor increases and decreases in size, on the whole the median household size remained constant (at 5.3 members per household) and there were no major changes among the purchaser groups.

However, shifts in income over the course of early ownership were substantial, and were strongly differentiated among the purchaser groups. Median income levels for the urban purchasers as a whole went from \$6,500 at purchase to \$8,530 after an average of three years of ownership, an increase of about 27 percent. Among the purchaser groups, incomes rose most sharply for white households, and particularly for those who had been at the lower income levels at purchase. (See Table VI.2.) It was noted earlier that lower income white purchasers had tended to overextend themselves at purchase and take on higher initial housing cost burdens relative to the other groups. In light of the high income mobility they subsequently manifested, it becomes clearer that their purchase decisions may have been made in light of reasonable expectations of anticipated income increases.

The fact that minority purchasers made smaller income gains over a similar ownership period is distressing but not surprising. In general, it can be expected that opportunities for income and employment mobility are constrained by discriminatory pressures in the job market. Apart from systemic discrimination, the lower levels of educational and occupational attainment that obtained among minority purchasers in the 235 program undoubtedly further constrained their future income potential. Moreover, significantly larger proportions of the minority purchasers were single-adult households dependent on public assistance, with

limited employability and income-earning capacity which constrained them to smaller income gains. This was particularly so for minority purchasers within the lowest income levels at purchase. (See Table VI. 3.)

Nor were the income gains experienced by urban home owners related to changing patterns of employment within the household so much as they were to occupational or income mobility within the same pattern of employment. Among the households which remained stable in terms of parental composition, the substantial majority (80.0%) retained similar patterns in terms of the number of working parents; among those experiencing changes in parental employment patterns, there were both upward and downward shifts in employment rather than a consistent trend in any one direction. (See Table VI. 4.)

It is worth noting that, on the whole, purchasing families were in a better income position after the early years of ownership to afford the cost burdens that ownership engendered. Like many modest income families who purchase unsubsidized houses, high initial cost burdens and risks may well have been weighted against future income potentials that would ultimately bring higher ownership costs to well within reason. Whether these would be sufficient, however, to repair some of the more serious deficiencies in housing condition that purchasers experienced at purchase remains an open question.

C. House Condition

Considering the blame that has been publicly placed on 235 home owners for their presumed failure to maintain their homes properly or see

to repairs -- HUD Assistant Secretary for Housing Management, H. R. Crawford, claimed in 1974 that families would rather abandon their homes than see to the first major repair that became necessary -- it is striking to note that by the time interviews were conducted with home owners, after an average of about three years of ownership, the condition of 235 homes was somewhat improved over the condition which families found them in at purchase. (See Table VI. 5.) Though a quarter of the purchasers (24.9%) had purchased houses initially in inadequate condition, more than half of these properties had improved to subadequate or adequate condition within a few years after purchase. Among those who had found their homes to be originally in subadequate condition, only a small proportion (7.3%) had permitted their homes to deteriorate further and over a third (37.2%) had been brought into fully adequate condition. About a third (35.0%) of the homes which had been in adequate condition at purchase had declined in condition, most to the subadequate rather than the inadequate category. But, by and large, the general direction of changes in house condition since purchase was for the better.

However, there were strong differences among the purchaser groups in the extent of improvement in house condition. Improvements were most frequent among the white purchasers, particularly those initially at the lower income levels. (See Table VI. 6.) There are several factors that seem to account for the observed differences. First, white purchasers more frequently purchased new or post-war housing in substantially better condition at the start; the lesser effort and cost required to bring these newer houses up to condition undoubtedly increased the in-

centives for making the necessary improvements. Moreover, new houses were under builder warranty for the first year; despite frequent problems in extracting satisfactory remedial action from builders for construction defects, the likelihood is that builders did make some repairs at no cost to the owning family. In addition, the income gains experienced by white purchasers over the course of ownership put them in a better position to have the necessary repairs and improvements made. Owners living in the oldest housing -- homes that were at least thirty years old -- felt the greatest frustration at not being able to make the necessary repairs. (See Table VI. 7.) Because of the way in which the 235 submarkets operated to provide the oldest housing to the most disadvantaged purchasers, that sense of frustration was keenest among minority purchasers at the lower income levels. (See Table VI. 8.)

Whether the purchase move had resulted in ultimately providing the home buyers with dwelling units in better condition than the ones they had vacated is difficult to determine with any precision.² A primitive objective index, based on reports of the functional condition of wiring, plumbing, and heating, indicates that as a whole 235 purchasers were living under no better or worse physical housing conditions -- apart from reduced overcrowding -- than they had been prior to purchase. (See Table VI. 9.) However, when purchasers were asked to compare

2. Because of the difficulty in obtaining an adequate range of comparable dimensions for apartments and houses, which are suitable for closed-ended survey responses.

their current house condition³ with that of the pre-purchase unit, subjective assessments indicated that a clear majority of the purchasers (73.7%) felt the 235 unit was in better physical condition. (See Table VI.10.) These positive assessments were least pervasive among lower income minority purchasers; less than two-thirds (64.5%) felt they had bettered their housing condition and as many as a sixth (17.1%) felt they were living under worse physical conditions. In general, minority purchasers experienced a worsening of housing conditions more frequently than white purchasers. (See Table VI.11.) Given the much stronger housing motives among minority purchasers at the start, this finding represents a harsh irony of the program.

D. Residential Satisfaction

Whether the 235 move produced a greater or lesser degree of residential satisfaction -- in terms of both housing and neighborhood -- is a critical issue in assessing the program's outcomes from the vantage point of the consumer. In light of the imperfections in the program and its consequences for purchasers, particularly in delivering sound housing, one might expect the survey would be an opportunity for disgruntled owners to voice pervasive dissatisfactions with the residential situations in which they found themselves. To the contrary, a substantial majority of

3. For 235 purchasers who had moved, current condition refers to the condition of the 235 house at the point it was vacated.

home buyers expressed satisfaction with their 235 houses (77.8%) and with the neighborhoods in which they were located (78.4%).⁴ (See Table VI.12.) Nevertheless, the pattern of attained satisfactions was not distributed evenly among the purchaser groups.

As might be expected from observations that have already been made, lower income minority purchasers realized the lowest degree of residential satisfaction among the purchaser groups, though it should be noted that a majority -- over two-thirds -- of these purchasers also reported satisfaction with current residential arrangements. However, to assess the impact of the program on achieved satisfactions, it is necessary to consider resultant shifts in residential effects since the period prior to purchase. In that respect, lower-income minority purchasers experienced the greatest net gain in housing satisfaction among the purchaser groups, and the second highest with regard to gains in neighborhood satisfaction. (See Table VI.12.) That is, despite the fact that these home buyers were the most consistently victimized group among the purchasers, the program resulted in strong net gains in residential satisfaction when compared to the dissatisfactions and stresses associated with pre-purchase residence. Even a program as imperfect and abusive as Section 235 was able to provide a greater degree of whatever constitutes the "good residential life" than was attainable in the pre-

4. About two-thirds (65.7%) were satisfied with both house and neighborhood, and a small portion (9.5%) with neither.

purchase rental situations of these families.

At the other extreme, higher income white purchasers reported the highest degree of residential satisfaction among the purchaser groups. Despite their relative residential advantages prior to purchase, they also experienced net gains in satisfaction, particularly in relation to housing satisfactions and less so with regard to neighborhood.

On the whole, however, minority purchasers at the higher income levels reported the highest levels of satisfaction associated with 235 residence, both in terms of current satisfactions and in terms of improvements over their pre-purchase situations. Whatever the reasons, this group experienced the greatest improvements in the perceived quality of residence as a result of the 235 move. This is particularly striking with regard to neighborhood-related satisfactions, possibly as a consequence of their relatively high participation in the post-war housing submarkets which gave them access to established neighborhoods in the less declining urban areas.⁵

By contrast, lower income white purchasers achieved levels of satisfaction which were only marginally above those of minority purchasers at similarly low income levels. Moreover, their substantial gains in housing satisfaction were not accompanied by corresponding gains in

5. These findings also echo Ford's observations of Harlem's more upwardly mobile black families for whom home purchase provided an escape from ghetto conditions and an opportunity to obtain superior residential settings. Ford, op. cit.

neighborhood satisfaction.

The major sources of both satisfaction or dissatisfaction with the house center on its physical characteristics, most frequently on its basic condition and, secondarily, on special features of the house such as storage space, lay-out, etc. (See Table VI.13.) Not surprisingly, minority home owners more frequently expressed discontent with the house condition than satisfaction with it. In this regard, the responses of lower income white purchasers were a strong mixture of positives and negatives in terms of house condition. The clearest, unmitigated gains in housing satisfaction across the purchaser groups had to do with "quality of life" gains -- that it was a better way for children to live, offered a sense of comfort or a secure, stable place to live and so on. Surprisingly, the benefits or dysbenefits of ownership tenure were less frequently mentioned as a source of satisfaction or dissatisfaction with the house, and the same was true for housing costs, though when expressed they were more usually negative rather than positive aspects. Thus, in their assessments of their satisfaction with occupancy of the purchased house, home owners tended to stress values and dysbenefits more closely related to the consumption of housing services than to housing economy or tenure. What contributed most to satisfaction or dissatisfaction with the house were the more functional aspects of the living experience, rather than the less tangible values attached to "owning" itself or the more tangible cost or investment aspects of ownership.

The complex adjustments required of 235 homeowners who, despite deficiencies in the house, felt important gains in the living experience

are reflected in their description of their combined satisfactions and dissatisfactions. One Pittsburgh woman, who found it necessary after purchase to bring in a second income in addition to her husband's in order to meet house expenses, expressed the following:

"When you move in a 235 home you really have a lot of extra work because nothing is complete. You have to scrape up pennies to complete things, and also [the builder] always made you feel like you were a charity case. I am still dissatisfied with the carpetings and some other things like the windows. But we love the home, we really do, and we never would have had a place of our own if it weren't for this 235 plan."

Another owner expressed being "fairly satisfied" with the house, and indicated why the response was qualified:

"We like it now because it is our home and we have made things better and the house is very comfortable. [interviewer probe] I would have said 'very satisfied' except that the leaking basement is a constant problem."

Quality of life issues were important to many owners in their experience of the house, and reflected their previous negative housing experiences in the city. One Milwaukee family who had purchased a new home indicated a typical response pattern:

"I don't have to worry about my kids. You've got enough area out here where they can run, and they're not hurting anything. [interviewer probe] A lot of land space. When I look back at what we have now compared to what we had then, it gives you a sense of pride. [interviewer probe] Just a feeling that it belongs to me because I know that now it's all fixed up no one can say "Now I'm selling it." "

Specific sources of neighborhood satisfaction indicated clear gains among purchasers in terms of the physical and social characteristics of the neighborhoods they purchased in. Less crowded, quieter, cleaner residential settings with more elbow space for children were often given

as the reasons for present satisfaction with the neighborhood. Location in relation to work, convenience of the house to shopping, church, schools, and other key activity sites were concerns about which home owners registered a mixture of both satisfied and dissatisfied responses. More purchasers found the social characteristics of their neighborhoods a source of satisfaction than otherwise, though responses were mixed. In this regard, purchasers undoubtedly had varied expectations -- some sought close neighborly relationships, others preferred neighbors to be pleasant but unintrusive -- but whatever the expectations were almost half the home owners (46.4%) found the social aspects of the neighborhood worth mentioning as a source of residential satisfaction.

Dissatisfactions with the general quality of the neighborhood were registered with relative frequency among purchasers at the lower income levels. Dissatisfactions were expressed with the general character of the neighborhood -- whether it was "run-down", whether people were keeping it up -- and with the occurrence of crime, burglary, or vandalism. Minority households purchasing much older housing often moved into neighborhoods that were already ridden with such problems. A black family purchasing in an older St. Louis neighborhood reported:

"The people around there was fighting all the time. They were always shooting and bombing houses in the neighborhood. I was scared to death all the time. When I finally moved I was sad and glad -- sad that owning my home was only a dream, glad to be getting out of the neighborhood alive."

Other lower income purchasers found themselves forced to make adjustments to new kinds of neighbors with differing norms. A Seattle home buyer, for whom the purchase move was the first venture out of the

neighborhood in which she was raised, reported the following:

"I picked the neighborhood because of the schools and because I saw people working in the yards. It was a clean area. But there are too many children. As many dogs as children with no leash law. Parents that don't watch their children. Low class of people, rough language. Petty thievery by kids and adults. Welfare families in the neighborhood. Men not wanting to work."

But, by and large, the urban purchasers found the neighborhood transition to be for the better, and much depended on their earlier neighborhood experiences:

"This neighborhood is much better than where I used to live. The people, the accessibility to schools and church, the size of the lots -- there aren't as many people as in a congested area. It's just plain better. The people are nicer. [interviewer probe] No comparison, people you can talk to, discuss things with, converse. The kids can go baby sitting and don't have to be afraid of what kind of a house they're going into..."

Families at the higher income levels had broader options for neighborhood choice and perhaps a keener sense of the range of options and the distinctions among available opportunities that better suited their preferences. Having fewer options, lower income purchasers more frequently found themselves in neighborhoods and subdivisions without the social screening mechanisms inherent in higher prices that allow a more conventional, middle class group to aggregate itself.

E. House-Related Expenditures and Cost Burdens

The costs of home ownership -- those required to sustain payments on the mortgage, insurance and utility costs, local property taxes, normal maintenance and house repairs -- are a central issue in any attempt to

assess the feasibility of home purchase among lower-income households. Because of administrative shortcomings in the 235 program, most intensely reflected in the occurrence of program abuses, home purchasers came to be burdened soon after purchase with necessary repairs to their houses, to an extent that went well beyond the normal expectations of both those who had drafted the program and those who participated in it. As a result, although it will be useful to examine the repair activities and expenditures of 235 home owners during the initial years of ownership, it needs to be noted that such data reflects an aberration particular to the 235 program which might well be obviated in future lower-income ownership programs. By contrast, trends in mortgage payments and utility costs provide a more reliable indicator of those housing expenditures which can be more readily generalized to other future programs.

Under FHA procedures, monthly mortgage payments include principal, interest, taxes and insurance costs -- PITI -- leaving the payment of utilities, maintenance, and repairs to the individual home owner. Over the initial years of ownership, purchasers experienced a substantial rise in FHA monthly mortgage payments from a median of about \$103 at purchase to a median of \$119 current with the interviews, an increase of roughly 16 percent. In part, this was due to rising taxes and insurance costs which were characteristic of most cities during this period. In part, it was also due to the rising income levels already observed among 235 urban home owners. Under the procedures for Section 235, mortgagor families were recertified every two years by the mortgagee (lender), to update current household income and change the federal

subsidy component correspondingly.

Because home owning families were often unaware of the amount of federal subsidy that augmented their monthly portion of the payment -- since it was paid directly by FHA to the mortgagee -- it is difficult in a consumer survey to determine with any accuracy the actual changes in subsidy amounts that occurred over the initial ownership period. However, it is apparent that subsidy amounts must have decreased substantially as the recertification process took account of rising incomes. For two-thirds of the urban purchasers (68.0%), family incomes had increased; for another fifth (20.8%) they had remained relatively stable since purchase; and only about one out of every nine home owners (11.3%) had experienced a net decrease in income. With increasing incomes, the families' share of the monthly mortgage bill increased, and many were in all likelihood receiving no subsidy by the time of the interview.⁶

In addition to rising mortgage costs reflected in monthly payments by the family, the costs of utilities were also rising during the period though at nowhere near the rapidly inflating rate that occurred subsequently in late 1973 with the sudden OPEC inflation in oil prices. Because home

6. U.S. House of Representatives, (Appropriations Hearings), April 1972, op. cit., p. 121. It was reported that by December, 1971, about 5 percent of 235 owners were no longer receiving subsidies; 57 percent were receiving reduced subsidy amounts; 13 percent were being continued at the original subsidy level; and about 25 percent were receiving increased subsidies. Nearly two-thirds of the households were receiving diminished subsidies.

owner incomes tended to change in the same direction as mortgage payment and utility costs, it is more useful to examine changing cost burdens and their impact in relation to family income than to undertake an analysis of absolute cost levels.

A comparison of the most current 235 housing cost burdens (as of the interview) with those purchasers undertook upon purchase provides a strong indication that income increases tended to outdistance, in relative terms, increases in combined mortgage payments and utility costs. (See Table VI. 14.) The median housing cost burden for urban purchasers as a whole decreased from 26.7 percent at purchase to 24.2 percent over the early years of ownership. Decreases in median cost burdens were sharpest for white purchasers initially at the lower income levels who, as a group, took on high cost burdens at purchase and were subsequently able to compensate for them by rapid increases in income. By contrast, cost burdens for higher income minority purchasers tended to increase because of their relatively low income mobility. Moreover, except for this group, it is even more striking to note that current ownership cost burdens had decreased by 1973 after an average of about three years of ownership, to a level consistent with, if not better than pre-purchase rental cost burdens. Although the expectation that prevailed among home buyers that owning might be cheaper than renting went largely unrealized, the regular monthly cost burdens they undertook, relative to their incomes, were not much different from their pre-purchase rental burdens.

These findings are interesting in several respects. First, they indicate that purchasing families undertook relatively reasonable risks in

light of their anticipated income earning capacity. Moreover, considering the general inflation in urban rental markets from 1969 to 1973 -- the period over which this study tracked urban purchasers -- the decision to buy was a reasonably economic one, enhanced by gains in residential satisfaction and possible investment values, in which purchasers committed themselves to monthly out-of-pocket costs -- apart from maintenance and repairs -- at possibly lower cost burdens than might have been obtained had they been able to find the suitable rental alternatives they needed. Most importantly it suggests that had the program been administered in a way that placed home buyers in houses in fairly sound condition, the regular monthly obligations engendered by home ownership for lower-income families would not have been substantially greater than those for alternative rental situations.

Nevertheless, the program had a regressive effect in the distribution of housing cost burdens among purchaser groups. (See Tables VI.14 and 15.) The highest cost burdens continued to be carried by the most disadvantaged group, lower income minority purchasers, for whom over a third (34.7%) had current monthly cost burdens in excess of 35 percent. Because of differences in subsequent post-purchase income gains, distributive parity obtained between the lower income white purchaser group and the higher income minority group; roughly a sixth of each group had monthly cost burdens in excess of 35 percent. Few among the higher income white purchasers were similarly burdened. By and large, minority purchasers and those purchasers initially at the lowest income levels were bearing the highest monthly burdens of ownership. That

minority purchasers at initially high income levels had difficulty maintaining the advantages of higher income through the early years of ownership is a bitter reflection of the constrained income mobility opportunities available to minorities in the urban economy.

Beyond monthly mortgage payments and utility costs, home owners paid for repairs, improvements to their property, and other costs associated with furnishing and maintaining the house. But the kinds of major house-related expenditures they reported differed depending on the age of the house at purchase. (See Table VI.16.) Those who had purchased new housing more frequently reported costs associated with house and site improvements and with new furnishings; there was less necessity for structural repairs or utility repairs, although a surprisingly large proportion -- about one out of six (17.9%) -- did carry out such repairs to correct construction deficiencies. The older the house was, the more likely owners were to concentrate what funds they could muster on basic structural and utility repairs, postponing further improvements of the house or more amenable furnishings. Among those who had purchased housing over 30 years old, well over half (59.3%) had undertaken basic structural or utility repairs. On the whole, the types of efforts which owning families made is an impressive indication of the earnest attempt on their parts to maintain and improve their properties within the limits of their income.⁷

7. The findings reinforce Sternlieb's view of the productivity of owner occupancy with regard to structural maintenance repair. Sternlieb, The Tenement Landlord, op. cit., pp. 228-229.

Despite the fact that higher income purchasers tended to buy new houses, and the most disadvantaged purchasers the oldest housing, on the average the absolute levels of house-related expenditures differed little with the age of the house or the characteristics of the owner. (See Tables VI. 17 and 18.) Home owners expended, on the average, a total of \$620 over the initial years of ownership, at an annual average expense of about \$240. These results are striking in their lack of relation to income; one would expect families at relatively fixed lower income levels -- in particular, minority purchasers manifested relatively fixed income levels -- to expend less on house-related costs. But the operation of the 235 program was such as to place the families who could least afford repair burdens in the housing in poorest condition. As a result, repairs became necessities for many such families, and extracted high burdens in terms of income, with the highest burdens carried by minority purchasers at the lowest income levels. Although these owners expended limited funds to make some of the necessary repairs, it is also the case that many of them had not currently been able to bring the house to within acceptable condition. (Refer to Table VI. 6.) To do so would require more than they could afford. In any case, the evidence strongly suggests that 235 home owners did not shy away from repairs or, as has been suggested, leave their homes in preference to repairing them.⁸

8. Attributed to H. R. Crawford, HUD Assistant Secretary for Housing Management, 1974.

Most families made what repairs they could and remained in their homes as long as they could despite its original condition.

F. The House as Investment

To carry out an accurate assessment of the investment value of 235 houses would have required professional on-site appraisal as part of the survey interview process. Since this was not feasible, much of this discussion of investment values hinges on the accuracy of perceptions among home owners of the changing market value of their homes. At the very least, such perceptions reflect the way in which owners themselves were viewing the accrual or attrition of equity in their homes, and shed some light on how they viewed their current situations. To the extent that home owners were aware of real changes in local market values, either through recent sales of similar housing or through their own probes into the market, these perceptions have at least a partial claim to external validity.

Although investment incentives were not uppermost in purchasers' minds in their decisions to buy, for nearly half of the urban purchasers (48.8%) it had been a factor contributing to the purchase decision. When, after an initial period of ownership of 3 years on the average, home owners were asked a closed-ended question: "How good an investment would you say that this house is?", a substantial majority (79.5%) registered their feeling that it was a good investment. Although higher income white purchasers were the most sanguine in this regard and lower income minority purchasers the least, a clear majority of each of the purchaser

groups assessed the house as a good investment. (See Table VI. 19.)

However, when purchasers were asked, "What would you say houses like yours are selling for now?", and the results were compared against purchase prices, it became evident that although 235 property values were generally seen to be rising, a significant, though small group (11.4%) were in negative equity situations. A substantial majority (69.4%) of the urban purchasers saw their property values as appreciating; another eighth (12.6%) saw very little change in the value of their homes during the initial years and were still at a break-even point within 5 percent of the original purchase price. (See Table VI. 20) But about one out of nine purchasers (11.4%) saw their property depreciating in value, many at a relatively sharp rate.

As might be expected from previous observations, this was particularly the case for lower income minority purchasers; nearly a third (31.5%) were in negative equity situations, facing a loss if they attempted to sell. None of the other purchaser groups experienced so large a rate of equity casualties. The influence of house-age submarket factors is apparent here, in that lower income minority purchasers tended to buy the oldest housing within the most exploitative ghetto submarkets.

In general, the median rate of property appreciation varied greatly with the age of the house. Used houses over 30 years old at purchase averaged a 5.5 percent appreciation against a 13.2 percent for post-war existing housing and 14.8 percent for new houses. As a result, those purchasers participating in the post-war and new house submarkets fared much better and instances of declining property values were relatively

rare -- 3.5% for new houses; 10.4% for post-war houses; and 30.9% for houses over 30 years old at purchase. With the exception of those who had purchased the oldest housing, 235 purchasers by and large viewed their property as appreciating in value, and had reason to believe it had been a good investment.

It is important to note, however, that the equation between "goodness of investment" and stable or appreciating property values -- positive equity, if you will -- is not universally held among 235 purchasers. A number of purchasers consider their house a good investment even though they recognize it is declining in value, and this factor accounts for the disparity between consumer assessments of "goodness of investment" and the estimate of changing market values, particularly among purchasers at the lowest income levels. What seems to account for the disparity is a divergence of housing values or precepts among 235 purchasers. The less upwardly mobile among the purchasers tend more to view home ownership from the perspective of homestead values -- which seem to be rural in origin -- in which secure property ownership and a permanent homestead are valued as investment independent of the market value of the house and associated equity. Since the house is viewed as a permanent residence, rather than as a transferable commodity or a "way-station" for trading up to a better future house, less utility is attached to its yield upon sale and more valence is given to long-term accretion of equity in the house -- some equity at any rate, if not the full equity reflected in the original price of the house. For instance, a Washington, D.C. owner of an older, deteriorated house responded that the house was

a "very good" investment:

"I can't complain...I don't know that much about investments. A house is a lifetime thing. We'll get some equity out of this."

Another home owner in a declining market situation had a similar response:

"Anytime you pay for something and one day it will belong to you and not someone else, it's a good investment."

For these home owners, many of them coming out of abortive experiences in the rental market, the purchase price meant little more than whether monthly payments would be affordable. Ownership meant some accretion of equity upon mortgage fruition -- an investment value not attainable in the rental market -- as well as a permanent home and the autonomy of ownership which removes one from dependency on landlords. Higher income and white purchasers undoubtedly viewed their tenure options differently, and maintained housing orientations more closely related to mainstream conceptions of house investment in terms of market values and upward housing mobility.

Despite differences in housing values and orientations among 235 purchasers, which suggest that many of the most disadvantaged purchasers find much that is positive in their negative equity situations, the fact that as many as a fifth of the purchasers (20.5%) viewed their homes as poor investments after only a few years of ownership is a telling criticism of the program. These perceptions permeated among owners of new houses as well as existing houses, though the latter to a greater degree, and reinforce many of the criticisms of FHA procedures made during the disclosures of abuses in the program. Although many of the home owner

responses accounting for the poor investment value of the house were related to declining market values, which may or may not have been predictable by FHA, more than half specifically concerned the poor condition of the house which made it difficult to market without taking a loss. Nevertheless, when viewed as a whole in terms of broad trends, the program succeeded despite its imperfections in placing the substantial majority of home purchasers in what were perceived to be viable market situations with appreciating property values.

G. Assessments of Home Ownership

Despite the hazards associated with 235 purchase, the early years of ownership resulted in sustaining and strengthening the initially strong tenure preferences among purchasing families which favored owning over renting. In contrast with the three-quarters majority (77.5%) who had preferred owning prior to their decision to buy, a more nearly universal majority (90.2%) expressed similar preferences after their initial experience with 235 ownership. (See Table VI. 21.) Whatever the problems and frustrations with the program were, the experience had been sufficiently positive for most urban purchasers to convince them of the comparative advantages of ownership tenure.

The most dramatic shifts in tenure preferences occurred among minority purchasers. (See Table VI. 22 and Table IV. 9.) The roughly three out of ten minority purchasers who were either indifferent to tenure or preferred to rent prior to their purchase decision had shifted to one out

of ten after the initial years of ownership. Despite relatively weak ownership preferences at the start and their strong housing and residential orientation to purchase, despite the difficulties minority purchasers encountered in the program, after the course of early ownership their tenure preferences were indistinguishable from the other purchaser groups.

But the strong preferences for ownership over rental were not accompanied by similarly strong attachments to the 235 houses purchased. Less than half (42.3%) would have definitely bought the same house "if you had it to do all over again", and lower income minority purchasers were the least likely to do so (34.2%) while higher income white purchasers were the most likely (47.3%). This finding reinforces the fact that large numbers of purchasers were disappointed with the quality of 235 houses -- more so than with ownership itself -- and that these discontents were most pervasive among those who had encountered severe deficiencies in house condition at purchase. It also may reflect an underlying instability in 235 ownership situations, no matter how sound the houses, because of the tendency of families to seek preferable houses as soon as they can afford them. This issue will be examined in a subsequent section of this chapter.

To identify the reasons behind current tenure preferences, urban purchasers were asked to assess from their 235 experience what the "best things" and "worst things" were about owning a house. They responded more frequently on the positive side and the major single benefit purchasers associated with ownership were related to "owning" itself,

rather than to its economic or residential consequences. (See Table VI. 23.) For more than a third of the purchasers (35.7%) home ownership was an unmixed blessing without any associated dysbenefits. Most mentions of "owning" as a benefit specifically cited the relative autonomy afforded by home ownership (158 mentions); fewer responses referred to "owning" as a generic benefit in its own right (114 mentions), without more specific reference to aspects of ownership.

The strong equation between housing autonomy and tenure, as perceived by 235 purchasers, can be seen as more closely related to the politics of tenure -- the increased power home owners have, compared with tenants, over the residential domain of their lives -- than it is related to more intangible or sentimental attachments to home ownership. For the higher income purchasers, the autonomy responses usually concerned the relative manipulability of the owned home -- the power to alter and change it to one's own tastes, to shape it as a reflection of oneself -- a factor which gives the owned house an aspect of identity not attainable in rental housing. One St. Louis home owner phrased it in the following way:

"I have been free to make it into the type of home that I want it to be."

Lower income and minority purchasers, especially those with large households, tended to view the autonomy of ownership in somewhat different terms, usually related to past negative experiences with landlords. In Omaha, a black home buyer with eight children put it in the following terms:

"Don't have to worry about the landlord, that he just might put you out at anytime and you know you have roots somewhere."

The relative dominance of positive tenure responses related to the autonomy benefits of home ownership, is less a reflection of socially-relative, norm-related attachments to ownership than an indication of more deeply-based, existential needs and goals satisfied by ownership tenure, whether they reflect the identity needs of more socially mobile families or the need for security, particularly residential security, among those least likely to find it in the rental market under the conditions of tenancy. Though these findings confirm, to some extent, both the relativist and functionalist perceptions of the valences of ownership tenure, they more closely correspond to the "freehold" advantages of ownership which play an important part in the functionalist argument.

Next to owning itself, the most frequently mentioned benefit associated with home ownership concerned improvements in the quality of life for owners and their families. Most frequently, these responses centered on the relative privacy which ownership afforded (74 mentions), and on the pleasures, comforts, and superiority of the owned home as a locus of family activity (73 mentions). Only a few purchasers gave expression to the relative stability of ownership residence (21 mentions). In short, a number of purchasers viewed the quality of their daily lives as having been enhanced by ownership occupancy.

On the whole, purchasers tended to view the economic aspects of ownership more negatively than positively, mentioning the excessive costs of ownership more frequently than its investment advantages. In part, this may be due to fact that rising monthly housing costs and periodic repairs are immediate and repeated experiences while increasing equity in the

house is a benefit largely postponed for the future. But it is significant that despite the general comparability of monthly ownership cost burdens, with pre-purchase rental burdens, owners retained a stronger concern about the expenses of ownership than about its possible investment advantages. Along with the higher dollar cost of ownership were the higher personal costs of ownership responsibilities: the stresses of having to cope with high costs, unpredictable repairs, normal maintenance efforts often within the context of uncertain employment situations -- these were the personal costs in the quality of some owners' lives against which the more frequent tenure-related gains in housing status or autonomy and in the quality of residential life had to be measured.

Surprisingly few purchasers directly mentioned specific aspects of the 235 house as a benefit of ownership, though undoubtedly the house aspects of ownership were subsumed in responses concerning improvements in the quality of family life, such as those related to privacy and family life. A larger number of purchasers viewed the 235 house as a deficit of ownership, most frequently referring to its poor condition. Neighborhood concerns were rarely mentioned either as a benefit or deficit associated with ownership.

In summary, it is apparent that most urban purchasers viewed themselves as having derived substantial benefits from ownership tenure itself along with the levels of residential satisfaction they had obtained with respect to house and neighborhood. Most frequently these benefits were associated directly with the autonomy and goal-fulfillment gratifications that ownership tenure afforded, and with improvements in the qual-

ity of family life. Undoubtedly, these positives account in part for the shift in tenure preferences among those owners who had initially been indifferent to tenure or had preferred to rent. On the negative side, the deficits of ownership were primarily the greater costs involved, the burden of associated responsibilities and financial pressures, and, in a number of instances, having to put up with the seriously deficient condition of the house in order to own. Since this last factor is a less inherent aspect of ownership deriving from the particular flaws in the Section 235 program operation, the evidence suggests that, by and large, the benefits of ownership as perceived by urban lower-income families outweigh its potential deficits and that, in particular, these home buyers found much that was valuable in the tenure transition itself.

It is also notable that there are relatively few differences among the purchaser groups in these respects. Higher income white purchasers more frequently cited the "pure" satisfactions of owning and its more palpable investment advantages. The median groups -- lower income white purchasers and higher income minority purchasers -- were more likely to emphasize the quality of life benefits they associated with ownership. Interestingly, the perceptions of ownership deficits showed relatively little differentiation among the groups, apart from the higher housing discontents among buyers at the lower income levels. Higher income white purchasers more frequently experienced the pure satisfactions directly related to tenure, with fewer of the countervailing deficits but, by and large, the deficits were fairly consistently expressed by all groups. Similarly, lower income minority purchasers were least

affected by a sense of quality of life improvements as a result of ownership and more likely to stress the expenses of owning. On the whole, however, the composite of ownership benefits and deficits among the groups were remarkably similar, considering the differences in their purchase experiences and subsequent ownership situations.

But the question remains as to whether the benefits of ownership were perceived to be worth the greater costs. To begin with, only two-thirds of the owners (65.7%) considered home ownership to be more expensive than their previous rentals; about a sixth (15.7%) found ownership less costly; and another sixth (18.1%) found no change between the costs of renting and owning. For the latter two groups, there were no serious cost trade-offs associated with home ownership. Those who found ownership to be more expensive were asked whether they felt home ownership was worth the increased costs. A considerable majority of those responses were positive (86.9%), and the reasons behind positive responses bore a close similarity to the ownership benefits already described: tenure achievement and autonomy were the primary reasons (64.8%), quality of life secondary (38.9%), and economic investment reasons tertiary (32.1%). Among those paying increased housing costs for ownership, a small proportion felt the benefits were not worth the cost (13.1%), largely because of the high expense involved. These figures are summarized in Table VI. 24. What they indicate is that even when home ownership extracted higher costs than households had been used to paying for rental housing, the benefits were, by and large, thought to be worth the comparative expense. Moreover, these owners tended less to rationalize the

value of the additional expense in investment terms than in terms in consumption values related directly to tenure and quality of life issues. In that regard, their pattern of decision behavior reflects more a consumer-oriented view than an investment-oriented view, a pattern which has been observed in other studies of home purchasers.⁹

Some of the more typical responses, as to why ownership was worth the increased expense, are indicative:

"That is the price that one has to pay in order to have a place where your kids can have freedom. Plus it is giving me what I wanted. It is our home and I take great pride in it."

"Yes, I just don't think I can go back to the landlord-tenant -- other people in the same house with you -- rat race. I'd do anything not to go back to that."

"Yes, for the family's sake. We get a lot of happy days from it. Well, it's ours I guess and what we put into it we know someday we will get it back and be happy too."

Yes, security. They can't sell it from under you and you feel like doing more and putting more money into it because it is yours and you are gaining equity."

They indicate some of the benefits purchasers came to attach to ownership -- as a locus for family activity, as a context for children -- that might be replicable in well-designed rental housing, possibly at lower costs. On the other hand, the responses also suggest that many of the other consumption benefits perceived by families -- security, absence of abrasive interactions with landlords and other tenants, investment equity, and an inexplicable sense of "home" -- are more intrinsically related to

9. Coons and Glaze, op. cit.

ownership tenure and not fully replicable within the rental market.

H. The Viability of 235 Ownership -- the Mortgage Default Process

The strengthened preferences for home ownership among the urban purchasers, and the satisfactions associated with ownership residence, are positive indications of the kinds of incentives that existed among most home owners to sustain their 235 ownership situations or to purchase another, more preferable house through conventional sale and transition procedures. But they are less useful as predictors of the viability of 235 ownership. Intervening difficulties -- the loss of work, a major illness, family separation -- may make it difficult for an owner to sustain mortgage payments and other high housing-related costs no matter how strong the owner's motivation or incentives. Moreover, the substantial number of houses (16.9%) that were in inadequate condition after the initial ownership period present serious questions concerning the continued habitability of some of the houses, many of which were reported to be in declining market situations. In such market situations, where it is impossible to sell without substantial loss, the need or desire to move on the part of owners can be expected to lead to some form of abandonment of the house, accompanied by progressive mortgage default and failure, as owners attempt to extricate themselves from diseconomic situations. In short, despite the benefits many families saw themselves as receiving under 235 home ownership, there were a number of forces both within and without the program -- already referred to as "life at the

margin", "systemic", or "contextual" factors -- that might have been potential precipitants of mortgage default and failure.

At the point the interviews were conducted in 1973, the current mortgage statuses of the urban purchaser sample paralleled fairly closely what can be gleaned from national program statistics. (See Table VI.25.) The rate of aborted ownership (5.0%) in the urban purchaser sample closely approximated what might be expected from reported failure rates among the ten metropolitan areas (4.7%) at that time. A larger proportion of the urban purchaser sample (5.6%) reported they were in default -- behind by one or more mortgage payments -- at the time of the interview. As a percentage of insurance then in force, exclusive of sales and aborted mortgages, this constitutes a sample default rate of 6.1 percent against the then comparable national default rate of about 7.1 percent.¹⁰ To the extent that the purchaser sample is a valid reflection of what had happened to a cohort of home buyers after an average of three years of 235 ownership, it can be estimated that about 3 out of every one hundred home buyers had sold their homes; another 5 had aborted ownership; another 6 were at some stage of mortgage default; and the remainder showed no signs of current mortgage difficulties.

Among the purchasers who were still in their 235 houses, a pervasive

10. See Appendix A. for a discussion of the sources of disparity between these two rates. The sample rate can be assumed to a more valid representation of default rates among purchaser in metropolitan areas, and among those who had owned for at least a year.

majority (93.9%) were current in their mortgage payments. But the relatively small proportion of defaults at any given point in time -- 5.6 percent among the urban purchasers as a whole, and 6.1 percent among resident purchasers -- is in itself a poor indicator of the incidence of default among 235 owners or of the significance of default in relation to mortgage failure. For nearly a third (30.3%) of the urban purchasers had fallen behind in their mortgage payments at one time or another during the initial years of ownership. And nearly a quarter (22.5%) of families whose mortgages were currently in tact -- families who had either sold or were current in their payments -- had experienced default in the recent past and successfully repaid their back mortgage payments. As a result, it becomes apparent that mortgage default was a common occurrence among 235 owners, in the sense that a third of the owners had experienced at least a single default episode at one time or another during the initial years of ownership. More importantly, the default process would seem to be characteristically cyclical in nature, in that most owners who fall into default are able to resolve the default in sufficient time to avoid any serious threat to continued ownership. Furthermore, repeated instances of default, beyond one episode regardless of its duration, were relatively rare (4.8%) among urban purchasers. Most defaulters had had a single experience over the average three-year period of ownership. Thus, although the majority of urban purchasers (69.7%) had never defaulted, a significant portion had been involved in default, most of them having resolved it successfully.

In that light, the concern with 235 mortgage defaults that permeated

the 1971-72 Congressional deliberations prior to the program moratorium -- and provided fodder for the program's detractors -- can be seen as somewhat exaggerated. For it was based on the implicit assumption that defaults naturally tend to slide into mortgage failure, that this year's defaults were next year's repossessions. Although default is nearly always likely to precede aborted ownership, the fact that most default episodes represent a temporary cycle of mortgage difficulties, which is usually successfully resolved, makes default a poor predictor of mortgage failure.

How serious were the default experiences of urban purchasers and why did they occur? An analysis of the most recent default episodes experienced by home owners indicates that most of the episodes (55.3%) involved single payment delinquencies and short term defaults over at most two payments (23.3%). (See Table VI. 26.) In general, the pattern is one of short intermittent crises among owning families which temporarily impede the ability to make mortgage payments. In most cases the effects are not long-lasting and remain confined to one month of mortgage arrears. The most frequent reasons owners cited for default were related to the problems of living on a limited income, attempting to keep pace with normal family expenditures and outstanding bills, at the same time that sudden large expenditures -- for children's clothing, for Christmas shopping, for unexpected house repairs, and so on -- periodically interrupt the normal cash flow of family income. (See Table VI. 27.) The second most frequent reason for default was loss of employment, which curtailed income until the wage earner could get back on his or her feet. Medical

crises which incapacitated a wage earner or meant unexpected expenses were less frequent but significant. Family separation occurred only infrequently during the initial years of ownership, and was rarely the cause of default, hardly more so than the problems with house condition that caused a few families to default on their mortgages. Whatever the problems of "life at the margin" were that precipitated default, they had more to do with periodic income stresses than with any manifestation of family instability among owning households. Moreover, the "systemic" issues within the program, as reflected in dissatisfactions among owners with the condition of the house, only rarely triggered default.

When mortgage defaults were successfully resolved, as they frequently were, they were resolved rapidly with a double payment for the following month or two. In most instances, attempts by home owners to work out longer repayment schedules for more serious defaults, or partial payments to help recover the default gradually, were thwarted by mortgagees who insisted on full and rapid repayment. One home owner in Pittsburgh, who had been behind one month's payment and never defaulted previously, described his experience in the following way:

"I contacted the bank to tell them I was on strike. I offered to pay what I could afford that month. They refused. They wanted the full amount. When I went back to work, I sent a single payment for a couple of months. They kept returning my check and demanding a double payment right away. They didn't try to go along with us at all."

In other instances, the mortgagee demanded reimbursement for foreclosure efforts that had presumably been initiated, as well as full repayment of late mortgage payments. The example of a St. Louis home

owner, who was three months behind, and ultimately aborted ownership, seems typical:

"They tell me I had to pay some other kind of cost. I think they said foreclosing cost. But anyway it would amount to \$500 and I couldn't come up with that kind of money. They wouldn't let me just try to catch up my payment."

Despite HUD's concern with defaults under the program from 1970 on, the first steps to encourage or coerce mortgage forbearance and leniency among mortgagees were taken in late 1972 with uneven success. But the reports of owners indicate that the behavior of mortgagees, by and large, was such as to thwart the resolution of serious defaults, by refusing to adjust mortgage servicing procedures on behalf of the motivated owner, and consequently to promote their degeneration to mortgage failure. The frequently successful resolution of mortgage default is probably more to the credit of the 235 mortgagor than to the mortgagee. Nevertheless, the strictness of mortgagee demands for currency in payments and for integral rather than partial payments¹¹ undoubtedly served to clarify to 235 home owners -- particularly those who might be most tempted to fall into chronic, repeated delinquencies or defaults -- that mortgage payments were sufficiently unlike other bills to merit special

11. Usually on the grounds that any deviation from normal procedures increases the mortgagee's servicing costs. But mortgagees received a servicing fee of \$3.50 per month from FHA for each 235 mortgage serviced, a figure that made it profitable for many firms to attempt to build up large volumes of 235 mortgage servicing commitments. See OSTI, January, 1974, op. cit.

care. This factor may account for the rare repetition of default among the urban purchasers during the first few years of ownership; only one out of six owners who experienced default (15.7%) had been involved in more than one default episode.

The more serious default episodes that owners experienced, those episodes of two or more months duration, were triggered by a similarly diverse set of causes. (See Table VI.27.) But the reasons that purchasers gave for serious default episodes were more closely related to loss of employment than were episodes of less severity. Loss of employment accounted for one out of six delinquency episodes (16.1%), and for as much as two out of five (41.5%) serious episodes.¹² Thus, although loss of employment did not account for most of the serious default episodes, and they too were caused by a variety of factors, the kinds of income stresses that tended to lead to more serious default were more closely associated with income instability resulting from employment changes. To the extent that mortgage failure is a consequence of extended default,¹³ employment instability would seem to be one of the stronger factors contributing to aborted ownership.

In analyzing the incidence of default among the purchaser groups, it

12. The significance of this difference is between the .01 level and the .001 level, with chi-square = 8.2.

13. This is not always the case. For example, owners may give up their deed to FHA under "deed in lieu of foreclosure" arrangements without being in default at all.

is not surprising to find that default rates differed considerably among them, and that it occurred most frequently among the lower income minority purchasers. (See Table VI. 28.) This group sustained the lowest median income levels at purchase as well as over the course of ownership, and the highest dependency on public assistance. As a result, these households were likely to manifest the highest level of financial stress among the purchasers. But while they were more likely to fall behind in mortgage payments, they were somewhat less likely than other purchasers to go into more serious default beyond one month's delinquency. Though higher income minority purchasers were the most vulnerable to serious default, white owners defaulted with similar frequency despite their relative advantages in income and income gains over the course of ownership and experienced serious default more frequently than the most disadvantaged minority home buyers. These differences are striking in themselves but they also reinforce the observation that serious default may be more closely related to instability of income than to absolute level of income. Despite the higher degree of relative income poverty among lower income minority purchasers, a high rate of dependence on public assistance afforded them stable incomes. Those who were more dependent on wages for their livelihoods encountered greater difficulty in staying off serious default.

These observations concerning mortgage-related difficulties are further reinforced by purchasers' responses to a question asking for the kinds of difficulties they encountered in their lives over the course of ownership that they felt constituted a possible threat to continued owner-

ship. (See Table VI. 29.) Among the "intervening" difficulties reported, those related to loss of employment were far less frequent among lower income minority purchasers and consistently higher for the other purchaser groups. In general, lower income minority owners were less likely to experience any perceived threats to ownership as a result of intervening difficulties.¹⁴

These findings tend to shatter some of the more cherished stereotypes associated with the "life at the margin" theory of aborted ownership. Despite the fact those purchasers most closely resembling minority welfare families were the most frequently abused by the program, on the whole they evidenced a relatively high degree of mortgage stability compared to other 235 home buyers in terms of tendencies toward serious default. Their relative stability despite the frequent incidence of serious housing deficiencies at purchase also foreshadows some of the potential weaknesses in the "systemic" interpretation of mortgage degeneration: the data on defaults offer no indication that relatively large numbers of lower income minority purchasers were considering "walking away" from their homes.

To the extent that income or employment instability, rather than marginally low income levels, is a frequent precipitant of serious default --

14. It is unclear why white owners would cite medical difficulties as a potential threat to home ownership more frequently than minority owners. The higher incidence of public assistance among the minority households, which afforded them a greater degree of medical coverage under Medicaid, might account in part for these differences.

and, by implication, of mortgage failure -- the findings suggest that the local employment context is a potentially important factor in determining whether conditions favor sustained, viable ownership. It should also be recognized that employment-related problems are likely to constitute a greater threat to continued ownership for minority owners as opposed to whites. Despite the fact that employment crises occurred only slightly more frequently among higher income minority owners than among white owners, it can be expected that they had a more serious impact on minority wage earners because of discriminatory pressures in the job market and the generally lower skill levels among minority purchasers. This conjecture is further reinforced by the comparatively low income gains within this minority group over the course of ownership, a factor which also suggests that they had fewer assets than white purchasers to draw from when income sources were cut off. In that sense, the occurrence of a higher number of employment losses on the part of higher income minority purchasers, and the associated difficulties of recovering from job losses once they occur, undoubtedly contribute to the much higher rate of serious default among these purchasers.

I. Mortgage Failure

The sampling of urban purchasers turned up 17 families who had already aborted home ownership and no longer resided in the 235 homes they had originally purchased; another two families were still owner-residents but were deeply into default -- behind by 10 and 12 payments -- and

mortgage failure was imminent. While these 19 cases are an insufficient sample from which to draw generalizable analytic findings, and the interview tracking process did not permit tracing former owners who had moved to other metropolitan areas subsequent to mortgage failure, a cursory review of these cases of aborted ownership provides some useful indications of the incidence, characteristics, and causes of mortgage failure during the early years of the program.

A qualitative assessment of causal factors related to mortgage failure, based on a thorough reading of the interviews for the 19 cases, tends to confirm the multiplicity of causes associated with mortgage failure. (See Table VI. 30.) But the dominant reasons for aborted ownership centered on the condition or quality of the purchased house. Loss of employment ranked second as a contributing factor to aborted ownership, followed by insufficient income and family separation. By and large those families who had aborted 235 ownership, and who had been reached by the survey interview process, represented an early wave of "walk-away" foreclosures, a trend which would tend to confirm the fears stimulated by the 1970 disclosures of program abuses and the influence of systemic factors on mortgage failures occurring during the early stages of the program. To the extent that the problems of "life at the margin" contributed to mortgage failure, they were largely problems more frequently related to employment and insufficient income, than to other crises among owning families.

In most of the cases -- 13 out of the 19 -- mortgages were terminated within the first two years after purchase. Considering the average three-

year duration since purchase for most of the urban purchasers, the tendency for mortgages to fail soon after ownership or not at all -- the so-called Rayleigh effect -- seems to be potentially characteristic of the 235 program as well.

Moreover, it was common for owning families to have fallen behind in mortgage payments by the time their mortgages were terminated (13 out of 19 cases), most frequently well beyond one month's delinquency (11 out of 19 cases). It is nevertheless surprising that about a third of the families who aborted 235 ownership (6 out of 19 cases) were current in their mortgage payments at the time. When it was necessary to terminate 235 ownership, for whatever reason, most owners did it through established HUD procedures by giving up the deed in lieu of foreclosure (10 cases); in only 6 cases were owners forced out or about to be forced out by mortgagee foreclosure proceedings and in only 3 cases did owners abandon their homes without formal notice. Those who used the "deed in lieu" provisions were more likely to be current in payments; foreclosure and abandonment usually followed a period of serious default. In general, failing owners would have opted to sell had they been able to do so rapidly and without taking a loss. Though a majority (12 cases) thought market values for their houses were either stable or appreciating, most owners (14 cases) had found it difficult or impossible to sell the house. As a result, even in cases where negative equity was not in issue and sale was potentially possible, the difficulties involved in effecting a sale, and the time over which owners would have to carry the mortgage, led them to terminate ownership through other means.

The houses families vacated upon mortgage failure represented a mixture of ages without any clear pattern, though most -- 13 of the 19 -- had been purchased new. There was no significant tendency for much older housing to be associated with the occurrence of mortgage failure, as one would expect from age differences in house condition at purchase.

But unexpected patterns emerge in the incidence of mortgage failure among the purchaser groups. (See Table VI. 31.) The rate of aborted ownership was lowest (2.0%) among the higher income minority purchasers, the group that tended to fall into serious default most frequently, as against the average failure rate of 5.6 percent for the purchasers as a whole. Ironically, the highest failure rates (7.4%) were observed among the higher income white purchasers, who had the greatest advantages in terms of income and educational or occupational levels and who had secured the best of the 235 housing stock.

While there are methodological limitations that preclude broad generalizations from these findings, the trends are significant in several respects. Although in most cases mortgage failures were the result of dissatisfactions with house conditions, the walk-away foreclosures that were associated with speculator-dominated ghetto submarkets or the post-war existing submarkets were less significant in numbers than were house dissatisfactions occurring among relatively advantaged purchasers who, as a group, had fared best in terms of initial house condition. That is, among the purchaser groups failure rates seem to be inversely associated with the incidence of severe program abuses. More importantly, the trends suggest that the process of mortgage degeneration, whether an

abrupt termination by the owner or the gradual transition from default to mortgage failure, may be as much related to motivational factors -- the commitment to continued residence in the 235 house -- as it is to systemic failures in providing quality housing under the program or to the problems of marginal income. Higher income white purchasers manifested strong income and occupational mobility, particularly when compared to minority purchasers. Yet minority owners less frequently underwent mortgage failure, particularly those who were most vulnerable to employment fluctuations and serious default. The relative stability of minority owners in the face of greater adversity is, in part, an indication of the benefits they attach to 235 ownership and of the limited range of preferable options available to them.

It should be noted that these instances reflect mortgage failures at a relatively early stage of the program. As a result, they are likely to manifest problems in early adaptation to 235 purchase that led purchasers to believe they had made the wrong decision and to seek other alternatives by extricating themselves from the 235 house through whatever means available. In addition, they reflect the toll of intervening difficulties which led to involuntary forms of mortgage failure in spite of the owners' best efforts. By contrast, subsequent mortgage failures in the program may be somewhat different in nature, manifesting fewer of the problems of initial adjustment to ownership, such as owner realization of poor house conditions or high ownership expenses, and more of those problems related to changes in the income and employment situations among owning households.

J. A Diagnostic Analysis of Early Mortgage Degeneration

In designing a diagnostic analysis which would weight the relative contribution of alternative factors to mortgage degeneration during the early years of 235 ownership, the attempt is to use multi-variate regression techniques, in which specific independent variables serve as proxies for alternative hypotheses concerning mortgage degeneration -- the "life at the margin", the "systemic", and the "contextual" hypotheses already described. The structure of the dependent variable representing the degree of mortgage degeneration is presented in Appendix C. In choosing the independent variables, a good deal of selectivity was required because of the limited size of the survey sample. The following describes the alternative factors or hypotheses considered, and the independent variables used as surrogates for them:

Factor 1: the "life at the margin" hypothesis. This hypothesis postulates that low absolute income levels make home ownership tenuous because of periodic family crises -- loss of employment, major illness, family separation -- which make it difficult for relatively poor owners to recover their footing and sustain mortgage payments. Two proxy variables are used alternatively to represent this factor. The first is per capita income level over the most recent year of 235 ownership.¹⁵

15. Because of differential increases in income over the course of early ownership that strongly favored white over minority purchasers, current income levels were assumed to represent a more accurate indication of income resources during ownership than income levels at purchase. The per capita definition more readily incorporates

The second variable used is an index of the incidence of intervening difficulties, the occurrence of sustained loss of employment, major illness, or family separation during the course of 235 ownership, as reported by owners. (See Appendix C.) To the extent that there is a close association between mortgage degeneration and relatively low per capita income levels among owners or the incidence of intervening difficulties, the life at the margin proposition would tend to be confirmed.

Factor 2: the "systemic" hypothesis. This hypothesis -- the "walk-away" theory of mortgage failure -- asserts that the failures in the operation of the program were a significant contribution to mortgage degeneration, since they resulted in placing many purchasers in sorely deficient houses and in negative equity or declining market situations. Since the questions of changing market values of the house or its ultimate "saleability" were based largely on unverifiable purchaser estimates, an index of house condition at purchase was used as the surrogate variable for the "systemic" factor. In general, this index was closely correlated with purchaser perceptions of unfavorable market situations.

Factor 3: the "contextual" hypothesis. This hypothesis asserts that 235 mortgage default and failure are a consequence of local employment conditions which are unfavorable to lower-income home ownership. In that sense, the mortgage difficulties manifested in the program may be

family budget stresses related to the size of the household.

attributed to the fact that it was made universally available without regard to local economic conditions. In areas of declining employment or relatively high unemployment, owners may be unable to sustain earnings or to readily recover from temporary loss of employment. In addition, poor local employment conditions tend to weaken the house purchase market, as owning families consider moves to jobs in other cities or to cheaper housing while fewer households are in a position to purchase houses. A weakened demand against an increased supply may require owners to sell at a loss in order to move, making mortgage abandonment more feasible than a sale. Although local employment conditions are related to the dynamics of the "life at the margin" assumption, to the extent that such conditions account for mortgage degeneration independent of relative income levels or the incidence of difficulties among owners, the "life at the margin" hypothesis is nullified. For it suggests that under suitable local economic conditions, lower-income families are capable of sustained ownership. The variable which is used as a proxy for this "contextual" factor is the area unemployment rate in late 1973 for the metropolitan area in which the 235 house was purchased.¹⁶ As a whole, the metropolitan

16. It can also be argued that local housing market conditions have a potential impact on the viability of 235 housing. In tight local markets characterized by low rental vacancy rates, owners have fewer suitable housing alternatives to the 235 house even when a move is desired, and strong, persistent demands for homes are likely to sustain property values. In general, rates of default were observed to be significantly lower in tight market cities. But the tightness or looseness of local housing market conditions proved to be a less powerful contextual factor in the regression analysis than the employment variable. Because of sample size limitations, the housing market factor was eliminated from the diagnostic analysis.

areas sampled exhibited a good deal of diversity in the range of unemployment rates. (See Table VI. 32.)

Factor 4: the Rayleigh effect. From previous FHA actuarial experience, it has been observed that mortgage default and failure rates peak during the first three years of ownership and then subside. The owner who has not failed during the initial years of ownership is much less likely to fail subsequently. To control for the likelihood that short-term home owners are more likely to default than owners of longer duration, the duration of ownership was used as a variable which would isolate the contribution of 235 longevity to mortgage viability and allow for finer discriminations among the three competing hypotheses.

Results of the Analysis

Since the incidence of intervening difficulties targets those households that experienced particular hardships during ownership, it could be expected to have a fairly direct impact on mortgage viability and degeneration, more so than the other factors considered. As a result, it seemed advisable to conduct two regressions, one which excluded the intervening difficulties factor and another which included it.

The first regression was intended to illuminate the more general predictors of mortgage degeneration in the absence of any information concerning family difficulties. The results of this analysis are presented in Table VI. 33. The influence of the four factors on the dependent variable

for mortgage degeneration follows the expected directionality:¹⁷ the likelihood of mortgage stability increased with the duration of ownership, with the adequacy of house condition at purchase, and with the current income levels of home purchasers. The lower local unemployment rates were, the less likely it was that mortgage degeneration would occur. Although the four factors accounted for only 20 percent of the variance in mortgage outcomes, their relative contribution to these outcomes differed substantially. Local unemployment rates made the most significant contribution to negative mortgage outcomes, indicating that the "contextual" hypothesis received the strongest confirmation. That is, poor local employment conditions were the strongest predictor of mortgage degeneration; where employment opportunities were relatively scarce, it was more likely that owning families would fall into default and more likely that they would be unable to recover missing mortgage payments. The "life at the margin" hypothesis, represented by the income factor, received the weakest confirmation indicating that the broad income differences among owning families were not significant in differentiating those likely to abort ownership from those who could sustain ownership. This finding confirms an earlier observation that stability of income rather than absolute levels of income were more closely related to ownership

17. Higher values for the dependent variable for mortgage degeneration indicate greater mortgage stability over ownership, or lesser mortgage difficulties. Higher values for house condition at purchase indicate better housing conditions. The other variables are scaled in direct proportion to their magnitudes.

viability, and that higher income owners subject to fluctuations in employment were the most vulnerable to serious default. Although inadequacies in house condition at purchase contributed significantly to early mortgage degeneration, it would seem that walk-away foreclosures were less representative of early mortgage problems in the program and that involuntary mortgage failure resulting from unstable employment conditions were a more powerful explanation in terms of their contribution to mortgage degeneration.

When the incidence of intervening difficulties is taken into account in the second regression, it proves to be as fertile a predictor of mortgage degeneration as are local unemployment levels. The importance of house condition at purchase seems to be a secondary factor again, and differences in income level seem to have the least potency in accounting for mortgage degeneration. The paired problems of program abuses and of mortgage difficulties, which the program encountered early in its career, are more separate in nature than they are related; mortgage problems are less a consequence of programmatic events occurring prior to or at purchase than they are the consequence of occurrences exogenous to housing which affect the owning family subsequent to purchase.

While the diagnostic analysis is clear in ruling out the importance of the "systemic" assertion that program malfunctioning with regard to house condition was a primary influence on subsequent mortgage default and failure, it is less definitive in distinguishing between the cogency of "life at the margin" and the "contextual" contentions. However, the weakness of relative income levels -- among owners spanning a wide income

range -- as a predictor of mortgage degeneration tends to detract from the "life at the margin" argument which stresses the stereotypical association between poverty and instability. As has already been observed, the most marginal purchasers -- the lower income minority group -- were the least likely to fall into serious default. To the extent that the problems of life at the margin account for ownership difficulties in sustaining mortgage payments, they are primarily problems related to employment instability, which are reflected in both the index of intervening difficulties and in the unemployment rate index. In that sense, the diagnostic analysis points to the primacy of local employment conditions and employment difficulties among owning families as a consistent determinant of mortgage stability or instability. In short, the analysis can be interpreted as providing the strongest confirmation for the force of the contextual argument, emphasizing local employment conditions, in accounting for the mortgage difficulties experienced by owning families.

K. Projected Residential Stability

In general, home owners manifest a higher degree of residential stability than do renters,¹⁸ and the desire for such stability constitutes a frequent reason for the decision to buy a home.¹⁹ Among 235 purchas-

18. Cohen, op. cit.

19. Coons and Glaze, op. cit.

ers this expectation was fairly widespread; a majority of families (61.0%) had viewed the 235 move as a permanent one when they made their purchase decisions, and this view was particularly prevalent among minority purchasers and those at the lowest income levels. (Refer to Table IV. 21.) In addition to considering whether 235 owners viewed themselves as achieving the permanent residential consolidation they had expected, there are other key issues that relate to projected owner stability. The motivations of owners to either move or remain are important indicators of future movement and turnover within the program that may have significant implications for its viability and character over the longer term.

By the time of the interviews, after an average three-year period of ownership, roughly 8 percent of the urban purchaser sample had already moved from their homes, most having aborted ownership (5.6%) and some having simply sold their homes before moving elsewhere (2.7%). The highest rates of early mobility occurred among the lower income white purchaser group (See Table VI. 35.), representing mostly moves upon sale (7.8%) rather than mortgage failure (4.7%). Early mobility rates for higher income minority purchasers (2.0%) were the lowest among the purchaser subgroups; in light of the relatively high frequency of employment difficulties and serious default among that group, these home owners had maintained a remarkable degree of stability even over so short a period, partly accounted for the relatively high levels of satisfaction with both house and neighborhood. Lower income minority owners were the next most stable group, and nearly all moves on their part occurred

as a result of mortgage termination. Considering the high incidence of serious housing deficiencies they faced, this is not surprising. To the contrary, it is notable that so few chose to leave their homes

These mobility patterns during the early years of ownership also seem to be predictive of anticipated mobility patterns within the program, judging from the way home owners viewed their residential futures at the time of the interview. Roughly, one out of every five resident purchasers (19.9%) were either "thinking about" a move or "planning to move" when they were interviewed. The anticipation of a move was highest among the lower income white purchasers (25.9%), and lowest among higher income minority purchasers (12.8%), much in keeping with the pattern of previous moves. Among the two remaining groups, move anticipations were at about the 20 percent level. When purchasers were asked more specifically, "how much longer do you expect to live here?", the responses confirmed these general patterns. Within the next two years, about a quarter of the lower income white purchasers (23.4%) anticipated vacating their 235 homes and moving elsewhere; only a sixteenth of the upper income minority purchasers (6.2%) had similar expectations. (See Table VI. 35.)

Similar trends are observable in terms of the length of residency owners anticipated in the 235 houses they purchased. By and large, minority purchasers viewed their homes as a stable residence far more frequently than did white purchasers, and particularly so among the higher income minority purchasers. About 40.3 percent of minority purchasers see themselves as residentially stable for at the least the next 20 years

or permanently, while only 23.9 percent of white purchasers feel similarly. Among white purchasers, those with initially low incomes are again somewhat less likely to consider their homes a place of long-term residence -- for 20 years or more -- than purchasers with higher income resources from the start.

For whatever reasons, minority owners more frequently viewed the 235 house as a relatively permanent homestead than did white owners. And it has already been noted that they were more likely at the start to view the purchase move as a permanent one. (Refer to Table IV. 21.) However, it needs to be recognized that the expectations of residential stability among all the purchaser groups at the start were substantially reduced after the early years of 235 ownership. The three-fifths of the purchasers (61.0%) who had hoped the purchase move would be a permanent one at the start had been reduced to less than a third of the owners (30.0%) over the course of early ownership. However well or poorly the 235 program functioned over the early years, it becomes apparent that it is not likely to provide the kind of stable residence that the formulators of the program and the participants had envisioned. Moreover, if the mobility plans that owners reported come to fruition, the likelihood of a high degree of turnover in the ownership of 235 houses is imminent over the near future. To understand the motives that account for the high mobility anticipations among 235 owners, it is necessary to examine the reasons they offered for their anticipated moves.

Among owners who already moved, the major reasons offered for the move were varied. Although the figures are too small to be statistically

significant, the rough indications are that early moves evenly divided themselves into three categories: those who decided to move in order to better their housing; those who moved because of intervening family difficulties; those who moved for a variety of other reasons. (See Table VI. 36.) By contrast, still resident owners who were considering a move seem to be predominantly motivated by housing betterment reasons associated with early dissatisfactions with the 235 house, or simply a desire for better housing, or a specific need for more space to accommodate household increases. To the extent that turnover in 235 residence is voluntary, rather than the result of intervening difficulties which force owners out under adverse circumstances, it is likely to be largely the consequence of preferences among 235 owners for better and larger houses than the ones they originally bought.

In that sense, it is not surprising that white purchasers with initially low incomes manifest the strongest mobility tendencies among the purchaser subgroups. Limited income resources at the time of purchase undoubtedly constrained house choices in a way that forced them to sacrifice possible preferences for price advantages. It has already been observed that this group stretched its budget to the maximum in order to secure desirable housing, but that tendency reinforces the assumption that these purchasers had strong preferences which might not have been fully realized in the initial 235 purchase. The subsequently high income mobility among lower income white purchasers during the early ownership period no doubt was a factor contributing to the high actual and potential house mobility within this group, as were some of the more serious inadequacies

in new house construction under the program. The fact that only a relatively small portion of this group (9.5%) perceived themselves to be in a negative equity situation after purchase, and a number of those had already aborted ownership at the time of the interview, further suggests that market conditions will support the mobility preferences of these owners. (See Table VI. 37.) The lower mobility tendencies among the higher income white purchasers, despite more favorable market conditions in 1973, suggests that this group was better able to exercise its preferences in the initial choice of the 235 house. The "way-station" conception of the 235 house as an initial investment toward a succession of subsequent purchases of superior houses is most apt for white purchasers with initially low incomes, and more true for white purchasers in general than for minority purchasers.

By contrast, minority purchasers manifested a higher tendency toward residential stability, actual and potential, even when market conditions and their positive equity positions favored mobility. Higher income minority purchasers perceived their equity positions to be negative only slightly more frequently than did the lower income white purchasers, yet they retained the highest tendency toward residential stability among the purchaser subgroups. A high degree of satisfaction with 235 residence, limited income mobility that constrains house mobility, possible discriminatory constraints on alternative opportunities, as well as a possible preference among these owners for long-term residential consolidation which mitigates the potential advantages or utility of successive moves, are factors which in combination may account for this difference in move

orientations.

Minority purchasers who were at the lower income levels will tend to move more frequently, but at a lower rate than the most advantaged white purchasers. Their relative residential stability, despite the fact that they were more frequently victimized by market abuses, is also a reflection of continuing low income levels and a high incidence of deficient houses in declining market areas which make a sale infeasible. That more of these families do not simply abandon their homes or offer the deed to FHA is a clear indication of the stresses to which they had been subject in the rental market which make their present ownership situations favorable in contrast. The response of a woman in St. Louis who had purchased an older house which was ultimately condemned is indicative:

"I want to be in my own house but not in something that has been condemned. Because all my life I have been living in old run-down houses and when you have children that is all you can get. I figure the only way I could ever have a decent home is to buy one... Now I'm right back where I started. I need a larger place. I don't have enough room for my family... I would like to ask you something. Will I ever be able to buy another home under the same plan?"

It is also indicative of the particular value of ownership tenure alternatives to rental among the most disadvantaged purchasers, even in light of the negative experience of the 235 program.

Chapter VII. MAJOR CONCLUSIONS AND POLICY IMPLICATIONS

The metropolitan survey of 235 purchasers, upon which this research is based, took place only a few months after the program moratorium was imposed. It is apparent from the thrust of the survey findings, and the analysis thus far, that the administration's misgivings about the program were not fully consistent with the ways in which purchasers viewed and assessed their own experiences in the program. The purpose of this chapter is to present a synthesis of the survey findings regarding the values and shortcomings of 235 ownership --- and, by implication, of lower-income home ownership programs in general -- as they might be assessed from the vantage point of consumer experience over the early years of the 235 program. The major foci of assessment are as follows:

(1) On the whole, how well or how poorly had the 235 program functioned with regard to a number of key criteria: in providing opportunities for residential betterment; in its impact on the family economy; and in providing positive, viable channels of tenure mobility?

(2) What can be said of the viability of home ownership for urban lower-income families, and of the primary factors that account for mortgage degeneration?

(3) What differences are there in the way the program functioned for different groups of purchasers?

(4) What can be learned from the 235 program with respect to future policies regarding tenure choice for urban lower-income families? What are the values of ownership-oriented policies for their potential lower-

income constituencies, and how can program mechanisms be improved in ways that avoid the shortcomings of the 235 program and enhance program equities and outcomes for lower-income purchasers?

A. Overall Consequences of the Initial Years of 235 Ownership

Despite the imperfections of the 235 program and the negative program experiences of many purchasers, the early ownership experiences of urban purchasers served to reinforce and strengthen their initial tenure preferences favoring owning over renting. Although a small core of owners (3%) expressed a preference for renting and a larger number (7%) found themselves indifferent to tenure after the early years of 235 ownership, a pervasive majority of 235 buyers (90%) clearly preferred owning to renting. Whatever the benefits or deficits of 235 ownership were, the program had provided a sufficiently positive channel of tenure mobility to convince purchasers, rather than disconvince them, of the comparative advantages of home ownership for themselves.

The generally positive shift in ownership preferences -- from 79 percent prior to purchase to 90 percent -- occurred most dramatically among minority home buyers. The 7 out of 10 minority buyers who had clearly preferred owning prior to purchase had shifted to 9 out of 10 after the initial years of 235 ownership. Although minority buyers had tended more than white purchasers to view ownership as a means to residential betterment rather than as an end in itself, although they far more frequently encountered the abuses and house deficiencies associated with the existing

housing sector of the 235 market, their first ownership experiences under the 235 program served to strengthen their preferences for owning to a level which matched the tenure preferences of other purchasers.

However, the positive attractions of home ownership, based on concrete experiences in the 235 program, are not accompanied by similarly strong attachments to the 235 house. Though three-fifths (61%) of the urban purchasers had initially viewed the purchase move as a permanent one, less than a third (30%) saw themselves, after the initial years of ownership, as remaining in the house for 20 more years or permanently. The fact that a majority (58%) expressed a preference for owning a house different from the ones they had originally purchased was consistent with the reasons given for anticipated mobility, most of which had to do with the desire for a preferable house with greater amenities, more space, or less of the deficiencies manifested in the condition of the 235 house. Though minority owners registered a stronger orientation to residential stability in the 235 house than did white purchasers, neither group had found the permanent home to the extent they had anticipated.

Thus, the 235 program had provided a positive channel of tenure mobility to the extent that it had provided families with initial ownership experiences that were sufficiently positive to convince them of the relative advantages of owning. But, for most purchasers it succeeded less well in providing the permanent residential base, the consolidation implied by "a stake in the community", that had been envisioned by those who had formulated the program. In part, this can be viewed as a consequence of administrative failures in the 235 program, most strongly manifested in

the poor quality and value of many 235 homes. In that sense, more effective and conscientious administration might have enhanced the stability of 235 residents. But the residential mobility orientations of owners are also an inherent consequence of upward income mobility among many families -- even among those initially eligible as "lower-income" households -- which affords them the subsequent opportunity to exercise their preferences for more desirable ownership housing no matter how sound the 235 house had been. This tendency accounts, in part, for the higher degree of anticipated residential stability among minority purchasers, whose income gains over the course of early ownership were substantially lower than those for white home buyers and whose homes were in substantially poorer condition. To the extent that the 235 program, and other possible lower-income ownership programs, provide "minimal ownership housing" -- that is, the minimal house amenities available in even the best of the 235 stock -- to families who can subsequently afford better houses, the program will tend to manifest a considerable degree of residential mobility and turnover over the long range.

Thus, the 235 program served as a positive channel of tenure mobility primarily in terms of providing many lower-income households with a "first purchase" opportunity for entry into the house purchase market. That it served subsequently as more of a "way-station" than purchasers had originally anticipated or wanted, and seemed in 1973 to have not produced the degree of residential stability that the program rhetoric called for, is only partly a remediable consequence of the administrative and market abuses in the 235 program. It is also an anticipated consequence

of income mobility within the context of a "minimal" home ownership program, a consequence which in itself is neither positive or negative in its implications for policies related to tenure choice.

In terms of its ~~impact~~ on the economy of owning families, the 235 program had somewhat more mixed results. Although the majority of urban purchasers (69%) estimated that their homes had appreciated in value over the early years of ownership, the possibility that a substantial portion of the purchasers -- from 11 to 25 percent -- found themselves in potential negative equity situations is a telling indication of the administrative malfunctioning of the program, considering the generally inflationary trends in urban purchase markets from the late 1960's on. Moreover, the investment benefits associated with the 235 house were strongly differentiated among the purchaser groups and regressive in their distributive effects. A large majority of white purchasers at the upper reaches of the eligible income range (85%) assessed that their homes had appreciated in value since purchase, and were generally satisfied with the 235 purchase as an investment. At the other extreme, minority purchasers at the lowest income levels were most frequently involved in negative equity situations, and had been "euchred" in the way that Secretary Weaver had forewarned during the early legislative deliberations. Nevertheless, among this group of purchasers over two-fifths (44%) saw their houses appreciating in value and, surprisingly, a two-thirds majority (66%) viewed their houses as good investments. The difference between these two estimates reflects differences in the perception of investment values among lower-income minority buyers, some of them taking a view,

which seems rural in its origins, that the house constitutes a permanent homestead with positive long-term equity accretion regardless of changing or declining market values. Ultimate ownership of property as such makes it a good investment without regard to the transfer value of the house in the market. Although this latter view is not a dominant one, it suggests that many disadvantaged households place a value on a permanent homestead and the holding of property that has little to do with more mainstream, market-oriented standards of the goodness of investment.

Although such positive views concerning 235 investment values were reported by the majority of 235 purchasers, and on investment grounds the program seemed to be succeeding much more often than it failed, it is difficult to overlook the fact that a substantial number of families under the program did not experience the investment benefits usually associated with home purchase and found themselves in homes they could not sell without taking a loss. The frequent occurrence of negative equity under the program so soon after purchase suggests that market fluctuations extrinsic to the program were less to blame than faulty inspection and appraisal procedures on FHA's part. Ironically, in the attempt to correct the abuses under the program, FHA suspended the sale of existing houses, thereby destroying the market in older neighborhoods where families often purchased on the assumption that the 235 program would ultimately succeed in revitalizing a declining rental area. However, to the extent that negative equities are directly attributable to recognized flaws in program administration, they are remediable and not inherent in any attempt to facilitate lower-income home ownership.

In terms of "out of pocket" housing cost burdens for mortgage and utility payments, the findings indicate that upon purchase most families experienced a considerable increase in cost burdens compared to the portions of their incomes they had been allocating to rental housing costs. And families at the lowest income levels carried the highest initial burdens. It is not unusual even among middle-income purchasers, that families stretch their budgets to the limit when they make a home purchase in the anticipation that future income gains will moderate the effects of initially high mortgage burdens. This pattern seems to have prevailed among 235 purchasers as well. Over the initial years of ownership, there were substantial income gains among most purchasers, except for higher income minority purchasers whose median income level increased only marginally relative to other purchaser groups, gains that offset the initially high cost burdens and brought them, by and large, to within the levels families had been accustomed to paying in their pre-purchase rental situations. Additional house-related costs beyond monthly mortgage and utility payments -- such as those for repairs, site improvements, house furnishings and appliances -- remained at similar absolute median levels of about \$600 for all the purchaser groups with obvious regressive effects for those at the lowest income levels who could least afford additional expenses. Assuming these expenses were paid over a two year period, with some interest on installments, they represent an additional annual cost burden averaging about 4 percent for higher income purchasers and 6 percent for lower income purchasers. As a result, total house expenditure burdens over the early years of ownership, when some of the "front end",

nest-feathering costs of home ownership tend to be high, were well in excess of pre-purchase rent burdens.

Thus, in terms of absolute outlays, and housing expenditure burdens relative to income, 235 home ownership was, by and large, somewhat more costly than the pre-purchase rental situation. While there is no evidence to suggest that 235 home ownership was more costly than comparable rentals for housing with similar attributes, or, for that matter, more costly than alternative rental situations families might have found themselves in had they not opted for a 235 purchase, the cost findings reinforce the perceptions among most owners (66%) that owning was indeed more expensive than renting.

However, the fact that families paid more for 235 ownership, even to the point of undertaking excessive cost burdens by most standards, is not in itself an indictment of the program from the consumer's vantage point. In positive equity situations, potential investment yields resulting from equity accretion and appreciating market values represent family savings which offset increased out-of-pocket costs. Naturally this economic rationale does not maintain for families in negative equity situations, whose increased housing expenditures offer no comparable investment benefits. But the strong consumption orientation among many home purchasers, which places a premium on the consumable benefits associated with ownership occupancy rather than the optimization of ultimate investment yields,¹ argues for an assessment of ownership cost burdens in terms of

1. Coons and Glaze, op. cit., for confirming findings.

their relative utility with regard to the consumption of what are perceived to be superior residential "goods".

When 235 ownership cost burdens are assessed, on a quid-pro-quo basis of perceived value for the consumer's dollar, the program seems to have been fairly successful over its early stages. Among the two-thirds majority of purchasers (65%) who found owning to be more expensive than renting, nearly all (87%) reported that owning was worth the increased costs. And the dominant reasons they gave suggest the diverse utilities they attached to ownership occupancy: owning as its own gratification (33%); superior housing amenities (30%); equity investment advantages (27%); and the autonomy associated with ownership (24%). Only a small proportion of the purchasers (8%) found owning more expensive and not worth the increased expense. In short, despite the difficulties 235 purchasers encountered in a federally mismanaged program and the high cost burdens extracted for ownership housing -- at times without compensating equity yields -- 235 owners either felt they were spending no more than they would for rental costs or nearly universally reported they were getting their money's worth in terms of the intrinsic utility or values they attached to ownership occupancy.

By adequist standards of physical housing accommodation, there were marked improvements in the housing situations of families as a result of the 235 purchase move. The two-thirds majority of families who had been living in overcrowded conditions (65%) was reduced to little more than a third (37%) after purchase. Although the survey was not able to provide an objective comparison of pre- and post-purchase housing condition,

when purchasers were asked to compare the current condition of the 235 house with that of the pre-purchase dwelling unit, three-quarters of the home buyers (74%) felt the 235 house represented an improvement, with more than half (56%) reporting that the 235 house was in "much better condition" than their previous dwelling.² However, one out of nine purchasers (11%) felt they were living under worse conditions as a result of the purchase move, and the remainder (15%) reported no change at all. But, by and large, urban purchasers were able to effect substantial reductions in the kinds of physical housing stresses they had encountered prior to purchase.

Shifts in residential satisfaction before and after purchase provide a more natural, consumer-subjective criterion of the degree to which urban purchasers associated the purchase move with their own residential betterment and clarify some of the residential gratifications they associated with ownership occupancy. (Refer to Table VI.12.) Reports of current housing satisfaction with the 235 house represented a substantial increase over retrospective judgments of the pre-purchase dwelling -- a shift from 55 percent of the purchasers to 78 percent. And increases in the incidence of housing satisfaction were most notable among minority purchasers, who had been more vulnerable to housing stresses in the rental

2. Minority purchasers were less sanguine with regard to changes in housing condition. About 17 percent of minority purchasers felt they were living in housing in worse condition, while only 8 percent of white purchasers felt similarly.

market. While shifts in neighborhood satisfaction were relatively marginal by comparison, they were also in a positive direction -- from 68 percent prior to purchase to 78 percent after the initial years of ownership. Moreover, minority purchasers reported increased neighborhood satisfactions far more frequently, in terms of improved physical and social characteristics associated with the neighborhood transition. In short, the 235 purchase move resulted in substantially improved residential conditions and increased residential satisfactions for owning families.

Despite the program's vulnerability on purely rational economic grounds, it seems to have been particularly successful in providing consumers with residential goods -- expressed largely in terms of tenure-related benefits and residential life improvements -- that they considered worth the costs and tribulations associated with the program. The particular calculus of values attached to home ownership among urban lower-income families is central to these issues. Whether one is critical of those values as an external observer -- as from the vantage point of Marx's "false consciousness" -- is less important than that many marginal urban families attach a functional importance to them within their own reality frames. In that regard, they share with the rest of mainstream society the behaviors, norms, and beliefs associated with upward residential mobility that have led to the massive metropolitanization and suburbanization of our urban areas. Although many 235 owners were straining their budgets to sustain home ownership, probably far more than families at the lower income levels should, it needs to be recognized that they themselves viewed it as a worthwhile cost in order to secure what

they consider a higher order of residential goods and values largely unattainable in the rental market, if one is to judge from their pre-purchase experiences. What is most remarkable is the apparent fact that even so imperfect a program as section 235 succeeded in providing many lower-income families with an opportunity channel for realizing and actualizing those values.

B. The Viability of Ownership

The benefits and gratifications that families derive from the move to ownership have also to be weighed against the ability of urban lower-income families to sustain ownership arrangements and obligations. Potential problems with the viability of home ownership for marginal urban families were recognized by the drafters of the 235 program who anticipated a 25 percent mortgage failure rate as an acceptable loss tolerance for the program. Actuarial projections made in 1973 -- before the ~~OPEC~~ inflation in energy prices and the onset of a deepening employment recession -- envisioned that program losses would remain well within those bounds.³ In that sense, the program could be considered to have succeeded against expectations in proving that home ownership was a viable housing arrangement for most lower-income families -- within the limits of acceptable losses -- even in the face of the additional problems incurred

3. HUD, Housing in the Seventies, op. cit.

by federal mismanagement of program efforts.⁴

The survey data concerning mortgage difficulties and ownership failure during the initial years of 235 ownership are useful in illuminating the nature and extent of mortgage problems among lower-income owners and in considering the ways in which such problems might be dealt with as an inherent aspect of lower-income ownership programs. To begin with, the evidence indicates that mortgage default was a common occurrence among 235 owners despite substantial income gains by many households over the course of early ownership. Nearly a third (30%) of 235 owners had fallen behind in mortgage payments at one time or another during the initial years of ownership. But, characteristically, these default episodes were short-lived or temporary in nature, without long-lasting effects in terms of sliding into more serious default or the ultimate abandonment of ownership. Among those who had experienced default at some point, about two-thirds (66%) were current in their mortgage payments at the time of the survey interviews or, in a few cases, had already effected a sale of their homes without failing as mortgagors.

It would seem that mortgage default, in itself, is a poor predictor of either more serious default or subsequent mortgage failure. Most default episodes (55%) involved a one-month delinquency in payment, resolved without more serious consequences through a double payment the follow-

4. What had not been envisioned, and what helped make even acceptable default and failure rates a source of subsequent controversy, was that owner failure came to be associated with house failure as a result of program abuses and maladministration. That is, when an owner failed, additional federal losses were incurred in bringing the house into resellable condition.

ing month. Another quarter of the episodes (23%) went as far as a two-month default, which was usually resolveable if the mortgagee was sufficiently tolerant of late payments. The incidence of repeated defaults was rare. Characteristically, default episodes were triggered by temporary income stresses among owning families, usually as a result of unexpected cash flow problems (36%), loss of employment (26%), or medical problems (17%). And most owners were able to recover their missing mortgage payments within a month or two. The more serious defaults -- episodes of two or more months duration -- were similarly diverse in their causes, but more frequently related to loss of employment (42%) and the time required to find alternative employment.

While the multiplicity of problems associated with "life at the margin" account for the onset of default episodes, specific problems associated with employment instability are more closely related to attenuated default. In that respect, minority purchasers at the lower income levels constitute the strongest counter-example to the "life at the margin" stereotype of mortgage difficulties. They constituted the most disadvantaged subgroup of purchasers, in terms of low occupational and educational attainment levels, in terms of low median income levels at purchase and only marginal income gains over the course of ownership, in their degree of dependence on public assistance rather than wage earnings. Moreover, they were most vulnerable to the worst program abuses which left them with houses in poor condition and often with negative equities. Yet, despite the fact that they were involved in one-month mortgage delinquencies more frequently than the other relatively affluent purchaser

groups, they were less likely to slide into more serious default. The vulnerability to loss of employment seems to be a more potent cause of serious mortgage degeneration than chronic income poverty.

The diagnostic analysis of mortgage degeneration gives further credence to the above conjecture and tends to confirm most strongly the emphasis placed on local employment conditions in the "contextual" interpretation of mortgage degeneration. Although the regression analyses upon which this assertion is based were not definitive in explaining the full variation in the incidence of mortgage degeneration, the weighting of the factors is most consistently in a direction which would confirm the strong influence of local unemployment rates on the likelihood of serious default and its progression to mortgage failure. (Refer to Tables VI. 33 and 34.) This relationship is more dramatically presented in tabular form in Table VII. In metropolitan areas of relatively high unemployment, both the rate of default and of serious default are considerably higher.

The regression analyses also provide some confirmation of the "life at the margin" assertion in that the incidence among families of intervening difficulties during ownership -- employment problems, major illness, family separation -- is one of the factors that contribute substantially to the mortgage degeneration process. But the sense of the "life at the margin" interpretation, with its emphasis on the poverty syndrome, is somewhat diluted by the weak relation between low relative income levels and mortgage degeneration. This is most strikingly illustrated by the relative mortgage stability of minority purchasers at the lower income levels, who more than other purchasers represented the stereotype of the marginal

TABLE VII INCIDENCE OF DEFAULT BY METROPOLITAN
 AREA UNEMPLOYMENT RATE*

	<u>Low Unemployment (less than 4%)</u>	<u>Moderate Unemployment (4.0 to 4.9%)</u>	<u>High Unemployment (5% or more)</u>
% purchasers who experienced default (1 or more payments) during 235 ownership	25.1% (n=203)	21.0% (n=67)	55.2% (n=67)
% purchasers who experienced serious default (2 or more payments) during most recent default episode	9.4% (n=203)	11.9% (n=67)	19.4% (n=67)
Metropolitan Areas:	Denver Indianapolis Louisville Milwaukee Rochester Washington, D. C.	Omaha Pittsburgh	Seattle St. Louis

*Source: U. S. Department of Labor, Area Trends in Employment and
 Unemployment, October, 1973.

owning family in the controversies that arose during the implementation of the 235 program. By and large, employment instability among the better-off 235 owners who were dependent on wages, further exacerbated by a poor local employment context in which it was difficult to recover rapidly from a job loss, provide the most potent explanation of serious mortgage problems occurring during the initial years of ownership. In that sense, the analysis confirms both the contextual interpretation of mortgage degeneration and a qualified, predominantly employment-oriented "life at the margin" interpretation.

Surprisingly, the analysis gave relatively low weight to the "systemic" interpretation of early mortgage degeneration in the program, in that the condition of the house at purchase was less important than local employment conditions or intervening difficulties among owners. Though dissatisfactions with initial house condition accounted for most of the instances of aborted ownership uncovered in the survey, initial house condition had less of a systematic relation to serious default and mortgage failure as a whole. What the evidence suggests is that an initial wave of walk-away foreclosures did occur, as predicted during the early disclosures of abuses, but that the wave was of more finite duration and extent than had been anticipated. This is confirmed by the relative stability of lower income minority purchasers who were most frequently subjected to the program's worst abuses. The evidence leads to the conclusion that the problems of mortgage degeneration during the initial years of the program were less the product of systemic program mismanagement prior to purchase than the result of difficulties exogenous to the

program that families faced after purchase over the course of early ownership.

The usefulness of this analysis in assessing the viability of lower-income ownership over the longer-range should be qualified. For instance, the legacy of the poor quality of houses provided under the 235 program may be an increasing number of "house failures" over the years which owners either cannot afford to mend or will not care to mend. If that is the case, then the early wave of walk-away foreclosures may be only the tip of an iceberg of increasing mortgage failures which are "systemic" in their origins. The evidence over the early years of ownership indicates that owners were able to bring about a considerable number of improvements and repairs to the condition in which they found their houses at purchase, particularly those families who had either purchased new homes or whose income gains during ownership enabled them to afford major repairs. In that sense, the motivation for appropriate maintenance of the house was manifestly present, even when purchasers could ill afford the associated costs. But whether the houses will adequately withstand the wear they receive over the life of the mortgage remains an open question which cannot be fully addressed in this research.

Nor is it easy to project the effects of the combined inflation and employment recession over the years subsequent to the relative national prosperity from 1968 to 1973, the years over which the consumer survey data spanned. On the one hand, it can be expected that the recent inflation in house prices will have some positive effects in appreciating the value of 235 properties even among those which represented negative

equity situations for owners during the early years. This trend suggests that 235 purchasers fared much better than their rental cohorts in that ownership will have served as an effective hedge against inflationary rent increases. Moreover, it is likely to increase the incentive for improvements in the house, and for longer-term residential stability.

On the other hand, the effects of a deepening recession and rising unemployment are such as to increase the likelihood of serious mortgage problems and rising losses, despite the best intentions of owners. They are also likely to sharpen the differences in mortgage performance among urban areas representing different employment contexts and differing trends in economic growth. The survey evidence indicates that even during the relative prosperity of 1968-1973, problems related to employment instability and poor local employment conditions had the strongest observable influence on mortgage degeneration during the early years of ownership. In that sense, these are inherent risks in lower-income ownership programs against which acceptable loss tolerances have to be considered as natural or inevitable companion costs of the program -- as they were in 1968 -- depending on both national and local economic conditions. To the extent that the risks of employment instability and its consequences can be reduced in any future lower-income ownership programs, the viability of urban lower-income families as home owners will be correspondingly increased.

C. The Distributive Effects of 235 Ownership: Differential Program Functions and Consequences Among the Purchaser Groups

In assessing the relative validity of the adequist, relativist, and functionalist views of tenure choice policy from the vantage point of consumer experience in the 235 program, it is necessary to recognize the diversity that was manifested both in the program's lower-income constituency and in the distribution of program benefits among the different kinds of purchasers. Moreover, an understanding of the distributive tendencies of the open market ownership program that the 235 program represents is useful in the formulation of future policies which will better serve the purpose of distributive equity.

Much of the preceding analysis points to the differences in the way the 235 program performed for different kinds of purchasers and to the difficulty of speaking in general of the values or dysbenefits consumers derived from the program or the consequences it held for them. Similarly, the term "lower-income families" subsumes a variety of households or families functioning under different life conditions and manifesting differing housing values and tenure orientations, differing expectations of the program and, consequently, differing ways of perceiving and using the program as a housing opportunity. To understand how and why the 235 program performed as it did from the purchaser's vantage point, it is useful to develop a synoptic understanding of alternative consumer scenarios that compose the program's experience. To do so requires a disaggregation of purchasers into appropriate but artificial classifications that make for meaningful differences in consumer experience. It has been

the assumption of the survey analysis from the start that race and income are the most useful dimensions for differentiating among purchasers and their consequent experiences. The purpose of this section is to summarize and synthesize the previous analyses by purchaser group, so defined, as a way of sharpening some of the already apparent differences in program functioning among purchasers.

(1) Minority Purchasers at the Lower Income Levels

Pre-purchase housing situations among these purchasers were those which are characteristically associated with urban families at relatively low income levels, who are frequently dependent on public assistance for the support of relatively large households and have only limited opportunities in the rental market. As a group, minority purchasers at the lower income levels bore the greatest housing deprivations prior to purchase -- high cost burdens, overcrowding, and poor basic housing conditions -- and were more likely than other purchasers to be located in public housing and to be dissatisfied with their rental situations in terms of both housing and neighborhood.

Though most of these purchasers shared an early preference for ownership over rental tenure, in common with the other purchaser groups, these preferences were not as pervasive among lower income minority purchasers. It is not surprising that most of these purchasers cited housing or residential betterment as the most important reason for deciding to buy rather than benefits more directly associated with ownership tenure

itself -- its goal-fulfilling aspects or its investment advantages. That is, in contrast with white purchasers, these families took a more pragmatic view of purchase opportunities provided under the 235 program, seeing it more in terms of upward residential mobility than tenure mobility and, in that sense, as a way of extricating themselves from unsatisfactory and exploitative living conditions associated with their previous rental situations. It can be said of this group of purchasers that the "push" of earlier residential stresses was a more compelling motive for their ownership moves than the simultaneous, seductive "pull" of home ownership.

Perhaps because of their relatively low familiarity with home ownership, they attached less importance to the tenure aspect of the move and also tended to be more naive about the relative expense of owning over rental. A substantial majority tended to view the ownership move as a permanent one from the start, as an opportunity to establish a stable residential base. That they tended to view the 235 house as less of a "way-station" to a better house in the future and more as a permanent homestead, and that some maintained the view that any equity in real property constitutes a form of long-term savings, partially explain their relative lack of concern with shorter-term, potential investment yields. In addition, their urgent needs for better alternative housing undoubtedly created pressures among these families to trade-off for immediate residential benefits against less palpable equity considerations in their purchase decisions.

The house choices made by these purchasers differ substantially from those of the other purchaser subgroups, in that only a small proportion

of the houses were newly-constructed and most were much older houses over 30 years old. The fact that lower income minority purchasers were largely constrained to choices among existing housing submarkets in some of the older neighborhoods of the core city is the result of a complex of causes. Having limited income and relatively poor income prospects, they tended to be priced out of the more expensive, newer housing provided under the program, and could afford only the depressed prices in the city's declining neighborhoods. Moreover, field studies of the program indicated the presence of discriminatory barriers to minority families seeking purchase in some of the new 235 subdivisions. In addition, their heavy reliance on real estate brokers in the house search process, coupled with inexperience in purchase, urgent needs, and suppressed aspirations and knowledge in relation to alternative housing and locational opportunities, all of these factors combined to make them easy victims of high-pressure sales tactics and of speculator-dominated housing submarkets. It was largely the purchase experiences of these families that crystallized the evolving national image of the program with the disclosure of program abuses in 1970, a skewed image in the sense that this group of purchasers constitutes less than a quarter of urban purchasers in the metropolitan sample.

One of the saddest ironies of the 235 program is that it provided the greatest dysbenefits to the most disadvantaged purchasers. Roughly a third to a half of the lower income minority purchasers ended up in inadequate, seriously defective houses under conditions of negative equity. Nor were these compensated by relatively lower cost burdens; because of

their marginal income gains over the course of ownership they continued to bear the highest housing cost burdens among the purchaser groups.

Yet, the perceptions and behaviors of these purchasers over the early years of ownership indicate that they viewed their 235 ownership experience more positively than the external facts would suggest. This discrepancy between external programmatic judgments and consumer assessments of their own experience is evident in a number of respects. Since purchasers who had been subjected to program abuses were able to take advantage of HUD's "deed in lieu" arrangements and give up their houses without further penalty, and any purchaser could presumably abandon a home -- as some did -- after a "rent-free" period of extended default, it can be said that 235 owners "voted with their feet" in deciding whether it was better to remain in the 235 house, whatever its shortcomings, or better to move elsewhere. In that respect, the high degree of stability among lower income minority owners over the course of early ownership and their relatively high degree of anticipated residential stability in the future are strong indications that they found much that was of value in 235 ownership. Although fewer maintained their original expectation that the 235 move would be a permanent one, lower income minority purchasers remain one of the more stable purchaser groups even in face of serious house deficiencies and high cost burdens. Moreover, the incidence of serious defaults was lowest among these purchasers and the observed rates of mortgage failure were lower than those observed among higher income white purchasers.

In part, the relative stability of ownership among lower income

minority purchasers was related to their income stability; many families received public assistance and were therefore insulated from severe employment and income fluctuations which would otherwise promote serious default and possible mortgage failure. But, to a large extent, their tenacity as 235 owners is explicable in terms of their negative, previous experiences in the rental market, their subsequent realization of the comparative advantages of even an imperfect ownership situation, and their growing commitment to sustained home ownership. Despite their frequently negative experiences in the program and their initially low familiarity with and preferences for ownership, nearly all lower income minority purchasers (92%) preferred owning over renting after the initial years of 235 ownership -- though fewer (34%) preferred to own the same homes than did the other purchaser groups (45%). Although nearly a third of these owners registered some degree of dissatisfaction with the 235 house and neighborhood, as a group they made significant advances in their physical housing accommodations and in residential satisfaction, compared with their assessments of pre-purchase housing and neighborhood conditions. The major benefits they attached to home ownership were largely in terms of ownership itself, particularly its independence from whatever intrusions landlords and other tenants represented, and in terms of quality of life improvements associated with stable residence and with better living conditions for family and children.⁵ Though they

5. Many of these owners reported an abortive cycle of repeated moves preceding the purchase move, and frequent abrasive experiences with landlords and other tenants, often having to do with the numerous children in the household. The sense of having found a refuge in the 235

registered some degree of dissatisfaction with the costs and responsibilities attached to ownership, and with the 235 house itself, their discontents were no more pervasive than those expressed by other purchasers. And like other purchasers, they considered the comparative advantages of ownership to be worth the increased cost.

Viewed within the context of the perceptions and life conditions of lower income minority purchasers, rather than from the vantage point of externally-imposed programmatic standards, the program had functioned to provide significant benefits to these purchasers that they felt were not attainable in the rental market. If they were displeased with their houses, as they frequently were, they nevertheless felt they had made significant improvements in their living conditions as a result of the 235 purchase.

(2) White Purchasers at the Lower Income Levels

The pre-purchase situations and prospects of lower income white purchasers were somewhat less extreme than those of minority purchasers at similar income levels. Income prospects were good, as evidenced by the substantial gains they realized over the early years of ownership. Though one out of six such purchasers received income from public assistance, the substantial majority of them manifested a high degree of upward income mobility within the limits of their full earning potential.

house was apparent in many cases, and reverberated in the "house-as-haven" theme in Rainwater, "Fear and House-As-Haven in the Lower Class", op. cit.

Nevertheless, limited incomes prior to purchase had severely constrained their housing choices, and their pre-purchase housing situations were characterized by a relatively high degree of housing deprivations -- inadequate space, high rent burdens, and poor housing -- as well as a high degree of dissatisfaction with both housing and neighborhood. Their difficulties in finding suitable housing within a limited income is evidenced in their high degree of residential mobility prior to purchase; they tended to move far more frequently than the other purchaser groups.

Despite their suppressed incomes, and the consequent difficulties they experienced in their pre-purchase rental situations, they possessed a strong familiarity with home ownership deriving from other owners they knew well and their own family backgrounds, the strongest degree of familiarity among the purchaser subgroups. Their tenure preferences prior to purchase were more strongly oriented to ownership than were those of other types of purchasers. Although they generally lacked the income resources to achieve home ownership in the unsubsidized purchase market, it may be said of this group that they viewed home ownership as an important expectation and goal in its own right, as well as a solution to some of their pressing housing problems. The 235 program proved to be an opportunity to instrument those goals, and the dominant reasons they cited for deciding to buy were multi-faceted, but concentrated largely on tenure-related reasons -- home ownership for its own sake and for equity investment advantages -- as well as on expected quality of life improvements. In contrast with minority purchasers at similar income levels, their dominant purchase motives reflected a high tenure mobility orienta-

tion, expressed in terms of the intrinsic values they attached to ownership tenure itself rather than a more direct concern with its consequences for residential betterment. But most of these purchasers shared with minority purchasers the expectation that the 235 move would be a permanent one, although over a third expected to move at some point in the future. They were also far more realistic than the other purchaser groups about the increased expenses that ownership would involve. However, most such purchasers had the initial expectation that owning would be cheaper than renting.

The most dramatic difference in the way the 235 program functioned for white and minority purchasers at the lower income levels is in the house-age submarkets in which they purchased. A majority of lower income white purchasers -- about two-thirds -- purchased new houses, and far fewer purchased pre-war houses more than thirty years old in the older neighborhoods of the city. This is a striking indication that limited income was not in itself a major barrier to entry into the newer subdivisions, as were possible discriminatory practices and the dynamics by which minority families tended to confine themselves to the older submarkets. Unlike minority purchasers at similar income levels, white purchasers seldom relied on real estate intermediaries; they had more resources to rely upon during the purchase process and usually found their homes through acquaintances or through their own search efforts.

More than other purchasers, they seemed to be willing to stretch their budgets to the limit in order to be able to afford a preferable or more expensive house. These purchasers tended to have a stronger

neighborhood orientation, in that they had experienced strong neighborhood dissatisfactions prior to purchase and were more likely to trade off lower house prices for what they perceived to be neighborhood advantages in their purchase choices. This sensitivity to neighborhood choice -- probably based on social judgments -- undoubtedly reinforced their tendency to undertake higher costs in order to exercise their preferences. However, their willingness to take on high mortgage obligations in order to optimize their purchase choices was not unrealistic, since many such purchasers could expect income gains over the near future that would bring high initial cost burdens to within the affordable range. Although, as a group, they experienced the highest initial ownership cost burdens, these burdens dropped considerably over the initial years of ownership to a level below that of minority purchasers with similar incomes at the start.

Nevertheless, their choice of new and post-war housing did not protect them from program shortcomings in the provision of sound housing. Although they were subject to fewer market abuses than minority purchasers at similar income levels, nearly a third of these families found themselves at purchase in houses which were defective on several counts. The used houses they purchased bore the effects of deferred maintenance, though they seldom represented the "falling apart" syndrome associated with cosmetic speculator rehabilitation. And the new houses they purchased were among the most poorly constructed in the 235 new house submarkets -- reflecting the lower prices these purchasers could afford for new homes -- and rapidly showed evidence of "corner-cutting" by

builders during the initial period of occupancy. However, over the course of early ownership, these purchasers showed substantial improvements in the condition of their houses, both as a result of their ability to extract some repairs under builder warranties and as a result of their own efforts. (As a group, they possessed a fairly high level of skills in making their own repairs.)

By the time of the 1973 survey, most of these purchasers (77%) assessed their houses as good investments, and about two-thirds estimated that the house had already appreciated in value. However, a relatively small proportion (from 10 to 15%), small in comparison with lower income minority purchasers, were either uncertain about their equity position or felt they were already in a negative equity situation.

As a group, these owners registered substantial increases in housing satisfaction as a result of the 235 move, but almost half of them continued to be dissatisfied with the house, particularly with its poor quality and the lack of adequate space. The degree of neighborhood satisfaction among them changed only marginally from its pre-purchase level, with major discontents expressed concerning the social composition and character of the 235 neighborhood.

The early 235 experience had reinforced the already strong ownership preferences among purchasers in this group, and many of them cited the direct gratifications of ownership status itself as well as the superior quality of life it afforded. Home ownership seemed to be worth the high expenses involved. Nevertheless, these purchasers manifested the highest rate of turnover and anticipated mobility among the purchaser sub-

groups. Observed mortgage failure rates were only moderate compared to the other purchaser groups, but the observed rate of sales during the initial years of ownership were substantially higher. By 1978, less than half of these purchasers expect to be living in the 235 houses they had originally bought. The major reasons given for already completed or anticipated moves in this group were house-related -- strong dissatisfactions with the 235 house, a desire for a better or a larger house, or, at times, for a house that represents a better investment. In this regard, a number of responses in this purchaser group expressed a concern with whether the new houses they had bought would outlast the mortgage, and registered a decision that it was perhaps better to sell early and "pull out" during a period of appreciated equity before the wear on the house made it unsaleable. Most of the turnover among these owners seemed to be voluntary rather than the result of intervening family difficulties which made it impossible to keep the 235 house. Although lower income white purchasers had experienced a greater incidence of intervening difficulties during ownership than had minority purchasers at low income levels, primarily as a result of periodic loss of employment, these were reflected in higher rates of serious default rather than greater tendencies to abort ownership.

As a result, the high rate of residential mobility among this group is less a reflection of problems families had in sustaining their viability as owners than it is a consequence of consumer perceptions that residential and ownership situations provided under the program fell below their expectations and what they could ultimately afford. With rising incomes, and the possible realization of some profit in the early sale of their 235

homes, they could afford a subsequent purchase that came closer to meeting their residential aspirations. Though most of these purchasers had originally expected to make a permanent home of their 235 houses, the program seems to have functioned, however imperfectly, as a first-purchase opportunity, increasingly perceived as a "minimal ownership" situation, a way-station to preferable ownership accommodations. The high income mobility within this group, starting from low initial income levels, produced a high degree of residential mobility.

(3) Minority Purchasers at the Higher Income Levels

These purchasers comprised the smallest sector of the metropolitan sample of urban purchasers (14%). They differed from other minority purchasers not only in terms of their income, their higher occupational and educational levels, and their greater reliance on employment as a primary source of income, but in their pre-purchase housing characteristics as well. They carried the lowest pre-purchase rent burdens, compared to the other purchaser groups. Though they experienced far fewer pre-purchase housing deprivations than families at the lower income levels, whether minority or white families, they were more vulnerable to overcrowding and poor housing conditions than white purchasers at similarly high income levels. Roughly half of these purchasers expressed dissatisfactions with their housing situations prior to purchase, and their discontents were focused on the poor quality of the units they occupied and the lack of adequate space or privacy. Though discontents with the pre-

purchase neighborhood were not as pervasive, about a third of these purchasers had been dissatisfied, largely with characteristics of the neighborhood that made them unsuitable contexts for children.

Despite their higher income levels, these purchasers were similar to other minority purchasers in their relatively low familiarity with home ownership and in their tenure preferences prior to purchase. Nearly a third (29%) initially had no distinct preference for ownership over rental tenure. Their dominant reasons for deciding to buy under the 235 program were related to residential betterment and improved living conditions for their families, and only secondarily to home ownership as a goal or to its potential investment advantages. In contrast with white purchasers, they manifested a relatively uncertain commitment to home ownership and a primary residential orientation. Like most lower-income purchasers, they tended to expect that owning would be cheaper than renting and that the 235 move would be a permanent one.

As a group, the higher income minority purchasers tended to distribute their house choices across different types of metropolitan submarkets, without characteristically concentrating in any one. About a third bought new houses, another third chose post-war housing, and the remainder the houses available in older urban neighborhoods. The prices they paid reflect a degree of practicality on their parts, for they ended up with the lowest initial cost burdens among the purchaser groups. It also reflected an accurate assessment on their parts of their income prospects over the near future; they made only very marginal income gains over the initial years of ownership, far less in proportion to their purchase

incomes than any of the other groups. Nevertheless, the move to ownership represented a substantial increase in the relatively low housing cost burdens they were accustomed to carrying.

Surprisingly, despite their higher income levels at purchase, they fared no better than purchasers at lower income levels in the initial condition of their houses. About a third of the houses were defective on several counts. Unlike lower income white purchasers, over the course of the initial years of ownership their houses show relatively little improvement in condition. Undoubtedly, the fact that they tended to buy used homes rather than new ones meant they could not rely on builder warranties as most white purchasers could, and that it was somewhat more difficult to correct the defects due to deferred maintenance over the short term. In addition, their very marginal income gains during the course of ownership and a high rate of periodic disemployment accompanied by serious default, compared to the other groups, limited the resources they had available for improvements in the house.

However, they fared much better than lower income minority purchasers in terms of the investment aspects of their purchase decisions, and in that regard they are roughly on par with lower income white purchasers who bought newer houses. By the time of the 1973 survey, about two-thirds estimated that their houses had already appreciated in value over the purchase price; the proportion of those who were uncertain about their equity position or estimated a negative position ran between 13 to 19 percent. That they fared as well as they did in their investments against other minority purchasers is probably due to their greater tendency to disperse

their housing choices across a variety of locational submarkets and to move outward from the oldest neighborhoods to post-war and new housing subdivisions. In this regard, a number of them may have found the preferable neighborhood settings they had wanted for their children. Moreover they relied less frequently on real estate brokers and more on their own efforts or those of people they knew. In short, their greater "span" of the metropolitan purchase market made them less likely to constrain their choices to the more abusive speculator-ridden submarkets in minority neighborhoods. Although they were no more familiar with ownership than lower income minority families and they had numerous house-related problems to contend with, they ended up in much sounder market situations.

Survey responses indicated that higher income minority purchasers secured the greatest increases among the purchaser groups in housing and neighborhood satisfaction as a result of the 235 move. Though open-ended responses concerning the sources of satisfaction or dissatisfaction uncovered a good many discontents with the basic quality and specific features of their homes, the neighborhoods they had purchased in proved to be a considerable source of residential satisfaction -- in both physical and social terms -- to a greater degree than was evident among other purchasers. Though they had nearly doubled their house-related cost burdens, an increase in cost burdens that outdistanced the other purchaser subgroups, many had found the superior residential settings they were looking for. And like other purchasers, they nearly universally felt that the move to ownership was worth the increased costs.

The 235 experience, despite its hazards, had resulted in a substantial shift in tenure preferences among these purchasers, toward a preference for owning that matched those of other purchasers and overcame some of the uncertainties or doubts about ownership that a number of them had originally held. The major benefits they associated with home ownership were, as in the case of other purchasers, with the intrinsic values of home ownership itself -- largely its autonomy -- and with the benefits of a better life for their families. However, they were somewhat less imbued than were white purchasers with the gratifications of ownership itself and more likely to emphasize its quality of life advantages. Surprisingly, they were somewhat less concerned than other purchasers with the cost dysbenefits of ownership, and it may well be that the relatively high rate of appreciation in the value of their homes -- a median rate higher than those of other purchaser subgroups -- gave them more assurance that they would realize the costs in increasing equity savings.

Though many higher income minority purchasers could take advantage of their positive equity positions to further optimize their residential preferences through a second purchase -- as many lower income white purchasers seemed about to do -- they remain the most residentially stable of the purchaser groups. Their responses concerning anticipated moves in the future yielded the highest rate of relative permanence or residential stability among the urban purchasers. Moreover, the 1973 survey uncovered no sales among this group and the lowest frequency of aborted ownership.

However, the viability of these owners is not without threat. It is

generally acknowledged that problems of unemployment and employment instability -- the last hired first fired syndrome -- are disproportionately high among discriminated minorities, and this pattern is reflected in the relatively high rate of intervening employment problems among this group of owners.⁶ This pattern undoubtedly accounts for the high rate of serious default among higher income minority purchasers compared to those for the other purchaser groups. That so few of these owners had lost or sold their homes when these difficulties occurred indicates the ability of many of them to recover and find re-employment without falling irrevocably far behind in mortgage payments. However, white purchasers at similar income levels had fewer employment problems yet manifested a much higher frequency of sales and aborted ownership. In part, these differences are explicable in terms of the marginal income gains among higher income minority purchasers, which served to constrain their range of alternative ownership opportunities and inhibit the kind of turnover manifested among white purchasers whose rising incomes enabled them to consider better opportunities. But the relative viability and stability of higher income minority owners is, to a great extent, indicative of a much deeper commitment to sustaining ownership of their 235 homes and of the substantial residential benefits and satisfactions they associate

6. The fact that as many as a quarter of the households received income from public assistance makes their relatively high rate of employment instability an understatement of the kinds of employment problems wage earners in this group encounter in contrast with white purchasers who were employed.

with it. Perhaps more than any of the purchaser groups, the early ownership experiences of higher income minority families reflect the values of stability, equity, and enhanced family life that formed the images, rhetoric, and policy objectives -- "the new dawn for our cities" -- during the original legislative passage of the 235 program.

(4) White Purchasers at the Higher Income Levels

White purchasers at the higher eligible income levels constitute the dominant consumer sector (44%) of the urban purchaser sample despite the strong image of Section 235 as "home ownership for the poor" and as a predominantly minority-oriented program. These purchasers are characterized, in contrast with the others, by higher educational and occupational levels, as well as higher incomes and a rare dependence on public assistance. As a group, they possessed a considerable degree of upward income mobility, as evidenced by income gains during the early years of ownership, though not as great as other white purchasers whose incomes at purchase had not yet approached as close to their earning capacity. In their pre-purchase residential characteristics, higher income white purchasers experienced the fewest housing deprivations -- usually high rent burdens or overcrowding, rather than poor condition -- and unlike the other purchaser groups, most expressed a degree of satisfaction with their pre-purchase housing and neighborhood. Their dominant dissatisfactions were with space and privacy issues and specific features of their rental units, rather than with their basic condition. Sources of

neighborhood satisfaction prior to purchase were varied, and their discontents had no dominant focus.

For this group more than any of the others, the "push" factors of poor residential conditions were probably weakest as motivations for the 235 purchase. They manifested strong tenure preferences toward home ownership before the move, as well as a high degree of familiarity with ownership. As a result, it is not surprising that their dominant reasons for deciding to buy had to do nearly exclusively with tenure mobility, in terms of the transition to ownership as well as its potential investment and cost advantages. That they cited residential motives and family life improvements so seldom, in contrast with the other groups, is further confirmation that these had not been pressing issues in their pre-purchase housing histories and were more likely to be taken for granted.

Had they been able to buy a suitable house prior to the 235 program, undoubtedly many would have done so. Even at their relatively high income levels, they tended to be priced out of the unsubsidized purchase market. But, considering their subsequent income gains, a number of them would have been able to effect a later purchase without benefit of the 235 program. In that sense, the 235 program enabled many of them to make an earlier entry into home purchase than they otherwise would have been able to. Moreover, their expectations of the 235 move differed sharply from those of other purchasers in that fewer than half of these purchasers viewed the move as a permanent one. For them, much more than for the other purchaser groups, 235 ownership was perceived from the start as a way-station toward the purchase of a preferable house in

the future. In short, their orientation to the 235 move is characterized by a high degree of tenure mobility as well as upward residential mobility, the latter indicating an ultimate move toward more optimal ownership residence than they felt the 235 program could provide.

Their income levels and prospects, as well as the advantages of membership in the white majority, indicate that they had the pick of the 235 housing crop. These characteristics also made them the preferred purchasers on the part of the more respectable 235 house suppliers. In their house search, they seldom relied on brokers and found their houses largely through builder advertisements, their own search efforts, and the advice of people they knew. Nearly all bought new houses at the higher purchase price levels available in the program; less than one out of six purchased existing homes, and these were usually of post-war vintage. As a result, these purchasers proved to be far less vulnerable than others to serious house defects at purchase. By the time of the 1973 survey nearly all of their homes were free of any serious inadequacies, a problem which continued to plague about a quarter of the other purchasers.

Though they experienced some increase in their housing expenditures relative to their incomes, not surprisingly they had secured the soundest investment values among the purchaser groups. A solid 85 percent of them estimated that their houses had appreciated in value during the initial years of ownership, and only a small fraction -- from 2 to 5 percent -- were uncertain or negative about their equity positions. Increased levels of housing satisfaction were observed among this group of purchasers, and were more consistently related to positive aspects of the

house than for the other subgroups. While as a group they experienced somewhat higher levels of neighborhood satisfaction as a result of the move than did other white purchasers -- who were often negative about the social characteristics of the 235 neighborhood -- they registered far less change in this regard than did minority purchasers as a whole, who experienced the strongest and most positive neighborhood transitions.

Some increase was evident in their already strong tenure preferences for home ownership; their 235 experience had persuaded more of these purchasers of the comparative advantages of ownership and dissuaded few. More than any of the others, these purchasers found the strongest benefits of home ownership to be ownership itself, and were more likely to mention its positive investment advantages. A substantial proportion also mentioned improvements in the quality of life associated with ownership. But they were as strong in their dislike of the costs and responsibilities of ownership as other purchasers. Nevertheless, their early 235 experience was more unqualifiedly positive, on both objective and subjective grounds, than it was for the other purchaser groups and there were few discrepancies between what these purchasers had expected and what they had obtained.

Despite their relative income advantages and their strong footholds in their ownership situations, owners in this group manifested a good deal of difficulty in sustaining ownership over the initial years of the program. About one out of nine owners experienced serious default, a rate comparable to families with lower incomes at purchase, though less than the rate for minority owners who had been at similarly high income levels

from the start. Observed frequencies of mortgage failure had the highest incidence in this group, and seemed to be caused by a combination of factors: serious defects in the house, employment problems, and family separation. Those few who found themselves in poor houses or in negative equity situations tended to abort ownership without exception, usually by giving up the deed to HUD. Others experiencing employment or personal difficulties sometimes found their houses difficult to sell on short notice, and left their homes after an attenuated period of default, leaving the problem of turning over the house to HUD or to the mortgagee. In part, the threats to the viability of these owners were most closely related to employment fluctuations. However, unlike other purchasers, those who found themselves in sorely inadequate houses were quick to evacuate them. Both the higher standards they were accustomed to and their access to suitable alternative housing opportunities, in contrast with many minority owners, lessened their commitment to sustaining 235 ownership. It is likely that once the early "walk-away" mortgage failures subside, the cumulative failure rate among these purchasers will be substantially lower. But they are not likely to be stably situated in their 235 homes. As they had anticipated prior to purchase, a majority expect to move elsewhere within 10 years after the 235 purchase, though they will be somewhat more stable than white purchasers at the lower income levels. For most of these purchasers, the 235 program will have functioned to provide an earlier entry into home ownership than would otherwise have been possible and a way-station in which they could consolidate equity savings that will allow them to further optimize their residential choices.

D. Validity of the Adequist, Relativist, and Functionalist Perspectives

The motives, behaviors, and perceptions of urban purchasers over the course of their early careers in the 235 program display important trends and differences among the purchaser groups that are not fully accounted for within the framework of either the adequist or relativist perspective of tenure. By adequist standards of physical housing accommodation, most lower-income families fared better as a result of purchase opportunities than they had in their previous rental situations -- in terms of reduced overcrowding and perceived improvements in dwelling condition. Nor did those families who were housed most poorly by the 235 program, specifically lower income minority purchasers, seek to return in great numbers to the rental market to secure preferable housing accommodations. The survey data are a telling indication of the paucity of decent housing opportunities for lower-income families in the rental markets of many of our major urban areas.

The irrelevance of tenure choice within the adequist framework, and its nearly exclusive emphasis on rental opportunities, overlooks what seems to be the considerable potential of a subsidized purchase market in providing channels of housing betterment for many families. This seems particularly true for minority families, among whom the conditions of the rental market tended to be viewed more negatively than some of the worst abuses of the 235 program, and who tended more than white purchasers to view the 235 opportunity primarily as a means toward upward residential mobility rather than tenure mobility. In that sense, the find-

ings tend to confirm Ford's observations of black families in Harlem for whom home purchase opportunities were less a manifestation of a quest for ownership than a practical way of securing preferable residential conditions.⁷ Despite the pervasive flaws in the 235 program, by and large purchasers viewed themselves as better housed as a result of the program.

Though adequate standards of acceptable housing cost burdens were violated in most instances of 235 ownership, it is important to recognize that ownership burdens were not significantly greater than those families carried in their prior rental situations. In that sense, the choices purchasers made corresponded to their income expectations and to the kinds of budget allocations for housing they had been accustomed to.⁸ Most importantly, though ownership extracted high costs from many families who could ill afford them, most felt that owning was worth the additional expense. The utility families attached to ownership occupancy, and whatever diverse benefits and gratifications it represented when compared with the conditions of tenancy, is a factor which is notably absent from the calculus of adequate standards.

The strength of ownership preferences and motives among urban lower-income families is apparent both from previous studies and from the reasons that impelled families to participate in the 235 program.

7. Ford, op. cit.

8. This was less true of higher income minority purchasers who, as a rule, had carried far lower rent burdens prior to purchase.

And these preferences were reinforced and strengthened by the 235 ownership experience regardless of the problems that frequently attended it, even among minority purchasers who reported a greater degree of disinterest in home ownership from the start and whose program experiences had been the most exploitative. From the relativist perspective, which views social norms of housing and residence as primary factors in identifying the nature of housing problems and appropriate policy responses, the survey data tend to reinforce the importance of home ownership as a mainstream norm and aspiration which is strongly shared by urban lower-income families. This is apparent not only in the tenure preferences of 235 purchasers, but even more strongly evident in the dominance of "owning" as a key motive for purchase and one of the signal gratifications of house ownership itself. That is, "owning" itself is perceived as a significant housing status and achievement in its own right -- a position or state of mind that has its own attendant gratifications -- apart from the purely residential benefits that were often associated with ownership occupancy or its potential equity yields. Indeed, for some 235 families "owning" continued to be a primary source of gratification even in the absence of acceptable housing conditions (by adequist standards) or positive equity in the 235 house.

However, the diverse priorities that compelled families to decide to purchase under the 235 program give pause to a relativist formulation which would incorporate home ownership as a universal norm to be embedded in housing policy. The "urge to own" is not nearly as universal or pervasive as the term would imply. Both strong tenure mobility

motives and residential betterment motives were evident in the reasons families gave for considering a move and deciding to buy. But families differed in the priorities they attached to the two; half may be said to have been primarily tenure-oriented, the other half primarily concerned with the better living conditions they expected would be consequent to the purchase. These differences were most apparent between white and minority purchasers, with white purchasers the more tenure-oriented of the two groups, and minority purchasers on the whole more concerned with preferable residential conditions. This can be interpreted to mean that white families did not think of themselves as having to buy in order to obtain acceptable residential conditions which they took more for granted. The rental market served them better than it had served minority families, who, as a result, more frequently perceived purchase as one of the few channels or opportunities available for extricating themselves from what to them were the abortive conditions associated with rental tenancy. That is, the differences in purchase orientations may be accounted for, in part, by the racial stratifications that maintain in the rental market. The presence of decent rental opportunities, that represented the decent residential life by relativist norms, might have persuaded a number of 235 families -- particularly minority families -- to refrain from undertaking a purchase and to forego the gratifications of home ownership. Thus, while tenure choice is a critical aspect of a relativist approach to housing policy, and home ownership was an over-riding motive and aspiration among 235 families, the survey evidence strongly suggests that there is substantial diversity in the degree to which tenure-related norms

are significant among urban lower-income families and that the attainment of norms related to satisfactory living conditions -- those families consider will enhance their lives -- are likely to assume more universal importance.

Moreover, the importance which the relativist formulation places on broad societal norms of acceptable housing and residence needs to be strongly qualified in terms of the differing articulation of these norms that is manifested in the behaviors and perceptions of the various purchaser groups. While broadly-held beliefs concerning the values of home ownership and the good life in residential terms were compelling influences among all of the urban purchasers, they took on different manifestations and visible forms among the home buyers. For instance, many of the older houses purchased by lower-income minority families were a far cry from mainstream images of the good suburban life or even of sound housing by adequate standards, yet they constituted a "step up" for many families in terms of attaining ownership, in establishing a relatively stable or permanent homestead after repeated moves, in providing more indoor and outdoor space for large families and preferable neighborhood surrounds, in greater privacy, and -- importantly -- in extricating oneself from the dependence on often negligent or intrusive landlords. If the supposed joys and benefits of home ownership were diluted by worries and cares about the house and keeping up mortgage payments, the program had functioned nevertheless to provide better living conditions -- for family, for children -- than the rental market could offer, and each mortgage payment could be seen as contributing to increased long-term equity in

property whether or not the investment proved to be economically rational. In short, despite the distributive inequities minority purchasers suffered under the 235 program, it had functioned nevertheless to alleviate some of the key residential stresses encountered by them within the rental market, as well as to provide some of the tangible and intangible benefits associated with ownership. While the program failed in both adequate and relativist terms in providing acceptable housing, it had succeeded on several important functional grounds.

By contrast, white purchasers manifested behaviors and orientations more consistent with mainstream patterns of upward residential mobility. Budgets were stretched to the limit, particularly for white purchasers at the lower income levels, to afford the newer, higher-priced homes available under the program that came closest to conforming to the suburban ideal. To the extent that the 235 program worked well by external norms or standards of ownership residence, it worked best for white purchasers, particularly those at the higher income levels from the start. The dynamics of the 235 purchase market made them owners of newer homes in suburban settings, with fewer house defects in consistently stronger, appreciating markets. Yet white purchasers were far more likely than minority owners to move from their 235 homes during the early years of ownership and in the anticipated future. They were not the stable home owners who had been envisioned during the legislation of the 235 program. In part, this trend toward greater residential mobility can be seen as a consequence of their greater upward income mobility in contrast with minority owners, and the range of alternative ownership opportunities

available to them as a result. But it can also be seen as a consequence of differences in subcultural norms, that white purchasers were more attached to the widely-held societal norms of residence posited by the relativist view, as well as having greater resources with which to achieve them. That many white purchasers tended to view 235 as minimal home ownership -- below acceptable norms -- is most apparent in the fact that they were far less likely at the start to think of the purchase move as permanent. This was most characteristic of higher income white purchasers among whom more than half had realized from the start that the 235 house would be a temporary home. While white owners viewed residential mobility as a means of optimizing their strong residential preferences, minority owners tended to place greater value on the residential stability that ownership would afford and were more likely to make do with houses that would "satisfice" rather than optimize their preferences for the benefit of long-term stability.

These differences in norms among the lower-income purchasers, most visibly manifested between white and minority home buyers, are not differences in perceived norms so much as differences in the way in which such norms come to be differently transformed into behavioral norms,⁹ depending on the situations and life conditions facing the group in question. To the extent that the relativist perspective does not take

9. For an explanation of the differences between perceived norms and behavioral norms, see the articles by Herbert Gans and Lee Rainwater, in On Understanding Poverty, edited by Daniel P. Moynihan, op. cit.

into account the different manifestations of behavioral norms and residential life preferences among different subcultural groups, and, consequently, ignores what these groups perceive to be acceptable or optimal housing forms from their own vantage point -- regardless of how they visibly compare with mainstream norms -- to that extent the relativist perspective can be seen to have ethnocentric overtones.

The differences in ownership behavior and orientations between minority and white purchasers are differences in degree rather than categorical differences. However, to the extent that they exist, they give credence to a more disaggregated, functionalist interpretation of the role of tenure mobility, which distinguishes among urban lower-income families in terms of the particular life conditions they face and the role of housing and residential arrangements in ameliorating those conditions. Given the more intense housing deprivations among modest-income minority families in the urban context, and the greater constraints on the range of alternative housing opportunities, it is not surprising that they would attach higher utility in home purchase -- or in any other channel of housing change -- simply to the prospect of solving their most pressing housing needs: obtaining decent or better living conditions, a more acceptable residential context for children, and a degree of residential stability they were not able to find in tenancy. While they also aspired to mainstream versions of home ownership, more closely approximated in the newer 235 subdivisions, their limited income prospects and the presence of discriminatory barriers, coupled with a suppressed knowledge or familiarity concerning how to negotiate the purchase market, made such aspira-

tions relatively abstract when compared to the more pressing housing needs that could also be solved through alternative purchase opportunities more accessible to them.

The functionalist perspective, with its emphasis on how housing functions within the particular socio-economic contexts in which families find themselves, provides a more cogent explanation of the diverse forms which 235 ownership took among different groups of purchasers, of the diverse values and priorities attached to home purchase, and of the different, but nearly universal satisfactions it offered, even in the most "deviant" cases and in the face of pervasive imperfections in the 235 program. In that sense, the differences in economic and social position that distinguished lower-income white purchasers from lower-income minority purchasers, rather than differences in preferences or aspirations, best account for the observed differences in 235 program outcomes. Circumscribed choices, limits on income mobility, opportunity constraints both in the employment and the housing markets, provide minority families with fewer resources and channels through which to optimize their housing consumption against mainstream norms of which they are as cognizant as are whites. In addition, repeated frustrations in the housing market, and a greater vulnerability to employment and income fluctuations, discourage the risk-taking associated with optimizing ownership choices and encourage minority families to place more of a premium on the satisficing benefits of what they already own, as well as to place a higher value on residential stability and residential consolidation. The greater upward income mobility and broader housing opportunities

available to white purchasers are a spur to upward residential mobility which more closely approximates middle-class norms, even at the cost of some degree of residential instability, in contrast with the "minimal" home ownership afforded by the 235 program.¹⁰

In short, the experiences and orientations of lower-income families who participated in the 235 program display important differences by race and income, that are not fully accounted for in the more monolithic generalizations and prescriptions of either the adequist or the relativist perspective. The functionalist perspective, with its emphasis on social and economic position as an important and key differentiator in housing values and behaviors, more fully accounts for observed differences among 235 purchasers and for the differential functions the 235 program, and tenure mobility in general, served among urban lower-income families.

E. Policy Implications

Consumer Values Inherent in Lower-Income Ownership Policies

Despite the imperfections of the 235 program, the findings concerning early consumer experience confirm that from the vantage point of the consumer there are considerable values and benefits to be derived from future policies geared to lower-income home ownership in the urban

10. The gradations in perceived housing functions -- house as haven versus house as presentation -- have been related to social class gradations. See: Rainwater, "Fear and House-As-Haven in the Lower Class," op. cit.

context. Among the major benefits are:

(1) Better living conditions.

The variety of problems purchasers had with their houses from the start should not obscure the fact that they were able to make substantial improvements in their living conditions as a result of participation in the program. Overcrowding was considerably reduced, and a substantial majority of owning families reported improvements in housing condition and in housing-related satisfactions. Moreover, for minority households and for large households, these improvements in housing accommodation had been difficult to obtain in the rental market. In that sense, home purchase opportunities represented a channel of upward housing mobility for these households that did not exist within the rental housing sector.

The reasons for satisfaction with 235 housing were frequently associated with the amenities afforded by the single-family house: a larger amount of interior space as well as the advantages of exterior site conditions that made available more space for outdoor activities for both children and adults. It is not surprising that levels of housing satisfaction rose considerably over pre-purchase levels, particularly among minority purchasers, and that owners found quality of life improvements to be one of the strongest benefits associated with ownership in terms of enhanced family life and a preferable milieu for raising children.

The 235 move nearly always involved a change in neighborhood as well as a change in housing. In general, levels of satisfaction with the neighborhood represented an increase over their pre-purchase levels.

But such increases were somewhat more marked among minority purchasers, for whom the program had undoubtedly provided preferable locational opportunities which were not as accessible in the rental market.

Whatever the dysbenefits of home ownership were for urban lower-income families, even an ownership program as imperfect as Section 235 resulted in substantial improvements in residential living conditions and satisfactions for families who participated in the program. That so few families returned to the rental market or planned to do so in the future despite high ownership cost burdens and subadequate homes is not only an indication of the gratifications families found in home ownership status. It is also an indication that the preferable residential conditions they sought were made more accessible even in a minimal home ownership situation. Had the 235 program provided adequate administrative safeguards, undoubtedly the perceptible improvements in housing condition would have been even higher. Future ownership policies, ones that are better formulated as a result of the lessons learned from mistakes of the 235 program, can be expected to have an even greater yields in terms of the improvement of residential conditions for urban lower-income families.

(2) The advantages of equity accretion as family savings.

Since the potential equity investment advantages inherent in home ownership are obvious, the question is whether these advantages can be realized in ownership programs geared to urban lower-income families. In the aggregate, the 235 program did not work as poorly in this regard as

its national image would suggest. By 1973, after the initial years of ownership, most 235 purchasers (69%) estimated that their homes had appreciated in value since purchase by at least 5 percent; little less than half (45%) estimated an appreciation of at least 15 percent, even over that short period of time. If Secretary Weaver's cautionary concerns about the potential "euchring" of the poor in a home purchase program were taken to be predictive of pervasive trends in the 235 program, on the whole his concerns were not reflected during the early years of the program; the "typical" 235 purchaser found himself or herself in a positive equity position and could expect to profit from the possible sale of the house. While the equity investment effects of the program were regressive in their distribution among purchasers, with minority families at the lowest income levels suffering the greatest losses in much older homes in declining neighborhoods while higher income white purchasers buying new homes manifested the most consistent pattern of market appreciation, these disequities in the program seem to be largely the aftermath of 235 program abuses and maladministration.

In that sense, the spectre of negative equity is not an inherent part of any lower-income ownership program. More effective and conscientious administration would have served to reduce these inequities in the 235 program. At present, the recent inflation in house prices in most urban areas can be expected to extend to many 235 submarkets, as it did during the early stages of the program. In that case, the number of owners in positive equity positions can be expected to have increased since 1973, as will have the extent of appreciation in market values. Although the 235

program was seriously flawed in failing to provide many purchasers with sound homes in healthy submarkets, the generally positive direction of the early results are indicative of the potential equity yields that might be realizable, short of a major depression, under more effective ownership programs.

(3) The achievement of a preferred housing status.

The findings uncovered in other studies, that indicate the presence of strong home ownership motives and preferences among marginal urban families, are generally confirmed in this study. Among most minority purchasers and many white purchasers at the lowest income levels, the blind "urge to own" was least apparent in the sense that their decision to buy was primarily dominated by priorities related to the improvement of living conditions and only secondarily to tenure mobility. Nevertheless, the simultaneous presence of strong ownership preferences and desires was undeniable. Home ownership and "the better life" in residential terms were closely related in the perceptions of urban lower-income families.

Despite the hazards of 235 purchase and the frequent and persistent frustrations during the initial years of ownership, the experience served to reinforce and strengthen ownership preferences among nearly all purchasers, even in the face of strong discontents with the house and the recognition that it was substantially more expensive than renting. Most tellingly, the strongest benefits attached to 235 ownership were the gratifications of owning itself. These were expressed most often in terms of

self-evident values associated with "owning your own home" to be taken at face value, or in terms of increased autonomy, or a new-found sense of pride or achievement. Minority owners deviated somewhat from this pattern of responses in that they stressed the autonomy aspects of ownership more frequently as a way of gaining independence from the pressures and prerogatives imposed by landlords and housing authorities; they were far more sensitive to the authority relation implicit in tenancy and more positive about the prerogatives that home ownership afforded them.

But whatever the initial seductions of home ownership had been, its primary benefits after the early years of ownership were perceived as those intrinsically related to ownership tenure itself rather than what it meant in purely residential terms. Even a minimal ownership program such as 235, with its deficiencies and imperfections, had served to make that clear to families who had experienced its mixed blessings.

Destratification of Ownership Subsidy Programs

The survey data provide a clear indication of the tendency of the 235 program to develop sharp stratifications, by income and race, in the distribution of its benefits, to the point that it is difficult to generalize about the functioning of the program without taking into account the differential experience of particular purchaser groups. In the distribution of locational opportunities, the attributes of housing condition or quality, and consequent investment or equity benefits, the program served least well

its most disadvantaged group of purchasers -- minority families at the lowest income levels -- while, at the other extreme, higher income white purchasers reaped many of the benefits the program had to offer. While it is possible to discount the maldistributive effects of the program as inescapably tied to the "nature of things" in public policy¹¹ or to account for them as interplay of individual choices and preferences within the market of opportunities and, therefore, beyond public intervention, there are a number of ways in which the potential stratifying effects of future ownership programs might be minimized:

(1) Change in the subsidy formula.

The interest-rate subsidy formula under which the 235 program operated tied the amount of the subsidy to the capital costs of the house, thereby guaranteeing potentially higher subsidies to those purchasers who could afford the higher priced homes. The consequence was to reinforce income stratifications within the 235 purchase market, by constraining the lowest income families to cheaper houses, while it enabled higher income families to aggregate themselves in the more expensive 235 submarkets. Since urban minority households have lower income levels than white households, the income stratifying effects of the interest subsidy formula also served to reinforce racially segregative forces within the purchase market and to produce locational stratifications by house-age submarket, which relegated the cheaper, older housing in the

11. The "them what has, gets" principle.

centrally-located neighborhoods to minority purchasers and newer housing in outlying subdivision to white purchasers.

The relatively high income gains among white purchasers during the early years of 235 ownership served to reduce or eliminate their initial subsidies. This pattern suggests that many purchasers at the higher levels of eligible income required only temporary, and shallow subsidies to enable them to make a first home purchase. In this regard, the regressive income-skewing effects of the interest rate subsidy formula represents a clear distortion of equitable distributive priorities expressed in the "maximum feasible" clause of the legislation. Alternative formulae which are need-based rather than price-based, which would distribute potential subsidy amounts progressively in terms of household income and size, are not difficult to come by and have been increasingly used in the more current housing assistance subsidies for existing rental housing. While a cost analysis or cost-benefit analysis of alternative subsidy arrangements is beyond the scope of this study, it is clear that a more progressive subsidy formula will exert a greater equalizing or destratifying effect in terms of purchase outcomes.

(2) Entry into the program: the license to buy

The distribution of 235 program benefits among the purchaser subgroups and the resulting stratification of program outcomes reflect, in large part, the procedures through which families gained entry to the 235 program. Under FHA procedures, the agency's first consideration of a potential buyer occurred upon the mortgagee's submission of a signed purchase and sale agreement for a specific house. As a result, builders,

brokers, and mortgage institutions -- the private sector -- became the primary "gatekeepers" for the 235 program, determining not only who was considered by FHA for eligibility screening, but also who was considered for which purchase opportunities. Under the conditions of high demand and limited supply which characterized the 235 purchase market, suppliers could pick and choose among competing purchasers in order to minimize possible difficulties FHA might raise about their qualifications or to discriminate between preferred purchasers and those who were considered undesirables. In some of the more desirable subdivisions there might be as many as three or four potential purchasers for each house,¹² and housing providers were free to do their own informal screening. If such screening prerogatives on the part of the private sector were not a primary cause of the resulting stratification of 235 program outcomes, they strongly reinforced a pattern in which minority families and the more marginal home-seekers were either excluded from the program or relegated to the less competitive submarkets consisting of older housing in the more centrally-located neighborhoods.

For better or worse, potential purchasers were tied to mortgage intermediaries or housing suppliers, even at the point when they were concerned about their very eligibility for the program. Not only could builders and brokers mislead purchasers into believing that opportunities were scarce and time short, they could decide whose application to process and conduct their own screening of potential buyers. A useful analogy

12. OSTI field interviews.

would be a system in which obtaining a driver's license was contingent upon a commitment to purchase a given car, and on the willingness of a car dealer to go to the trouble of processing your application -- particularly when there were other more easily qualified buyers for the same car.

Once a potential buyer made a commitment to purchase a given house, this reliance on private intermediaries extended through the FHA application and approval process. Communications concerning the progress of the application -- information needed to ascertain the buyer's credit standing and eligibility, the results of FHA's inspection and appraisal of the house (if it had not been already approved) -- took place largely between FHA and the mortgagee. The purchaser was left to rely on the mortgagee, the builder, or the broker both for "progress reports" and for advocacy of his or her case. Survey responses concerning the purchase process, among those families who made it into the program, frequently cited the uncertainty and delays involved in the screening process, misplaced reliance on the builder or broker for information regarding the condition or appraisal of the house, and the lack of information concerning other available opportunities under the program.

The stratifying potential implicit in these 235 procedures can be reduced in future ownership programs through more direct administration of the program vis a vis the consumer and through appropriate changes in entry procedures. If potential purchasers were to submit mortgage credit applications directly to the administering agency in advance of house selection, a determination of whether or not they qualify for the program

and the maximum purchase price or monthly mortgage payment for which they qualify could be made in advance of a purchase commitment. Once administrative approval is conferred, a certificate or license to buy could be used against any house within the purchaseable price range that met agency inspection and appraisal standards. To account for "window shoppers" or families who cannot find a suitable house, certification or licensing could be limited in duration to a period of several months in which either the purchase option is used or the certificate expires.¹³ Although some updating of credit credentials may be necessary upon purchase to take into account changing credit factors considered at initial approval, the process of purchase itself would be substantially accelerated.

The institutionalization of prequalification procedures would provide and regulate entry to the program for the targeted income range of eligible families, without skewing it toward the higher income levels, and contribute to a more equitable distribution of purchase opportunities. It would also create an administrative context for pacing program demand in accordance with available subsidies, and for dealing more directly and effectively with program consumers than did the 235 program. Consumer-oriented efforts might take several directions as part of the prequalification process: dissemination of information and listings on available purchase opportunities; descriptions of alternative neighborhood characteristics or profiles; information on how to conduct a house search and

13. Some of these procedures are currently in use in the Section 8 rental assistance program.

effect a purchase; information describing key differences between ownership and rental tenure and how to deal with possible difficulties encountered during ownership. Assuming such informational services can be effectively delivered, they can go a long way in equalizing purchaser resources at the start of the house search and in minimizing the potentially stratifying effects of differences in familiarity with purchase and ownership among participating families.

One step further in recognizing the importance of informed consumer choice in the program would be to set certain information prerequisites for participation in the program, with qualification for subsidized purchase contingent on passing an examination in much the same way that applicants for driving licenses are required to do. While this may be seen as an extreme form of assessing the competence of potential buyers, it is a recognition that purchase decisions be considered choices in the light of the conventional wisdoms that apply, and that such information is to the purchaser's benefit as well as the program's. Examinations have the further advantage of alleviating the need for potential purchasers to undertake unnecessary counseling or briefing sessions as prerequisite to ownership under the program; passing the test would constitute sufficient proof of knowledgability. Nor is it clear that disadvantaged purchasers would be penalized by such requirements, judging from the numbers of them who have obtained licenses to drive. In any case, both the arguments for prequalification of buyers and the simultaneous availability of a battery of consumer-oriented informational services are likely to lead to substantial improvements in the equitable distribution of subsidized

ownership opportunities.

(3) Access to alternative purchase opportunities.

No matter how well the distribution of locations and types of subsidized ownership opportunities is planned in an urban area, the kinds of locational and housing stratification that occurred under the 235 program will be difficult to avoid if potential purchasers do not have equal access to alternative opportunities, short of what their differences in income enable them to afford. Survey responses indicated that many purchasers were unaware of the range of alternative opportunities available under the program, and had grasped an early opportunity after only a limited search. The search process was often accelerated by high pressure salesmanship that led purchasers to believe that opportunities were few and if they did not act quickly the opportunity would be lost.

Disparities among purchasers in their level of familiarity with the intricacies of home purchase, and in their knowledge of the metropolitan housing market at large, account in part for the fact that many minority purchasers tended to purchase in the more familiar core areas of the city and were more likely to be captives of speculator-dominated ghetto submarkets. While there may be strong reasons for many minority purchasers to opt for more familiar and more centrally-located neighborhoods, and for providing ownership opportunities in both inner city and outlying areas, the survey data indicate that many such choices were constrained by limited information about alternatives.

In short, it is not sufficient to provide diverse residential opportuni-

ties, it is also necessary to develop program mechanisms which provide the required communication linkages between the potential purchaser and the available market of purchase opportunities. Such linkages include listings of available houses within the requisite price range, information about the neighborhoods in which they are located -- schools, transportation access, availability of shopping and other key facilities or services -- as well as possibilities for direct assistance in the search process. Although some of the voluntary counseling agencies associated with the 235 program performed a number of related functions, they reached few purchasers, lacked the resources required to carry out these functions systematically, and often had vested interests or ties to particular program constituencies and to particular areas of the city. Not infrequently, they were non-profit sponsors of 235 housing themselves. The provision of consumer-oriented linkage services which are metropolitan in scope, and which assist families in optimizing their purchase decisions, should be a funded administrative component of any future subsidized ownership programs if some of the stratifying effects of the 235 program are to be avoided or minimized.

Ownership Viability: Reducing the Risks and Costs of Mortgage Failure

Any future programs of subsidized home ownership for urban lower-income households need to correct for the pitfalls observed in the 235 program which led to greater risks and costs for the program and consumers alike, beyond those which were normally to be expected. Any

such corrections, however, are contingent on the ability of the production sector to provide sound homes at affordable prices, at the least, homes that are sound enough to last the life of the mortgage with normal maintenance and repairs. If that can be accomplished, along with more effective appraisal mechanisms that assure that property values have a reasonable chance of sustaining themselves under relatively stable market conditions, then the program costs attendant on mortgage failure by an owner will be largely those incurred in effecting a transfer of property without further substantial investment in the unit.¹⁴ In the following discussion of alternative means for reducing the risks of mortgage failure inherent in lower-income ownership programs, it is assumed that sound homes and sound administrative procedures for inspection and appraisal are necessary prerequisites.

It is also assumed that the 235 program experience clearly points to the potential counterproductivity of embedding lower-income ownership programs within the context of volume production goals. However meritorious the national housing goals of the 1968 Act were in registering the federal intention to solve urban housing problems, an over-riding concern with volume mitigates against the kind of administrative care that should be brought to the handling of these ownership opportunities. While the "custom-tailored" services of non-profit sponsored ownership efforts may not be essential, and the prerogatives of consumer participation in

14. As of 1974, the costs involved in bringing a foreclosed 235 home into resaleable condition were estimated at \$5,500.

the open market are worth retaining, some administrative caution in pursuing high production volumes, particularly in the early stages of a program, would seem to be one of the more cogent lessons to be learned from the 235 program. Moreover, the counterproductive aspects of high volume extend beyond administrative issues. In some urban areas, and under certain conditions, high program volumes can saturate the purchase markets they create, thereby jeopardizing property values for those families who have already purchased under the program. A moderately-paced program would permit greater administrative efficiencies as well as sustain demand in subsidized purchase markets with high turnover.

Beyond these concerns, there are two important aspects of future ownership programs that may contribute substantially to greater ownership viability and lesser program risks and costs:

(1) Economic selectivity in the choice of program areas.

The 235 program waxed during a period of relative national prosperity up to the point of the subsidy moratorium. Yet the survey data covering the early years of the 235 ownership experience point to the fact that, even in the absence of a deepening and pervasive national recession -- such as the one that followed in late 1973 -- the incidence of serious default and mortgage failure was occurring at a mounting rate. Although simultaneous actuarial estimates in 1973 indicated that the rate of program losses would remain within acceptable bounds originally set for the 235 program, the question remains as to whether lower-income ownership programs are currently feasible within the context of a worsened

national economy beset by major problems of unemployment. If the potential consumer values of lower-income ownership programs are evident from this study, the potential feasibility of such programs under adverse national economic conditions is not.

However, the survey analysis confirms the observations made in the Senate on the eve of the moratorium that the 235 program manifested a highly differentiated pattern of mortgage degeneration in various urban areas of the country.¹⁵ Although these tended to be ascribed at the time to differences in HUD program administration, and to the "walk-away" consequences of systemic failures in the program, the analysis points to the primacy of problems of employment instability associated with "life at the margin" coupled with unfavorable local employment conditions -- the "contextual" interpretation -- as more accurately accounting for the differences in the incidence of mortgage difficulties from one urban area to another. The significance of this finding in terms of the feasibility of future ownership programs is that local economic conditions tend to be more predictive of program feasibility or risk -- of ownership viability -- than are more general barometers of the national economy. As a result, it is possible that even within the current national economic context, lower-income ownership programs may be able to avoid the kind of nemesis that Seattle represented for the 235 program, while providing viable, subsidized ownership opportunities for lower income households in urban

15. U.S. Senate, Joint Economic Committee, December, 1972, op. cit.

areas where economic conditions are more favorable to sustained ownership.

The current economic recession points to the fact that aggregate trends in the national economy are not necessarily a universal reflection of local economic conditions. Most indications are that the recession is highly differentiated in its regional effects. While the urban areas of the northeast and midwest have undergone an accelerated economic decline and rising unemployment over the last few years, these effects have been less intense in southern and western cities -- the so-called "sunbelt" -- where many cities and metropolitan areas manifest continued economic growth and relatively stable or rising employment trends. In the absence of a pervasive and intense national economic depression, or a global prosperity, there may be little correlation between the health of the aggregate national economy and its particular manifestations at the local metropolitan level.

In those urban areas experiencing sustained growth, rising employment, and a persistent demand for purchaseable housing, conditions are highly favorable to the viability of lower-income ownership programs. In areas undergoing a continuing decline, it is likely that home ownership strategies for modest income families will bear a high degree of risk. As a result, it is necessary that future federal policies of lower-income home ownership be sensitive to local economic conditions and selective in their application to particular metropolitan areas, especially during periods of uncertain or negative trends in the national economy as a whole.

The principle of areal selectivity rather than universality in the distribution of federal housing benefits is a concept which is foreign to federal housing policy. FHA mortgage insurance emerged as a volume program during sharply ascending periods in the national economy. So long as a match could be made between a willing purchaser who met FHA's credit standards and a house that met FHA's standards, price limits, and appraisal criteria, federal mortgage insurance was granted. The question of whether local economic conditions were favorable to sustained ownership was extrinsic to the process. Low failure rates, the actuarial soundness of the FHA insurance fund under universally favorable urban economic conditions succeeded in keeping the question of longer-term economic feasibility in the background. FHA's role in assessing the local economic feasibility of engendering long-term mortgage commitments, or in exercising any form of economic selectivity in that regard, was largely non-existent.

The 235 program bore the vestiges of the universality of the earlier FHA program, in that limited subsidy allocations were distributed universally to FHA insuring offices on a projected demand basis in accordance with estimates of what the traffic would bear. These procedures were also in accord with the concept of a national program to facilitate home purchase by lower-income families at relatively high volumes in all urban areas of the country. But the early 235 experience and trends in the study data demonstrate the particular vulnerability of lower-income homeowners to unfavorable local employment conditions. To the extent that anticipated mortgage failure rates are an overriding criterion for the cost

feasibility of future ownership programs, it would be advisable to gear tenure choice opportunities under federal policy to anticipated local economic trends, concentrating largely on rental opportunities in areas of high or rising unemployment while selectively providing lower-income ownership opportunities in metropolitan areas with more favorable economic conditions.

The principle of economic selectivity can be viewed more as an encouragement of federal commitments to lower-income ownership programs than a disparagement of continued commitments. For one, it implies that so-called "life at the margin" explanation of ownership difficulties is less a reflection of inadequacies among marginal urban families in dealing with ownership responsibilities than it is a reflection of constraints in the local system of economic opportunities. Moreover, there seems little reason to deny ownership opportunities to lower-income families living in metropolitan areas which manifest continued economic health or growth.

Increasingly, federal urban policies are coming to recognize inter-metropolitan disparities that need to be taken into account in the allocation of federal resources, as in the case of the federal revenue-sharing programs and the recent employment expansion programs.¹⁶ The 235 program experience indicates that, short of a universal national prosperity, a similar kind of selectivity is a sensible means of providing federal ownership subsidies where they can best be used.

16. For instance, the public works and public service employment programs of 1976 and 1977.

(2) Mortgage relief.

In future subsidized ownership programs, greater economic selectivity in the choice of program areas and improved program administration in the delivery of sound housing are likely to lessen the rate of mortgage default and failure that was seen to occur under the 235 program. However, the risks of mortgage default among lower-income owners as a result of intervening difficulties are likely to be higher than those maintained under the conventional FHA programs. Effective remedial interventions at the point of serious default may serve to lessen further the likelihood of mortgage degeneration during a period of temporary income stresses.

The problem is one of providing temporary relief to owners who have entered serious default for reasons beyond their control and who are able to make good on their back payments if given sufficient time to recover. Although periodic single-payment delinquencies are to be discouraged, the survey data indicate they are not in themselves reliable indicators of continuing default; most delinquent owners were able to become current in their mortgage payments by doubling their payments the following month. Although mortgagees tend to find repeated delinquencies intolerable, the generous mortgage servicing fees, which under the 235 program provided substantial incentives to mortgage companies to accrue large servicing volumes, more than covered the cost of processing delinquencies. Mortgage servicing institutions should expect delinquencies to be an inherent cost of participation in subsidized ownership programs,

for which they are duly compensated.

With regard to more serious defaults of two or more months duration, the behavior of mortgagees in the 235 program often discouraged or thwarted the attempts of owners to recover back payments. As a rule, mortgagees do not accept partial payments so that graduated repayment was not available to defaulting owners. More importantly, families reported that mortgagees refused to accept back payments unless the payment was large enough to make the mortgage current; an owner who was two payments behind could not recover by making two successive double payments. Since mortgagees generally initiate foreclosure proceedings after two or three missing payments, this "all or nothing" policy tended to make mortgage degeneration more irreversible than it needed to be. As a result, one of the functional prerequisites of administrative intervention to assist defaulting mortgagors is to provide, on the one hand, a means for deserving defaulting owners to make good on their missing payments over a reasonable period of time while, on the other hand, encouraging forbearance on the part of the mortgagee or, at the least, forestalling hasty action toward foreclosure.

Appropriate intervention places a premium on timely and sound communication between the mortgagee and the administering agency when serious default occurs, and on conscientious administrative monitoring of mortgage servicing practices to assure that they are being conducted fairly and consistently. Such was not the case in the early years of the 235 program; FHA required notification of default by mortgagees only upon 3 missing payments at a point when notification of foreclosure was

imminent. Typically FHA's default records were extremely poor, and their communications with mortgagees virtually ceased once the subsidy commitment was made at the initial purchase. However, improved communication with and monitoring of mortgagees will not, in themselves, foster greater forbearance on the part of mortgagees, who prefer to service all their mortgages consistently rather than give special treatment to subsidized cases. Many are legally required under agreements with investors to observe a fixed, pre-determined set of servicing procedures. That is, the administering agencies will undoubtedly have to develop mortgage relief mechanisms that are in tandem with standard mortgage servicing practices.

As a result, effective mortgage relief measures would require simultaneously a full repayment of back payments to the mortgagee and the working out of independent arrangements with the defaulting owner for gradual repayment of a temporary loan. A revolving loan fund handled by the administering agency or a designated intermediary would provide many owners with the time required to make up missing payments while it kept the mortgagee from initiating foreclosure. Mortgage relief insurance mechanisms, such as those initially proposed by Senator Percy in 1967, would be workable only if after an initial period of default, the insurance made full restitution from the start of back mortgage payments to the mortgagee. Although the details of loan relief and insurance relief mechanisms need to be carefully worked out to prevent their abuse by owning families and to assure their congruence with mortgage servicing practices, it is likely that their additional cost is well worth the benefits

to owning families who require only enough time to recover from temporary financial stresses.

Implications of Owner Mobility

Although much of the rhetoric attached to the passage of the 235 program envisioned that the program would bring about a residentially stable class of home owners who would lend greater stability and commitment to the communities in which they lived, the survey data indicate a good deal of anticipated mobility among 235 owners, particularly among white purchasers. To some extent these reflect the administrative weaknesses which were peculiar to the 235 program, which led to an early wave of home abandonments among families who realized they had purchased seriously defective houses, and to discontents among other owners with the general quality of the homes they had purchased. But it is unclear whether more soundly constructed houses would have substantially increased the degree of anticipated residential stability among 235 owners. The strong differences between white and minority purchasers in their mobility plans can be viewed in part as the product of subcultural differences and differences in societal opportunities which lead many minority purchasers to place a greater value on a permanent homestead while white purchasers are more prone to and more able to optimize their residential choices through a sequence of purchase moves. More importantly, they are a consequence of differences in upward income mobility between white and minority owners; the higher income gains experienced by

white purchasers over the course of early ownership, and the fact that the 235 program succeeded in putting far more of them into positive equity positions, enabled them to instrument their desires for preferable ownership and residential situations.

At the heart of the question of owner mobility is the fact that the 235 program could produce only minimal home ownership, a "way-station" or "first purchase" for families who could subsequently afford better homes and more residential amenities. Since it is unlikely that future lower-income ownership policies will be able to produce more than minimal ownership housing, it seems unwise to assume that such programs will produce the level of residential stability that are manifested in more conventional ownership situations.

Anticipated mobility among purchasers initially at the lower-income levels has several implications for future policies of subsidized ownership. For one, it is necessary to view upward residential mobility as an inherent aspect and value attached to the program and to discard stereotypical images of residential permanence as a criterion of program success, while recognizing simultaneously that the program should do as much as possible to assure a maximal degree of residential stability to purchasers who seek such stability or have fewer mobility opportunities. More importantly, future policies should attempt to minimize some of the potentially adverse effects of high owner mobility. High turnover rates in concentrated lower-income submarkets can have a negative effect on market values. While it is obvious that over-building for the lower-income purchase market is to be scrupulously avoided -- and it did occur in some

areas under the 235 program -- it is necessary to regulate the volume of the program in such a way as to sustain demand over long intervals of time for low-priced purchaseable houses rather than to allocate ownership subsidies short-sightedly to meet or saturate present demands for such housing. In most urban areas, it is preferable to maintain a low-volume approach and a very gradual pacing of home provision, in order to assure the health of program submarkets under conditions of relatively high turnover.

Other initiatives might be taken to promote greater residential stability among lower-income home owners. The large subdivisions consisting exclusively of new, subsidized homes -- a frequent occurrence under the 235 program -- tended to stigmatize the community and set it apart from other more affluent residential enclaves while it created an uncertain, sometimes conflictful social climate among neighboring 235 owners. Families who found such social adjustments difficult, particularly lower-income white purchasers, anticipated a move to another home in a preferable neighborhood.

The dispersion of new 235 homes within subdivisions containing higher priced houses proved to be feasible in a number of areas, and it seems advisable to attempt to bring about such dispersion in future ownership programs in order to promote socially diverse neighborhoods in which lower-income families can more easily find the kinds of social environments and networks they prefer without considering a subsequent move. It would also be possible for owners to move to a preferable house -- one which is larger or has more amenities -- without severing neighbor-

hood ties. Moreover, the concentrated negative market effects of high turnover in minimal ownership housing -- the sense of wholesale evacuation of the neighborhood that frequent "for sale" signs and vacancies convey, and an associated decline in market values -- are likely to be avoided in more diverse residential settings. Where low land prices permit, lot sizes for subsidized houses should not be minimal, but ample enough to permit additions to the house to accommodate family growth, when families can afford increased space, without necessitating a move to a larger house.

E. Summary

Despite the extensive inadequacies and imperfections of the 235 program, the reports and experiences of 235 purchasers obtained in the 1973 survey provide a clear indication that a complete federal retreat from the concept of lower-income home ownership was not fully warranted. Although future policies of subsidized home ownership are contingent on national and local economic conditions favorable to sustained ownership and on the technical feasibility of delivering sound homes at affordable prices, the advantages and perceived benefits of tenure mobility to lower-income families -- in terms of residential betterment, the achievement of a preferred housing status, corollary improvements in the quality of family life, and the possibility of accreting equity savings -- are significant enough to merit further consideration in any future agenda for federal low-income housing policy.

A number of policy recommendations have been forwarded that would reduce the risks and costs inherent in subsidized ownership programs and promote a more equitable distribution of ownership opportunities than was attained in the 235 program. Short of sweeping changes in the character of the urban rental market available to lower-income families, home ownership will continue to be considered a uniquely unsubstitutable residential good by such families, and a compelling aspiration. Whether it can be realized in the future, beyond the short and troubled life of the 235 program, is more than a question of technical ingenuity in learning from the mistakes of past policies. As was the case in the 235 program, it is also a matter of mobilizing the political will to undertake a renewed commitment to the realization of these objectives.

APPENDICES

APPENDIX A: RESEARCH METHODOLOGY

The information upon which this research is based derives from field work and a national household survey conducted under the direction of the author as part of a larger study of the effectiveness of voluntary counseling efforts in relation to the Section 235 program of lower-income home ownership. The original study was funded by the U.S. Department of Housing and Urban Development under a contract with OSTI (Organization for Social and Technical Innovation), Newton, Massachusetts, which spanned the period from July, 1972 to May, 1974. Although the original study efforts focused largely on issues related to the effectiveness of counseling efforts, rather than those concerned with an assessment of the 235 program as a whole, the survey of Section 235 home purchasers in ten diverse metropolitan areas across the country provided a unique opportunity for the subsequent development of an analysis which would represent a consumer-based assessment of the program and its consequences over the initial years of 235 ownership experience. It is that assessment which forms the body of this research.

Sample Design

(1) The Selection of Metropolitan Areas

Under the original OSTI study design, the choice of metropolitan areas for the survey sample was constrained to the ten areas which were judged to have had relatively strong voluntary counseling efforts for potential 235

home purchasers. As a judgment sample, it was also designed to represent a diverse set of program contexts with regard to the following parameters:

- (a) regional location: The ten metropolitan areas were to span as many HUD regions as possible, in order to incorporate differences in regional housing contexts as well as differences in HUD administration of the program.
- (b) Section 235 program volume: Since there was an assumed association between high program volumes and administrative inefficiencies in program operation, the metropolitan sample was to reflect a diverse range of program volumes in order to avoid any bias toward high or low volume HUD jurisdictions.
- (c) Section 235 "problem rates": Problem rates were defined as the combined rate of current mortgage default and cumulative mortgage failure as of December, 1971 for the HUD area or insuring office servicing the metropolitan area. The metropolitan sample was to represent a range of areas across a spectrum from low to high problem rates, in order to avoid any overconcentration of the sample in either high or low problem areas.

The major potential source of bias derives from the relation of the sample of metropolitan areas to the presence of voluntary counseling efforts. While this factor imposed strong locational restrictions, the scope of counseling efforts themselves proved to be extremely limited. Only three percent of the urban purchasers in the ten metropolitan areas finally selected had any affiliation with local counseling efforts. By and large,

the purchaser households who were ultimately selected for survey interviews had effected purchase and ownership without the assistance of a counseling agency. In that sense, they were little different from purchasers in other metropolitan areas.

The resulting sample of metropolitan areas was selected on the basis of "best judgments", incorporating the sampling parameters already described. A list of the selected metropolitan areas, and the profile of each with regard to the sampling parameters are contained in Table A-1. Mean trends, averaged across the ten metropolitan areas, approximate those for the national program as a whole, with the possible exception of default rates and resulting problem rates. The sample areas are less benign contexts for the program than the national mean would reflect, in that they manifest higher default rates. While it is unclear how much bias is reflected in the metropolitan area sample as a result, it does suggest that findings will reflect more negative program assessments of mortgage difficulties than would be made of the national program effort as a whole. In that sense, positive research findings are further reinforced.

In retrospect and in light of the survey findings, the ten metropolitan areas included in the sample represent an even more richly diverse set of program contexts for the purposes of analysis. This is apparent in terms of a number of dimensions: the degree of minority participation in the local 235 program; the diversity of market contexts in terms of the proportion of new and used housing in the local 235 program; the tightness or looseness of the local rental market in terms of rental vacancy rates; and the local rate of unemployment for the metropolitan areas. (See Table A-2.)

TABLE A-1. 235 PROGRAM PROFILE OF THE TEN METROPOLITAN AREAS IN THE STUDY SAMPLE, AND COMPARABLE NATIONAL ESTIMATES

	Program Volume* (Units insured)	Default** Rate (%)	Failure*** Rate (%)	Problem Rate (%)
Denver	5,900	1.4%	2.0%	3.4%
Indianapolis	6,100	3.3%	0.5%	3.8%
Louisville	5,700	3.0%	0.6%	3.6%
Milwaukee	5,900	2.1%	0.5%	2.6%
Omaha	3,100	1.7%	0.7%	2.7%
Pittsburgh	2,700	2.8%	0.3%	3.1%
Rochester	2,000	0.7%	0.1%	0.8%
Seattle	7,600	10.3%	11.7%	22.0%
St. Louis	1,700	2.6%	3.9%	6.5%
Washington, D. C.	1,000	21.0%	1.8%	22.8%

Area Mean	4,170	4.9%	2.2%	7.1%
National Mean	3,800	3.8%	2.0%	5.8%

* Units insured by relevant HUD area/insuring office as of December 31, 1971.

** Current mortgage default rate for HUD area/insuring office as of December 31, 1971.

***Cumulative mortgage failure rate for HUD area/insuring office as of December 31, 1972.

TABLE A-2. SELECTED PROGRAM AND AREA CHARACTERISTICS FOR THE TEN METROPOLITAN AREAS INCLUDED IN THE STUDY SAMPLE

	<u>Percent Minority Participation^a</u>	<u>Percentage New 235 Construction^a</u>	<u>Area Un-employment Rate^b</u>	<u>Rental Vacancy Rate^c</u>
Denver, Colo.	34%	53%	3.0%	2.3%
Indianapolis, Ind.	32%	74%	3.2%	3.8%
Louisville, Ky.	19%	72%	3.6%	2.5%
Milwaukee, Wisc.	38%	62%	3.6%	1.7%
Omaha, Nebr.	18%	61%	4.0%	3.0%
Pittsburgh, Pa.	15%	76%	4.5%	2.0%
Rochester, N.Y.	6%	94%	3.1%	1.7%
Seattle, Wash.	18%	74%	7.5%	3.5%
St. Louis, Mo.	94%	12%	5.3%	5.0%
Washington, D.C.	100%	9%	3.2%	2.4%

Area Mean	37%	59%		
National Program	35% ^d	81% ^e		

a. estimated on basis of survey findings

b. as of August, 1973, Department of Labor, op. cit.

c. SMSA Census data, 1970

d. HUD, Housing in the Seventies, op. cit., p. 4-45.

e. HUD, 1974 Statistical Yearbook, Table 131, pp. 120-121.

The selection of the metropolitan areas turned out to mirror closely the degree of minority participation in the national program as a whole. However, in terms of the proportion of new units, the characteristics of the 235 house submarkets across the ten sample areas differs from the national program, with the sample areas containing a larger proportion of used housing. Since many of the worst program abuses were associated with the existing sector of the 235 purchase market, it is likely that the incidence of associated program malconsequences will be somewhat greater for the study sample than for the entire national effort. This is another potential source of negative bias in the analysis, which would tend to reinforce the validity of positive study findings.

(2) The Sampling of Urban Purchaser Households

The OSTI survey of urban purchasers called for a quota of 34 purchasers in each metropolitan area for structured interviews. The 34 interviews conducted in each area were to be selected in a manner which made them, as much as possible, representative of households who had purchased 235 homes in that area from the inception of the program through the end of calendar year 1971. Later purchasers were excluded because of the intention of restricting the survey to families who had at least a year of 235 ownership behind them at the time of the interview period, which extended from May through July, 1973.

The targeted sample was to reflect a "composite" sample of metropolitan purchasers, which gave equal weight to each metropolitan area. In

that sense, the resulting survey interviews provided a composite picture of the metropolitan functioning of the program as if the program were functioning in a hypothetical metropolitan area which represented an equal superimposition of each of the 10 selected areas. This sample design had the further virtue of allowing more easily for intermetropolitan comparisons which could detect the relative influence of alternative local contexts on program consequences. However, it should be noted that as a consequence the urban purchaser sample was not intended to be representative of the universe of urban purchasers aggregated across the 10 metropolitan areas, which would require drawing a subsample from each metropolitan area in proportion to program volumes. The possible benefits of a more representative sampling design were sacrificed because of convenience -- program volumes were available only by HUD area/insuring office jurisdictions rather than by metropolitan area -- and in order to facilitate intermetropolitan comparisons within the analysis.

The potential bias inherent in the sample design is to over-represent the lower volume HUD jurisdictions. However, this potential bias is compensated for by the fact that half of the ten selected metropolitan areas are high volume jurisdictions, exceeding the national average of 3,800 insured 235 units per HUD jurisdiction, while less than half of the 76 HUD jurisdictions (44%) had similarly high volumes. Moreover, as has already been observed, the problem rates associated with the metropolitan sample are higher than those for the national program as a whole.

A systematic sample of 100 purchasers in each metropolitan area was drawn from HUD insurance files in Washington, D.C. The files them-

selves were organized by the date of purchase, and researchers drew a proportional amount for every third month of the program, in order to consolidate a list of 100 purchasers for each metropolitan area.

The survey interview process was administered and conducted in the ten metropolitan areas by National Analysts of Philadelphia, a well-reputed professional survey organization, under subcontract to OSTI. However, the selection of purchasers from the list for each metropolitan area was monitored by OSTI staff. A starting list of 34 households to be interviewed in each metropolitan area was systematically drawn from the initial list of 100. Substitutions were made only upon direct refusals or three unsuccessful attempts to locate the purchaser at his or her current residence. If it became apparent that a household had moved from the 235 house originally purchased, systematic attempts were made to track the purchaser's new address through neighbors, through the post office, through telephone directories, and through available city directories. To obtain the resulting 338 interviews which were ultimately used in the survey analysis, it was necessary to draw a total of over 500 purchasers' names from the lists. The distribution of reasons for non-interviews are provided in Table A-3.

The distribution of completed interviews within the larger drawn sample of purchasers indicates that, as might be expected, those purchasers who continued to reside in their 235 homes are somewhat over-represented in the resulting sample, while those who have moved from the 235 house -- either upon sale or after aborting ownership -- are correspondingly under-represented, because of difficulties in locating them

TABLE A-3. INCIDENCE OF AND REASONS FOR NON-INTERVIEWS WITHIN THE DRAWN SAMPLE, BY RESIDENT STATUS*

	Total		Resident*		Non-Resident*		Uncertain*	
	(n)	(%)	(n)	(%)	(n)	(%)	(n)	(%)
<u>Locatable Households</u>								
Interviewed	(338)	63.	(312)	71.	(26)	33.	---	---
Refusals	(83)	16.	(78)	18.	(5)	6.	---	---
Not at home -- 3 visits	(23)	4.	(23)	5.	---	---	---	---
Scheduling, illness, other problems	(22)	4.	(22)	5.	---	---	---	---
Aborted interview	(2)	---	(2)	---	---	---	---	---
<u>Unlocatable Households</u>								
Incorrect address	(17)	3.	---	---	---	---	(17)	100.
New address unknown	(17)	3.	---	---	(17)	22.	---	---
Known to have moved to another area	(31)	6.	---	---	(31)	39.	---	---
All Households Drawn from Sampling Rosters	(533)	100%	(437)	100%	(79)	100%	(17)	100%

*refers to resident status in the 235 house originally purchased.

for interviews. These distortions in the representativeness of the sample are somewhat more serious for the non-resident component; as many as 15 percent of the names drawn turned out to be non-residents, while they constitute only 8 percent of the final survey sample. These sample losses are largely accounted for by families who made relatively distant moves -- beyond the metropolitan scope of the interviews -- subsequent to purchase. However, the HUD figures for cumulative mortgage failures across the ten metropolitan areas as of March, 1973 averages to 4.4 percent, a figure which suggests that the majority of unlocatable non-residents had sold their 235 homes rather than aborted ownership. But not enough is known about the characteristics of these purchasers, the types of homes they owned, or the conditions under which they transited from 235 ownership to determine what bias is introduced, other than to conclude that survey data on the incidence of sales and aborted ownership are not fully generalizable without substantial qualification. Distortions with respect to still resident 235 owners are less significant; while they constitute 82 percent of the sample of names drawn for interview, they represent about 92 percent of the completed interviews. However, on the whole, the sample represented by those urban purchasers who were interviewed contains a bias toward the more residentially stable of the families who originally purchased under the program, a bias likely to be in favor of positive consumer assessments of the program.

These potential biases in the sample of urban purchasers would be more unfortunate if they were not an inherent aspect of any attempt to obtain consumer assessments of their experience in a new housing

program after the program has been in operation for several years. The problems introduced by residential turnover are a nemesis to those who attempt a longitudinal evaluation of housing programs through the means of consumer interviews, even when survey samples are carefully selected at the inception of the program.¹ In light of the controversial history of the 235 program, the absence of program data derived at the level of program participants is deplorable, and this lack was amply noted during the Joint Economic Committee hearings in December, 1972.² In that sense, this research constitutes a belated response to those articulated needs, and the best means that were available in 1973 to begin to incorporate consumer assessments of their program experience within the body of what was already known, or misunderstood, about the Section 235 program.

Moreover, the resulting sample of urban purchasers closely approximates some of the key characteristics of the national program constituency as a whole. Central tendencies in the income distribution of urban purchasers are similar for the survey sample and for the national purchaser population, a median income of about \$6,500. (See Table A-4.) Minority participation in the national program (35%) is almost identical to that obtained in the urban purchaser sample (34%), as is the two-to-one ratio of black to Spanish American participants.³ Despite the problems encountered

1. See: Daniel M. Wilner et al., The Housing Environment and Family Life, (Baltimore: Johns Hopkins Press, 1967).

2. U.S. Congress, Joint Economic Committee, December, 1972, op. cit.

3. HUD, Housing in the Seventies, op. cit., p. 4-45.

TABLE A-4. ANNUAL INCOME AT PURCHASE FOR 235 HOUSEHOLDS,
10 SMSA SAMPLE AND PROGRAM-WIDE

<u>Income Group</u>	<u>SMSA Sample</u>	<u>Program-wide*</u>
Less than \$4,000	11.0%	2.4%
\$4,000-4,999	12.4%	10.2%
\$5,000-5,999	18.1%	23.7%
\$6,000-6,999	16.0%	26.4%
\$7,000-7,999	18.3%	19.3%
\$8,000-9,999	18.4%	15.9%
\$10,000 or more	5.9%	2.1%
	N=338 (100%)	(100%)
Median Income	\$6,537	
Mean Income	\$6,107	

* Source: HUD, Housing in the Seventies, Tables 13-14, pages 4-45 and 4-47, representing program-wide purchasers as of December, 31, 1972.

in locating non-residents, the incidence of mortgage failure among the urban purchaser sample (4.4%) closely approximates the average for the ten areas as of March, 1973 (4.7%) just prior to the conduct of survey interviews, although the figure is below the national level of cumulative mortgage failures (6.3%) which obtained by the end of 1972.

By the end of the survey process, there were minor deviations from the targeted quota of 34 interviews for each metropolitan site: Denver (38), Louisville (32), Omaha (33), St. Louis (33), and Washington, D.C. (32). For the purposes of convenience and maintaining the largest number of possible observations, none of the interviews were discarded. The resulting sample of urban purchasers totaled to 338 in number.

In summary, the process by which the sample of metropolitan areas and the sample of urban purchasers were composed is a source of several potential biases in the analysis. The choice of metropolitan areas involving relatively high program volumes, relatively high default rates, and a large proportion of used homes in comparison with the national program, suggest a possible bias in the direction of uncovering a greater incidence of negative program occurrences than can be generalized to the program as a whole. On the other hand, the bias in the purchaser sample toward those purchasers who sustained stable 235 residence over the initial years of ownership is in the direction of more favorable consumer assessments of the program than might be merited. While those potential sources of bias are in opposing directions, it is unclear whether they compensate for one another in the results of the analysis.

Design of the Survey Instrument

The survey instrumentation was designed to obtain structured information from either the purchaser or the purchaser's spouse at the time of purchase, and to cover an interview duration of from 60 to 90 minutes. Two instruments were designed, one for purchasers still resident in their 235 homes, the other for non-residents.

The substantive structure of the interview and the sequencing of questions was, by and large, chronological in that it adhered generally to the following sequence:

- (1) Pre-purchase household and residential characteristics.
- (2) Motives and orientations to the purchase move, and aspects of the purchase process.
- (3) Outcomes and perceptions immediately consequent to purchase.
- (4) Selected aspects of the ownership experience, including default episodes.
- (5) Current household and residential characteristics, and current assessments of the 235 ownership experience.

For purchasers who were still 235 owners, "current" responses were those which were current with the interview. For non-residents, the questions were designed to elicit responses "current" with the point at which they had vacated their 235 homes.

Since each survey interview occurred at a single point in time, usually after two to three years of 235 ownership, it should be noted that while the information spanned by the interview was longitudinal in nature, the responses reflected the recollections and views of 235 purchasers current

with the interview. In that sense, responses concerning the period prior to purchase, the period just after purchase, and earlier aspects of the ownership experience are retrospective in nature, and subject to both the problems of recall and of possible coloration as a result of more current perspectives and attitudes on the part of the respondent. While a longitudinal survey would have been preferable, which interviewed households at the point of purchase and again after two or three years had elapsed, this was not a possible alternative at the time the OSTI study was funded. However, to the extent that responses are colored by the retrospect of respondents, they also reflect closely on the ways in which respondent families view their residential past and present after the initial years of 235 ownership. In that sense, despite the problems of recall and objectivity that might be involved, the responses nevertheless form a valid and uniquely useful base for registering consumer assessments of their recent housing experiences.

APPENDIX B: TABLES

Note:

In drawing major conclusions from the survey data, the analysis depends on broad trends in the data covering a wide range of survey responses. That is, the findings tend to depend more on the observations of reinforced trends in the data as a whole, rather than the particular significance attached to a more parsimonious number of tabulations.

In that sense, a number of tables included in this appendix are intended to serve purely descriptive purposes. However, in cross-tabulations which compare the incidence of certain "states", orientations, or outcomes among the purchaser groups -- as distinguished by income and race -- the entries and frequencies included are those that correspond to a statistical significance level of .001 or better. (Chi-square of 10.8 or greater at one degree of freedom.) In some instances, where the findings are considered substantively important despite lower levels of statistical significance, the appropriate chi-square and significance level is noted. In no case are significance levels below the .01 level included in the purchaser group cross-tabulations.

TABLE IV.1 PER CAPITA INCOME LEVELS AMONG PURCHASER HOUSEHOLDS, YEAR PRIOR TO PURCHASE

<u>Per Capita Income Level</u>	<u>Percentage of Urban 235 Purchasers</u>
less than \$1,000	30.5 %
\$1,000 to \$1,499	22.2
\$1,500 to \$1,999	26.6
\$2,000 or more	20.7

	100 % (N=338)
Median = \$1,390	
Mean = \$1,450	

TABLE IV. 2 SELECTED PURCHASER HOUSEHOLD CHARACTERISTICS, BY PURCHASER GROUP

	<u>Income below \$6,000</u>		<u>Income \$6,000 or more</u>		
	<u>Minority Pur- chasers</u>	<u>White Pur- chasers</u>	<u>Minority Pur- chasers</u>	<u>White Pur- chasers</u>	<u>All Pur- chasers</u>
% of urban purchasers	22 %	19 %	14 %	44 %	100 %
Median income	\$4720	\$4980	\$7530	\$8170	\$6500
Median household size (persons)	6.9	4.9	5.1	3.8	4.8
% households with two adults present	50 %	86 %	80 %	94 %	80 %
% completed high school**	29 %	62 %	84 %	90 %	70 %
% at skilled** occupational levels	13 %	14 %	51 %	73 %	55 %
% receiving public assistance income during ownership***	56 % (n=76)	17 % (n=64)	24 % (n=49)	9 % (n=149)	23 % (N=338)

* head of household or spouse.

** head of household or spouse. "Skilled" refers to occupations usually classified as one of the following: skilled manual, skilled clerical, skilled technical, and administrative, executive, or professional.

*** during year prior to interview.

TABLE IV. 3 OCCUPATIONAL LEVELS AT PURCHASE

<u>Level*</u>	<u>Percentage of Purchasers</u>
Unskilled manual	10.8 %
Semi-skilled manual	20.3 %
Semiskilled clerical	24.0 %
Skilled manual	17.5 %
Skilled clerical	12.3 %
Skilled technical	12.9 %
Administrative, Executive, Professional	2.2 %

	100 % (N=325)

* highest level attained by purchaser or spouse

TABLE IV. 4 HOUSEHOLD SIZE AT PURCHASE

<u>Number of persons</u>	<u>Percentage of Purchasing Families</u>
3 or less	18.1 %
4	19.2 %
5	16.9 %
6	13.6 %
7	11.0 %
8 or more	16.6 %

	100 % (N=338)

Median = 4.8 persons

TABLE IV. 5 INCIDENCE OF PRE-PURCHASE HOUSING COST BURDENS IN EXCESS OF 25 PERCENT, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>All Purchasers</u>
Income below \$6,000	66.7 % (n=63)	63.5 % (n=74)	65.0 % (n=137)
Income \$6,000 or more	27.0 % (n=148)	27.0 % (n=48)	27.0 % (n=196)
			Total: 42.6 % (N=333)

TABLE IV. 6 INCIDENCE OF INTENSE PRE-PURCHASE HOUSING DEPRIVATION (ON TWO OR MORE COUNTS), BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>All Purchasers</u>
Income below \$6,000	49.2 % (n=63)	61.6 % (n=73)	55.9 % (n=136)
Income of \$6,000 or more	29.9 % (n=147)	31.3 % (n=147)	30.3 % (n=195)
			Total: 40.8 % (N=331)

TABLE IV. 7 FAMILIARITY WITH HOME OWNERSHIP, PRIOR TO PURCHASE

Previously Owned	17.5 %
High Familiarity*	53.0 %
Moderate Familiarity**	23.4 %
No Familiarity***	6.2 %

	100 % (N=338)

- * Purchaser (and spouse) had had close friends or relatives who had owned homes for at least five years, and also one set of parents who had owned a home.
- ** At least one but not all of the conditions for high familiarity obtained.
- *** No familiarity means none of the conditions for high familiarity obtained.

TABLE IV. 8 INCIDENCE OF HIGH FAMILIARITY WITH HOME OWNERSHIP AND PREVIOUS OWNERSHIP (COMBINED), PRIOR TO PURCHASE, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>
Income below \$6,000	79.7 % (n=64)	50.0 % (n=76)
<u>Income \$6,000 or more</u>	<u>82.5 % (n=149)</u>	<u>53.1 % (n=49)</u>
All income levels	81.7 % (n=213)	51.2 % (n=125)
		Total: 70.4 % (N=338)

TABLE IV. 9 PERCENT PREFERRING TO BUY, PRIOR TO PURCHASE, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>
Income below \$6,000	84.4 % (n=64)	73.7 % (n=76)
Income \$6,000 or more	79.7 % (n=148)	67.4 % (n=49)
		Total: 77.4 % (N=337)

TABLE IV. 10 REASONS FOR DECIDING TO MOVE

<u>Reason</u>	<u>% Purchasers Mentioning</u>
Housing (Physical Factors)	52.5 %
Tenure	42.5 %
Owning	34.0 %
Cost/Investment	16.9 %
Neighborhood	25.2 %
Quality of Life	22.2 %
Forced to Move	7.1 %
No Move Required	3.0 %
	(N=338)

TABLE IV. 11 REASONS AND MOST IMPORTANT REASON FOR DECIDING TO BUY

<u>Reason</u>	<u>% Purchasers Mentioning</u>	<u>% Purchasers Citing As Most Important Reason</u>
Tenure	78.2 %	54.2 %
Owning	59.2 %	31.1 %
Cost/Investment	48.8 %	23.1 %
Housing (Physical Factors)	43.2 %	21.6 %
Quality of Life	35.2 %	20.1 %
Neighborhood	12.7 %	4.1 %
	(N=338)	100 % (N=338)

TABLE IV.12 PERCENT OF PURCHASERS CITING TENURE-RELATED REASONS AS THE MOST IMPORTANT REASON TO BUY, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>
Income below \$6,000	56.3% (n=64)	44.7% (n=76)
Income \$6,000 or more	63.8% (n=149)	36.7% (n=49)

All income levels	61.5% (n=213)	41.6% (n=125)
		Total: 54.2% (N=338)

TABLE IV.13 PERCENT OF PURCHASERS CITING PHYSICAL HOUSING FACTORS AS THE MOST IMPORTANT REASON TO BUY, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>
Income below \$6,000	10.9% (n=64)	29.0% (n=76)
Income \$6,000 or more	18.8% (n=149)	32.7% (n=49)

All income levels*	16.4% (n=213)	30.4% (n=125)
		Total: 21.6% (N=338)

*chi-square = 9.1, significance between .01 and .001 level

TABLE IV. 14 NUMBER OF HOUSES AND NUMBER OF AFFORDABLE HOUSES SEEN BY PURCHASERS DURING THE HOUSE SEARCH PROCESS

<u>Number of houses</u>	<u>All houses seen (% purchasers)</u>	<u>Affordable houses seen (% purchasers)</u>
purchased house only	26.2 %	55.0 %
two to four	26.2 %	31.2 %
five to seven	18.8 %	7.2 %
eight or more	28.9 %	6.6 %
	100 % (N=338)	100 % (N=338)

TABLE IV. 15 SOURCES OF USEFUL PURCHASE ASSISTANCE

<u>Sources</u>	<u>% Purchasers Mentioning</u>
None used or provided	40.2 %
Private Market Actors (builders, real estate agents, lenders)	30.2 %
Friends or Relatives	26.5 %
FHA	5.9 %
Private Lawyers	2.7 %
Counseling Agencies	1.2 %
	(N=336)

TABLE IV.16 RESOURCE USED IN FINDING PURCHASED HOUSE

<u>Resource</u>	<u>Percentage of Purchasers</u>
Real Estate Agents	39.4 %
Friends or Relatives	24.9 %
Advertisements	20.0 %
Direct Search (walking, driving around)	11.8 %
FHA	2.1 %
Counseling or Social Service Agencies	1.8 %
	100% (N=330)

TABLE IV.17 INCIDENCE OF USE OF REAL ESTATE AGENTS IN FINDING PURCHASED HOUSE, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>All Purchasers</u>
Income below \$6,000	35.0% (n=63)	68.2% (n=72)	52.6% (n=135)
Income \$6,000 or more	27.2% (n=147)	39.6% (n=48)	30.3% (n=195)

All incomes	29.5% (n=210)	56.7% (n=120)	
			Total: 39.4% (N=338)

TABLE IV. 18 EXPECTATIONS OF HOME OWNERSHIP:
RELATIVE COSTS

<u>Cost Relative to Renting</u>	<u>Percentage of Purchasers</u>
Cheaper than renting	50.3 %
About the same	24.6 %
More expensive	20.7 %
Unsure	4.5 %

	100 % (N=338)

TABLE IV. 19 PERCENTAGE OF PURCHASERS EXPECTING COSTS
OF OWNERSHIP TO BE CHEAPER THAN RENTING,
BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>
Income below \$6,000	53.1% (n=64)	54.0% (n=76)
Income \$6,000 or more	49.0% (n=149)	40.8% (n=49)
		Total: 45.6% (N=338)

TABLE IV. 20 EXPECTATIONS OF HOME OWNERSHIP:
RESIDENTIAL STABILITY

<u>Residential Stability</u>	<u>Percentage of Purchasers</u>
Would live there per- manently	61.0 %
Would move someday	34.0 %
Other (unsure, never thought of it)	5.0 %

	100 % (N=338)

TABLE IV. 21 PERCENTAGE OF PURCHASERS EXPECTING THE OWNERSHIP MOVE TO BE PERMANENT, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>All Purchasers*</u>
Income below \$6,000	65.6% (n=64)	73.7% (n=76)	70.0% (n=140)
Income \$6,000 or more	48.3% (n=149)	73.5% (n=49)	54.6% (n=198)

All incomes	53.5% (n=213)	73.6% (n=125)	
			Total: 60.9% (N=338)

*chi-square = 8.2, significance between .01 and .001 level.

TABLE V.1 PURCHASER PERCEPTIONS OF NEIGHBORHOOD TRANSITION AT PURCHASE

<u>Extent of Neighborhood Transition</u>	<u>Percentage of Purchasers</u>
Same neighborhood	10.1 %
Nearby neighborhood	19.9 %
Distant neighborhood	70.0 %

	100 % (N=338)

TABLE V.2 PERCENT OF PURCHASERS BUYING NEW HOUSES,
BY PURCHASER GROUP*

	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>All Purchasers</u>
Income below \$6,000	65.6% (n=64)	18.4% (n=76)	40.4% (n=140)
Income \$6,000 or more	85.9% (n=149)	30.6% (n=49)	72.2% (n=198)

All incomes	79.8% (n=213)	23.2% (n=125)	
			Total: 58.9% (N=338)

* the purchaser group crosstabulation has chi-square = 6.8, with significance at the .01 level

TABLE V.3 MEDIAN PURCHASE PRICE, BY PURCHASER GROUP

	<u>Median Purchase Price</u>
Minority purchasers, Income below \$6,000	\$ 14,000
White purchasers, Income below \$6,000	\$ 17,100
Minority purchasers, Income \$6,000 or more	\$ 17,600
White purchasers, Income \$6,000 or more	\$ 20,000

All purchasers	\$ 17,800

TABLE V. 4 PERCENT OF PURCHASERS WITH INITIAL MORTGAGE COST BURDENS OF 20 PERCENT OR LESS, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>All Purchasers</u>
Income below \$6,000	14.1% (n=64)	50.5% (n=74)	33.3% (n=138)
Income \$6,000 or more	80.3% (n=147)	91.7% (n=48)	83.1% (n=195)
			Total: 62.5% (N=333)

TABLE V. 5 PERCENT OF PURCHASERS WITH INITIAL MORTGAGE COST BURDENS OF 25 PERCENT OR LESS, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>All Purchasers</u>
Income below \$6,000	50.5% (n=64)	78.4% (n=74)	65.2% (n=138)
Income \$6,000 or more	98.0% (n=147)	100.0% (n=48)	98.5% (n=195)
			Total: 86.5% (N=333)

TABLE V. 6 PURCHASERS WITH APPROXIMATE HOUSING COST BURDENS OF NO MORE THAN 30 PERCENT AT PURCHASE, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>All Purchasers</u>
Income below \$6,000	34.4% (n=64)	50.7% (n=73)	43.1% (n=137)
Income \$6,000 or more	91.8% (n=146)	91.7% (n=48)	91.8% (n=194)
			Total: 71.6% (N=331)

TABLE V. 7 MEDIAN PRE-PURCHASE HOUSING COST BURDENS,
 MEDIAN MORTGAGE COST BURDENS AT PURCHASE,
 AND APPROXIMATED MEDIAN HOUSING COST
 BURDENS AT PURCHASE, BY PURCHASER GROUP

	Median Housing Cost Burden <u>Pre-Purchase</u>	Median Mortgage Cost Burden <u>At Purchase</u>	Median Approximated Housing Cost Burden <u>At Purchase</u>
Minority purchasers, Income below \$6,000	28.9 %	20.0 %	31.4 % (n=73)
White purchasers, Income below \$6,000	28.4 %	25.0 %	34.0 % (n=64)
Minority purchasers, Income \$6,000 or more	17.8 %	15.1 %	22.8 % (n=48)
White purchasers, Income \$6,000 or more	20.3 %	17.7 %	24.0 % (n=146)

All purchasers	23.2 %	18.6 %	27.1 % (N=331)

TABLE V. 8 HOUSE CONDITION AT PURCHASE, ALL PURCHASES AND BY AGE OF HOUSE

<u>Condition* of House</u>	<u>All Houses</u>	<u>New Houses</u>	<u>Existing Houses, 30 years old or less</u>	<u>Existing Houses, over 30 years old</u>
Adequate (fine on all 6 counts)	34.6 %	39.7 %	39.7 %	18.5 %
Subadequate (fine on 4-5 counts)	40.2 %	44.2 %	41.4 %	29.6 %
Inadequate (fine on 3 counts or less)	25.2 %	16.1 %	19.0 %	51.9 %
	-----	-----	-----	-----
	100 %	100 %	100 %	100 %
	N=338	n=199	n=58	n=81

* The index of condition employed 6 counts of specific house functions on which respondents answered positively or negatively: 1) heating equipment in good working order? 2) signs of water leakage from the outside in the basement or foundation? 3) signs of a leak in the roof? 4) plumbing in sinks and toilets in good working condition? 5) problems with electric wiring? 6) problems with cracks in ceilings or walls? The question instrument had been validated by the Bureau of the Census as an accurate composite index of standard-substandard house condition

TABLE V.9 PARTICIPATION IN VARIOUS HOUSE-AGE SUBMARKETS,
BY PURCHASER GROUP

	<u>New Houses</u>	<u>Existing Houses, 30 years old or less</u>	<u>Existing Houses, over 30 years old</u>
Minority purchasers Income below \$6,000	7.0 %	25.9 %	58.0 %
White purchasers, Income below \$6,000	21.1 %	20.7 %	12.4 %
Minority purchasers, Income \$6,000 or more	7.5 %	29.3 %	21.0 %
White purchasers, Income \$6,000 or more	64.3 % -----	24.1 % -----	8.7 % -----
	100 % n=199	100 % n=58	100 % n=81

TABLE V.10 INCIDENCE OF ADEQUATE/SUBADEQUATE HOUSE
CONDITION AT PURCHASE, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>All Purchasers</u>
Income below \$6,000	68.8% (n=64)	63.2% (n=76)	65.7% (n=140)
Income \$6,000 or more	85.9% (n=149)	69.4% (n=49)	81.8% (n=198)

All incomes	80.8% (n=213)	65.6% (n=125)	
			Total: 75.2% (N=338)

TABLE V. 11 AWARENESS OF HOUSE CONDITION PROBLEMS AT PURCHASE

	<u>Percentage of All Purchasers</u>	<u>Percentage of Purchasers With Problems</u>
Had no problems	32.4 %	---
Aware of all problems	9.2 %	13.6 %
Aware of some problems	10.7 %	15.8 %
Aware of none of the problems	<u>47.8 %</u>	<u>70.6 %</u>
	100 % (N=337)	100 % (n=228)

TABLE V. 12 SEVERITY* OF HOUSE CONDITION PROBLEMS AT PURCHASE, ALL PROBLEMS AND UNEXPECTED PROBLEMS

	<u>All Problems</u>	<u>Unexpected Problems</u>
No Problems	32.4 %	42.4 %
Minor problems, at most	9.2 %	5.4 %
Moderate problems, at most	14.8 %	11.6 %
Major problem(s)	<u>43.6 %</u>	<u>40.6 %</u>
	100% (N=337)	100 % (n=337)

* Major problems include structural deficiencies (foundation, basement or roof leaks, cracked walls or ceilings) and basic functional problems with utilities (plumbing, wiring, heating). Moderate problems include those with the durability of major house features (stairways, partitions, commodes and sinks, etc.), and site finishing problems (drainage, grading, paving, sodding, etc.). Minor problems refer to broken windows, leaking faucets, and non-specific reference to "quality of construction", "poor workmanship", and the like.

TABLE V.13 INCIDENCE OF MAJOR SEVERITY IN HOUSE
 CONDITION PROBLEMS AT PURCHASE, BY
 PURCHASER GROUP (ALL MAJOR PROBLEMS/
 UNEXPECTED MAJOR PROBLEMS)

	<u>White Purchasers</u>	<u>Minority Purchasers</u>
Income below \$6,000	39.1/34.4% (n=64)	60.5/57.9% (n=76)
Income \$6,000 or more	34.2/30.9% (n=149)	52.1/52.1% (n=48)

All incomes	35.7/31.9% (n=213)	57.3/55.7% (n=124)
		Total: 43.6/40.7% (N=337)

TABLE V. 14 TYPES OF ABUSES MENTIONED/FREQUENCY OF MENTION, AND DOMINANT ACTOR BLAMED

	<u>Number of Purchasers Mentioning</u>	<u>Dominant Actor(s) Blamed</u>
Defects in initial house condition:	27.5%	
Correcting the defect(s)	12.7%	Builder
Defective construction	8.9%	Builder
Fraud/misleading information	6.8%	Real estate agent
Failure in inspection	5.6%	FHA
Fulfilling agreements/promises	10.1%	Builder, real estate agent
Misinformation on mortgage costs	3.0%	(none in particular)
Bad information or advice	3.0%	(none in particular)
Delays in purchase date	3.0%	Builder
Other (not being told of buyer options, overpricing, etc.)	3.6%	-----
	(N=338)	

TABLE V. 15 PURCHASERS REPORTING NO ABUSES RELATED TO DEFECTS IN HOUSE CONDITION AT PURCHASE, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>
Income below \$6,000	71.9% (n=64)	64.5% (n=76)
Income \$6,000 or more	75.8% (n=149)	75.5% (n=49)

Total: 72.5%
(N=338)

TABLE VI.1 DURATION OF 235 OWNERSHIP* (AS OF INTERVIEW)

<u>Duration</u>	<u>Resident** Purchasers</u>	<u>Non-Resident** Purchasers</u>	<u>All Purchasers</u>	
	<u>(n)</u>	<u>(n)</u>	<u>(n)</u>	<u>%</u>
Less than 1 year	---	1	1	0.0%
1 year	4	7	11	3.3%
2 years	99	9	108	32.0%
3 years	128	8	136	40.2%
4 years	81 -----	1 -----	82	24.3% -----
	312 92.3%	26 7.7%	N=838	100%

* duration refers to the last anniversary of ownership of the 235 purchased house. Thus a duration of one year may mean an ownership period of anywhere from 12 to 23 months, that is, over a longer period of time.

** Interviews were conducted during spring and summer of 1973. Resident purchasers were those who, as of the interview, had sustained ownership residence in the 235 house. 9 non-residents had sold their homes and moved; 17 had aborted ownership and moved, including one purchaser who had owned for less than a year.

TABLE VI. 2 MEDIAN INCOME LEVELS, YEAR PRIOR TO PURCHASE VS. MOST CURRENT YEAR OF 235 OWNERSHIP, BY PURCHASER GROUP

<u>Group</u>	<u>Median Income at Purchase</u>	<u>Median Income Most Current Year</u>	<u>Percent Change</u>
Minority purchasers, Income below \$6,000	\$ 4,720	\$ 5,640	19.4 %
White purchasers Income below \$6,000	\$ 4,980	\$ 7,160	43.8 %
Minority purchasers, Income \$6,000 or more	\$ 7,530	\$ 8,000	7.6 %
White purchasers, Income \$6,000 or more	\$ 8,170	\$10,000	22.4 %

All purchasers	\$ 6,500	\$ 8,530	27.1 %

TABLE VI. 3 FAMILIES CURRENTLY RECEIVING PUBLIC ASSISTANCE, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>All Purchasers</u>
Income below \$6,000	17.2% (n=64)	56.6% (n=76)	38.6% (n=140)
Income \$6,000 or more	8.7% (n=149)	24.5% (n=49)	12.6% (n=198)

All incomes	11.3% (n=213)	44.0% (n=125)	
			Total; 23.4% (N=338)

TABLE VI. 4 PARENTAL EMPLOYMENT PATTERNS, YEAR PRIOR TO PURCHASE VS. CURRENT YEAR OF 235 OWNERSHIP

Stable* Single-Adult Households:

<u>Year Prior to Purchase:</u>	<u>Current Year of 235 Ownership:</u>			
	<u>Parent Unemployed</u>		<u>Parent Employed</u>	
Parent Unemployed	(9)	10.9%	(6)	7.2%
Parent Employed	(11)	13.3%	(57)	68.7%

	n=83	Total=100%		

Stable* Two-Adult Households:

<u>Year Prior to Purchase:</u>	<u>Neither Parent Employed</u>		<u>One Parent Employed</u>		<u>Both Parents Employed</u>	
	Neither Parent Employed	(2)	0.9%	(1)	0.4%	---
One Parent Employed	(3)	1.3%	(150)	64.9%	(17)	7.4%
Both Parents Employed	---		(25)	10.8%	(34)	14.7%

	n=231	Total=100%				

* The term "stable" means there was no change in the parental composition of the household between the purchase and the interview.

TABLE VI. 5 HOUSE CONDITION,* AT PURCHASE VS. CURRENT
(TIME OF INTERVIEW)

Condition At Purchase	Current House Condition				All
	Adequate	Subadequate	Inadequate		
Adequate	34.6% (76)	65.0% (35)	29.9% (6)	5.1%	(117) 100%
Sub-adequate	40.5% (51)	37.2% (76)	55.5% (10)	7.3%	(137) 100%
In-adequate	24.9% (10)	11.9% (33)	39.3% (41)	48.8%	(84) 100%
	(100%) (137)	40.5% (144)	42.6% (57)	16.9%	(N=338)

* House condition index defined in Table V. 8.

TABLE VI. 6 INCIDENCE OF ADEQUATE/SUBADEQUATE HOUSE
CONDITION, CURRENT AND AT PURCHASE, BY
PURCHASER GROUP

	White Purchasers	Minority Purchasers	All Purchasers
<u>Income below \$6,000</u>			
At purchase:	68.8% (n=64)	63.2% (n=76)	65.7% (n=140)
Current:	85.9%	65.8%	75.0%
<u>Income \$6,000 or more</u>			
At purchase:	85.9% (n=149)	69.4% (n=49)	81.8% (n=198)
Current:	94.6%	71.4%	88.9%

<u>All income levels</u>			
At purchase:	80.8% (n=213)	65.5% (n=125)	75.1% (N=338)
Current:	92.0%	68.0%	83.1%

TABLE VI. 7 ABILITY TO MAKE NECESSARY REPAIRS,
BY AGE OF HOUSE AT PURCHASE

"When things go wrong around the house that need to be repaired, have you been able to have them fixed? Have you been able to take care of most things, some things, a little, or almost nothing? Or hasn't it been necessary?"

	<u>New Houses</u>		<u>Used houses less than 30 years old</u>		<u>Houses 30 or more years old</u>	
Not necessary	(19)	9.5%	(6)	10.5%	(4)	4.9%
Most things	(154)	77.4%	(38)	66.7%	(32)	39.0%
Some things	(14)	7.0%	(9)	15.8%	(23)	28.1%
A little	(4)	2.0%	(2)	3.5%	(8)	9.8%
Almost nothing	(8)	4.0%	(2)	3.5%	(15)	18.3%
	-----		-----		-----	
	(199)	100%	(57)	100%	(82)	100%

TABLE VI. 8 PURCHASERS ABLE TO REPAIR ONLY "A LITTLE" OR "ALMOST NOTHING", BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>All Purchasers</u>
Income below \$6,000	6.3% (n=64)	27.6% (n=76)	17.9% (n=140)
Income \$6,000 or more	5.4% (n=149)	12.3% (n=49)	7.1% (n=198)

All incomes	5.6% (n=213)	21.6% (n=125)	
			Total: 11.5% (N=338)

TABLE VI.9 FUNCTIONAL HOUSING CONDITION*, PRE-PURCHASE, AT PURCHASE, AND CURRENT

	<u>Pre-purchase</u>	<u>At purchase</u>	<u>Current</u>
Adequate on all three counts	72.1%	56.5%	66.4%
Less than adequate on one count	15.3%	25.8%	24.0%
Less than adequate on two counts	6.0%	10.5%	6.0%
Less than adequate on all three counts	5.7%	7.2%	3.3%
	-----	-----	-----
	100%(N=333)	100%(N=333)	100%(N=333)

* based on three counts -- plumbing wiring, and heating -- and whether they were in working order.

TABLE VI.10 PERCENT PURCHASERS ASSESSING CURRENT CONDITION OF 235 HOUSE AS "BETTER THAN" PRE-PURCHASE DWELLING, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>
Income below \$6,000	71.9% (n=64)	64.5% (n=76)
Income \$6,000 or more	77.2% (n=149)	79.6% (n=49)
		Total: 73.7% (N=338)

TABLE VI. 11 PERCENT PURCHASERS ASSESSING CURRENT CON-
 DITION OF 235 HOUSE AS "SAME OR BETTER THAN"
 PRE-PURCHASE DWELLING, BY PURCHASER GROUP

	<u>White</u> <u>Purchasers</u>	<u>Minority</u> <u>Purchasers</u>
Income below \$6,000	89.1% (n=64)	82.9% (n=76)
Income \$6,000 or more	92.6% (n=149)	83.7% (n=49)

All incomes	91.5% (n=213)	83.2% (n=125)
		Total: 88.5% (N=338)

TABLE VI. 12 INCIDENCE OF HOUSING AND NEIGHBORHOOD SATISFACTION, PRE-PURCHASE AND CURRENT, BY PURCHASER GROUP

	<u>Housing Satisfaction</u>			<u>Neighborhood Satisfaction</u>			
	<u>Pre-Purchase</u>	<u>Current</u>	<u>Percent Increase</u>	<u>Pre-Purchase</u>	<u>Current</u>	<u>Percent Increase</u>	
Minority purchasers, Income below \$6,000	44.7%	68.4%	54.4%	56.6%	69.7%	23.2%	(n=76)
White purchasers, Income below \$6,000	51.6%	71.9%	39.4%	65.6%	70.3%	7.2%	(n=64)
Minority purchasers, Income \$6,000 or more	50.0%	79.6%	59.2%	67.3%	89.8%	33.6%	(n=49)
White purchasers, Income \$6,000 or more	62.4%	84.6%	35.6%	71.0%	82.6%	16.3%	(n=149)

All Purchasers	54.8%	77.8%	42.0%	67.9%	78.4%	15.5%	(N=338)

TABLE VI. 13 SOURCES OF SATISFACTION/DISSATISFACTION WITH 235 HOUSE AND NEIGHBORHOOD, BY PURCHASER GROUP

	Frequency of Mention Among Purchasers				
	All Pur-chasers	Minority, White, Income below \$6,000	Minority, White, Income below \$6,000	Minority, White, Income \$6,000 or more	Minority, White, Income \$6,000 or more
HOUSE:					
<u>Basic Housing Quality</u>					
satisfied:	31.0%	24.0%	42.2%	16.7%	34.2%
dissatisfied:	34.2%	41.3%	42.2%	35.4%	26.9%
<u>Specific House Features</u>					
satisfied	19.4%	10.7%	21.9%	6.3%	26.9%
dissatisfied:	16.1%	12.0%	18.8%	22.9%	14.9%
<u>Quality of Life</u>					
satisfied:	20.2%	17.3%	21.9%	16.7%	23.7%
dissatisfied:	5.7%	9.3%	18.8%	6.3%	2.7%
<u>Ownership Tenure</u>					
satisfied:	8.9%	8.0%	6.3%	6.3%	11.4%
dissatisfied:	10.4%	12.0%	12.5%	6.3%	10.1%
<u>Housing Costs</u>					
satisfied:	5.1%	5.3%	6.3%	6.3%	4.0%
dissatisfied:	8.3%	16.0%	9.4%	2.1%	6.0%

NEIGHBORHOOD:					
<u>Physical Characteristics</u>					
satisfied:	37.5%	30.7%	25.0%	41.7%	45.0%
dissatisfied:	13.4%	12.0%	15.6%	8.3%	14.8%
<u>Social Characteristics</u>					
satisfied:	46.4%	44.0%	39.1%	50.0%	48.3%
dissatisfied:	27.1%	24.0%	32.8%	20.8%	28.2%
<u>Quality or Character of the Neighborhood</u>					
satisfied:	14.3%	8.0%	7.8%	25.0%	16.8%
dissatisfied:	17.0%	25.3%	20.3%	8.3%	14.1%
	(N=336)	(n=75)	(n=64)	(n=48)	(n=149)

TABLE VI. 14 MEDIAN HOUSING COST BURDENS -- PRE-PURCHASE, AT PURCHASE, AND CURRENT -- BY PURCHASER GROUP

	<u>Pre-Purchase</u>	<u>At Purchase</u>	<u>Current</u>	
Minority purchasers, Income below \$6,000	28.9%	31.4%	28.8%	(n=72)
White Purchasers, Income below \$6,000	28.4%	34.0%	26.9%	(n=64)
Minority Purchasers, Income \$6,000 or more	17.8%	22.8%	24.3%	(n=48)
White Purchasers, Income \$6,000 or more	20.3%	24.0%	22.4%	(n=145)

All Purchasers	23.2%	26.7%	24.2%	(N=329)

TABLE VI. 15 FREQUENCY OF CURRENT HOUSING COST BURDENS IN EXCESS OF 35 PERCENT, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>All Purchasers</u>
Income below \$6,000	15.6% (n=64)	34.7% (n=72)	25.7% (n=136)
Income \$6,000 or more	3.5% (n=145)	16.7% (n=48)	6.7% (n=192)

All incomes	7.2% (n=208)	27.5% (n=120)	
			Total: 14.5% (N=329)

TABLE VI. 16 INCIDENCE OF TYPES OF HOUSE-RELATED EXPENDITURES, BEYOND MORTGAGE AND UTILITIES, BY AGE OF HOUSE AT PURCHASE

	<u>New House</u>	<u>Used House, No more than 30 years</u>	<u>Used House Over 30 years old</u>
No Major Expenses	34.9%	40.4%	29.3%
Structural Repairs (roof, siding, foundation, etc.)	4.6%	17.6%	26.8%
Utility Repairs (wiring, plumbing, heating)	13.3%	29.8%	46.4%
Building Improvements (major painting; insulation; finishing attics, basements, patios; additions)	23.1%	26.3%	12.2%
Site Improvements (grading, fencing, sodding, paving, drainage)	40.5%	19.3%	4.9%
Furnishings and Maintenance (furniture, floor covering, basic appliances, termite and insect control)	26.7%	26.3%	12.2%
Other	2.1%	---	---
	(n=195)	(n=57)	(n=82)

TABLE VI. 17 AMOUNT OF HOUSE-RELATED EXPENSES, BEYOND MORTGAGE AND UTILITIES, SINCE PURCHASE, BY AGE OF HOUSE AT PURCHASE

	<u>New House</u>	<u>Used House, no more than 30 years</u>	<u>Used House, over 30 years old</u>
No Major Expenses	34.9%	40.4%	29.3%
Less than \$ 500	28.7%	31.6%	37.8%
\$ 500 to \$ 999	15.9%	12.3%	13.4%
\$ 1,000 or more	20.5%	15.8%	19.5%
	(n=195)	(n=57)	(n=82)
Mean Expense	\$ 640	\$ 580	\$ 590

TABLE VI. 18 MEAN HOUSE-RELATED EXPENSES, BEYOND MORTGAGE AND UTILITIES, SINCE PURCHASE, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>
Income below \$ 6,000	\$ 620	\$ 590
Income \$ 6,000 or more	\$ 640	\$ 580

Total Mean = \$ 620
(N=334)

TABLE VI. 19 INCIDENCE OF PURCHASER ASSESSMENTS OF THE HOUSE AS A GOOD INVESTMENT, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>All Purchasers</u>
Income below \$6,000	76.6% (n=64)	65.3% (n=75)	70.5% (n=139)
Income \$6,000 or more	88.5% (n=148)	77.6% (n=49)	85.8% (n=197)

All incomes	84.9% (n=212)	70.2% (n=124)	
			Total: 79.5% (N=336)

TABLE VI. 20 ESTIMATED PERCENTAGE APPRECIATION/DEPRECIATION IN THE MARKET VALUE OF THE HOUSE SINCE PURCHASE, BY PURCHASER GROUP

<u>Appreciation/ Depreciation</u>	<u>All Purchasers</u>	<u>Minority Purchasers</u>	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>White Purchasers</u>
35% or more	10.5%	9.6%	7.9%	12.5%	11.4%
25% to 35%	15.3%	9.6%	14.3%	20.8%	16.8%
	69.4%	43.8%	65.1%	66.6%	84.6%
15% to 25%	18.6%	6.9%	20.6%	20.8%	22.8%
5% to 15%	24.9%	17.8%	22.2%	12.5%	33.6%
Break-Even(+5%)	12.6%	9.6%	20.6%	14.6%	10.1%
-5% to -15%	2.7%	4.1%	1.6%	6.3%	1.4%
-15% to -25%	2.7%	6.9%	3.2%	4.2%	---
	11.4%	31.5%	9.5%	12.5%	2.0%
-25% to -35%	1.2%	1.4%	4.8%	---	---
-35% or less	4.8%	19.2%	---	2.1%	0.6%
Don't know	6.6%	15.1%	4.8%	6.3%	3.3%
	100%	100%	100%	100%	100%
	=333	n=73	n=63	n=48	n=149
Median Estimated Appreciation Rate	+14.2%	+5.5%	+13.6%	+17.9%	+15.9%

TABLE VI. 21 TENURE PREFERENCES, PRE-PURCHASE AND CURRENT WITH INTERVIEW

	<u>Pre-Purchase</u>	<u>Current</u>
Prefer to own	77.5%	90.2%
Indifferent	13.4%	6.9%
Prefer to rent	<u>9.2%</u>	<u>3.0%</u>
	100%	100%
	(N=338)	(N=336)

TABLE VI. 22 INCIDENCE OF CURRENT PREFERENCES FOR OWNING OVER RENTING, BY PURCHASER GROUP

	<u>White Purchasers</u>	<u>Minority Purchasers</u>
Income below \$6,000	89.1% (n=64)	92.1% (n=76)
Income \$6,000 or more	89.3% (n=148)	89.6% (n=48)

Total: 90.2%
(N=336)

TABLE VI. 23 MAJOR BENEFITS AND DEFICITS OF 235 HOME OWNERSHIP, BY PURCHASER GROUP

<u>Major Benefits</u>	All Purchasers	Income below \$6,000		Income \$6,000 or more	
		<u>Minority Purchasers</u>	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>White Purchasers</u>
Tenure: Owning	69.7%	59.5%	64.1%	59.2%	80.5%
Quality of Life	43.2%	33.8%	50.0%	51.0%	42.3%
Tenure: Investment	22.3%	16.2%	21.9%	18.4%	26.9%
Housing	15.2%	16.2%	14.1%	8.2%	16.1%
Neighborhood	6.3%	4.1%	6.3%	4.1%	8.1%
None	0.6%	2.7%	---	---	---
----- (n=336) -----		----- (n=74) -----		----- (n=49) -----	
<u>Major Deficits</u>					
Tenure: Costs of Ownership	32.2%	35.2%	32.8%	26.5%	32.2%
Burden/Responsibility	24.7%	20.3%	20.3%	24.5%	28.9%
Housing	20.1%	21.6%	25.0%	14.3%	16.8%
Neighborhood	5.1%	2.7%	4.7%	0.0%	8.1%
Loss of Mobility (Can't Move)	1.5%	2.7%	3.1%	2.0%	---
None	35.7%	27.0%	28.1%	34.7%	43.6%

TABLE VI. 24 RELATIVE COST OF OWNERSHIP OVER PREVIOUS RENTALS, AND PURCHASER ASSESSMENT OF WORTHWHILENESS OF INCREASED COSTS

	<u>Percentage of Purchasers</u>	
Owning costs less	15.7%	
Owning costs about the same	18.1%	
Owning costs more		
Worth the increased cost	57.1%	} 65.4%
Uncertain	0.3%	
Not worth it	8.3%	
Never rented own apartment	0.9%	

	100%	N=338

TABLE VI. 25 CURRENT MORTGAGE STATUS

Aborted (non-resident)	5.0%
Default, 6 or more payments	0.6%
Default, 4 or 5 payments	0.3%
Default, 3 payments	0.6%
Default, 2 payments	1.2%
Delinquent, 1 payment	3.0%
Current in payments	86.7%
House sold (non-resident)	2.7%

	100% n=103

TABLE VI. 26 SEVERITY OF MOST RECENT DEFAULT EPISODE

Delinquent, one payment	55.3%
Default, two payments	23.3%
Default, three payments	5.8%
Default, four or five payments	4.9%
Default, six or more payments	5.8%
Don't remember the number of payments involved	4.9%

	100% n=103

TABLE VI. 27 REASON GIVEN FOR MOST RECENT DEFAULT EPISODE, ALL EPISODES AND SERIOUS EPISODES*

<u>Reason</u>	<u>All Episodes</u>	<u>Serious Episodes*</u>
Insufficient income	35.9%	19.5%
Loss of employment	26.2%	41.5%
Medical crisis	16.5%	17.1%
Family separation	5.8%	7.3%
Dissatisfaction with house condition	4.9%	9.8%
Other	4.9%	2.4%
No response	5.8%	2.4%
	-----	-----
	100% (n=103)	100% (n=41)

* A "serious" default episode is defined as one which went beyond a one month delinquency.

TABLE VI. 28 INCIDENCE OF DEFAULT AND SEVERITY OF MOST RECENT EPISODE,
BY PURCHASER GROUP

	All Purchasers	Income below \$6,000		Income \$6,000 or more	
		Minority Purchasers	White Purchasers	Minority Purchasers	White Purchasers
Never defaulted	69.7%	60.5%	70.3%	69.4%	74.3%
One month delinquency	16.6%	29.0%	17.1%	11.2%	12.9%
More serious default	12.2%	9.2%	12.5%	18.4%	11.5%
Unknown episode length	1.5%	1.3%	3.1%	---	1.3%
	100%	100%	100%	100%	100%
	N=337	n=76	n=64	n=49	n=149

TABLE VI. 29 OCCURRENCE OF INTERVENING DIFFICULTIES DURING EARLY OWNERSHIP,
BY PURCHASER GROUP

	All Purchasers	Income below \$6,000		Income \$6,000 or more	
		Minority Purchasers	White Purchasers	Minority Purchasers	White Purchasers
Loss of employment	16.9%	9.2%	18.8%	20.4%	18.8%
Major illness	28.4%	17.1%	43.8%	14.3%	32.2%
Family Separation	4.7%	6.6%	4.7%	10.2%	2.0%
No major difficulties	60.1%	71.1%	48.4%	65.3%	57.7%
	N=338	n=76	n=64	n=49	n=149

TABLE VI. 30 ASSESSED CAUSES OF MORTGAGE FAILURE,
OBSERVED IN CASES OF ABORTED OWNERSHIP

Dissatisfaction with house condition	8
Loss of employment	4
Insufficient income	3
Family separation	2
Major illness	1
Dissatisfaction with neighborhood	1
	----- n=19

TABLE VI. 31 PERCENTAGE OF NON-ABORTING OWNERS,*
BY PURCHASER GROUP

	<u>White</u> <u>Purchasers</u>	<u>Minority</u> <u>Purchasers</u>
Income below \$6,000	95.3% (n=64)	94.7% (n=76)
Income \$6,000 or more	92.6% (n=149)	98.0% (n=49)
		Total: 94.4% (N=338)

* includes those who have already sold their homes.

TABLE VI. 32 AREA UNEMPLOYMENT RATES BY METROPOLITAN AREA* (August, 1973)

Denver	3.0%
Indianapolis	3.2%
Louisville	3.6%
Milwaukee	3.6%
Omaha	4.0%
Pittsburgh	4.5%
Rochester	3.1%
St. Louis	5.3%
Seattle	7.5%
Washington, D. C.	3.2%

* Source: U.S. Department of Labor, Manpower Administration, Area Trends in Employment and Unemployment, Washington, D. C., October, 1973

TABLE VI. 33 FIRST REGRESSION RESULTS, DEPENDENT VARIABLE: EXTENT OF MORTGAGE DEGENERATION

<u>Variable</u>	<u>Coefficient</u>	<u>Standard Error</u>	<u>Standardized Coefficient</u>	<u>Significance</u>	<u>Unique Variance</u>
Local Unemployment Rate	-0.8743	0.146	-0.300	under .001	.089
House Condition at Purchase	0.4739	0.122	0.202	under .001	.037
Duration of Ownership	0.9641	0.212	0.228	under .001	.051
Current Income Level	0.1354	0.060	0.117	.025	.013

 Multiple Correlation Squared = .201. Percent of Variance Explained = 20.1%.

TABLE VI. 34 SECOND REGRESSION RESULTS, DEPENDENT VARIABLE: EXTENT OF MORTGAGE DEGENERATION

<u>Variable</u>	<u>Coefficient</u>	<u>Standard Error</u>	<u>Standardized Coefficient</u>	<u>Significance</u>	<u>Unique Variance</u>
Intervening Difficulties	-0.9793	0.187	-0.256	under .001	.063
Local Unemployment Rate	-0.7475	0.142	-0.256	under .001	.063
Duration of Ownership	1.0631	0.205	0.205	under .001	.061
House Condition at Purchase	0.4564	0.119	0.194	under .001	.034
Current Income Level	0.0428	0.024	0.092	.077	.007

 Multiple Correlation Squared = .265. Percent of Variance Explained = 26.5%.

TABLE VI. 35 ANTICIPATED RESIDENTIAL STABILITY IN THE 235 HOUSE PURCHASED, BY PURCHASER GROUP (AS PERCENT OF PURCHASERS/PERCENT OF RESIDENT PURCHASERS)

<u>Anticipated Term of Residence</u>	<u>All Purchasers</u>	<u>Income below \$6,000</u>		<u>Income \$6,000 or more</u>	
		<u>Minority Purchasers</u>	<u>White Purchasers</u>	<u>Minority Purchasers</u>	<u>White Purchasers</u>
Already non-resident	8.3%	6.6%	12.5%	2.0%	9.4%
sold:	2.7%	2.3%	7.8%	---	2.0%
aborted:	5.6%	5.6%	4.7%	2.0%	7.4%
Less than 2 more years	6.8/ 7.4%	5.3/ 5.7%	7.8/ 9.2%	4.2/ 4.3%	8.1/ 8.6%
At least 2 more years	77.7/84.2%	77.6/84.3%	65.6/77.7%	87.5/89.3%	79.9/85.0%
At least 5 more years	65.3/70.7%	56.6/61.5%	46.9/55.6%	75.0/76.5%	57.1/60.7%
At least 10 more years	44.5/48.2%	48.7/52.9%	31.3/37.1%	64.6/65.9%	41.6/44.3%
At least 20 more years or "permanent"	30.0/32.5%	38.2/41.5%	18.8/22.3%	43.8/44.7%	26.2/27.9%
Uncertain about plans	7.7/ 8.4%	9.2/10.0%	10.9/12.9%	6.3/ 6.4%	6.0/ 6.4%
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	N=337/311	(n=76/70)	(n=64/54)	(n=48/47)	(n=149/140)

TABLE VI. 36 REASONS REPORTED FOR MOVING FROM THE
235 HOUSE PURCHASED, BY RESIDENT* AND
NON-RESIDENT STATUS

<u>Reason</u>	<u>Resident</u>	<u>Non-resident</u>	<u>Both</u>
Better housing in general	21	7	28
Need more space	13	2	15
Equity or investment issues	10	4	14
Intervening Difficulties (employment, illness, family separation)	4	8	12
Neighborhood-related reasons	7	2	9
Major move necessary	5	2	7
Other	2	1	3
	n=62	n=26	n=88

* only those resident purchasers who indicated they were "thinking about a move" or "planning to move" were asked for reasons.

TABLE VI. 37 INCIDENCE OF PERCEIVED NEGATIVE EQUITY
SITUATIONS AMONG PURCHASERS, BY INCOME
AND RACE

	<u>White Purchasers</u>	<u>Minority Purchasers</u>
Income below \$6,000	9.5% (n=63)	31.5% (n=73)
Income \$6,000 or more	2.0% (n=149)	12.5% (n=48)

Total: 11.4%
(N=333)

APPENDIX C: DESCRIPTION OF SELECTED INDICES

The Mortgage Degeneration Index

The mortgage degeneration index describes the degree of difficulty the purchaser experienced in sustaining 235 home ownership, as reflected in threats to the status of the aborted ownership would seem to symptomatic of problems with ownership viability, the same can not be said of a sale of the house. As a result, the structure of the index ignores whether a purchaser has sold his or her 235 house.

For each case in the urban sample, a mortgage degeneration index score was assigned. Low scores reflect serious mortgage difficulties, high scores the relative absence of such difficulties:

<u>Index Score</u>	<u>Criteria</u>
0	Ownership aborted (foreclosure, deed in lieu, abandonment, etc.)
1	Ownership about to be aborted, based on severity of current default, and the purchaser's anticipation of mortgage failure in the near future.
2	Owner experienced a default episode of 6 or more months duration.
3	Owner experienced a default episode of 3 to 5 months duration.
4	Owner experienced a default episode of 2 months duration.
5	Owner experienced repeated episodes of one-month delinquency.
6	Owner experienced a single one-month delinquency.

Index Score

7

Criteria

Owner never fell behind in mortgage payments.

The Intervening Difficulties Index

This index describes the incidence of difficulties encountered by owning families -- loss of employment, major illness, family separation -- that the respondent reported had either affected the household's regular income, or made it difficult to keep up mortgage payments, or caused worry about the family's ability to hold on to the house.

Index Score

Criterion

0

No intervening difficulties reported.

1

One problem episode reported.

2

More than one problem episode reported.