NEIGHBORHOOD HOUSING SERVICES PROGRAMS

AS INSTRUMENTS OF REINVESTMENT

Erica Pascal

Woodstock Institute
410 North Michigan Avenue
Chicago, Illinois
(312) 644-4469

About the Author

Erica Pascal is an Associate of the Woodstock Institute. The Woodstock Institute is a not-for-profit organization which conducts research, training and education for the public, private and voluntary sectors about ways to ameliorate disparities in the availability of capital and credit.

Erica is also the Editor of Land Use Law and Zoning Digest, a monthly publication of the American Society of Planning Officials (ASPO). Among her other activities at ASPO, she writes a monthly column entitled "Legal Digest" for Planning.

Erica has also authored the following publications: Regional Planning, Housing and Civil Rights: The Implementation of the A-95 Review Process in the Chicago Metropolitan Area; and The A-95 Review Process in Illinois.

Erica's educational training includes degrees from the following institutions: B. A., Urban Affairs, Boston University and J. D., Northwestern University School of Law. During her tenure at Northwestern, Erica was an Associate of the Urban-Suburban Investment Study Group of the Center for Urban Affairs.

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Summary

Unlike previous papers in this series which analyzed reinvestment strategies initiated by a single sector, this paper analyzes a strategy which is jointly initiated by the private, public and voluntary sectors. Neighborhood Housing Services is a neighborhood revitalization strategy which requires the joint commitment of local government, financial institutions and citizen groups.

The paper explains the role of the Urban Reinvestment Task Force in supporting NHS development, and discusses the criteria employed in analyzing the feasibility of establishing an NHS in a given neighborhood. It also describes the components of a typical NHS program, and presents a summary of the performance of the Kansas City and St. Louis programs. The author concludes with suggestions of ways in which state agencies could support the initiation of new NHS programs and the expansion of existing programs.

NEIGHBORHOOD HOUSING SERVICES PROGRAMS AS INSTRUMENTS OF REINVESTMENT

Neighborhood Housing Services (NHS) is a neighborhood development strategy that requires the joint commitment of local government, financial institutions and citizen groups. Its key feature is that it is a local program adapted to each local situation, with local control over priorities and policies. It is not dependent on federal funding for its operation, although the Urban Reinvestment Task Force (URTF), which provides staff expertise and organizational assistance to initiate and develop local NHS programs, is funded by HUD. This assistance includes development workshops, appraisal and underwriting workshops, and fundraising assistance.

The Task Force grew out of the Federal Home Loan Bank Board's experimental program to bring city officials and community residents together with savings and loan officials to discuss issues related to neighborhood development.[2] Currently, the URTF is governed by a Board of Directors consisting of the Secretary of the Department of Housing and Urban Development, the Chairman of the Federal Home Loan Bank Board, a representative of the Board of Governors of the Federal Home Loan Bank Board, a representative of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, and the Chairman of the Federal Deposit Insurance Corporation.

An NHS program is initiated by application from either local banks, community organizations or the city to the Task Force. The Task Force looks for the following elements in the application:

1. Local government capacity and willingness to participate with a sensitive and appropriate code compliance program, appropriate planning and zoning activities, public service improvements, and public works expenditures;

2. Potential financial institution leadership;

3. Potential neighborhood support and leadership;

4. Foundation/industrial/civic/local government resources to support a high risk revolving loan fund;

5. Interest of Federal, state, and other agencies in assisting and/or cooperating;

6. Active leadership from at least one (local government, financial industry or neighborhood group) sector.[3]

The primary objective of an NHS program is to reverse decline in marginal neighborhoods. According to the Task Force, NHS is not a housing panacea.[4] It is not suited to neighborhoods which are characterized by low incomes, heavy absentee ownership, severe vandalism, abandonment or demolition. The financing provided through an NHS program is designed for neighborhoods which have not yet fallen into a blighted condition, but which appear to be in the beginning stages of a disinvestment cycle which can be expected to lead to a blighted condition if not reversed.[5]

An NHS program attempts to reverse decline by devel-

oping a working partnership of local community leaders, city officials, and representatives of financial institutions, who comprise the Board of Directors of the local NHS corporation.[6] The role of each group is carefully prescribed by Task Force guidelines:

1. Neighborhood residents who want to preserve their neighborhood and improve their homes, and are willing to put their effort into establishing and operating a NHS.

2. A local government which agrees to reinvest in the neighborhood by making necessary improvements in public amenities and by conducting an appropriate housing code compliance program coordinated with NHS activities.

3. A group of financial institutions who agree to reinvest in the neighborhood by making loans at market rates to all homeowners who meet normal credit standards. Participating financial institutions normally make tax-deductible contributions to the NHS to meet its operating costs.[7]

In addition, the Board as a group has responsibilities. These include the following three tasks:

1) Selection of a Target Neighborhood. The Urban Reinvestment Task Force recommends the following criteria be applied in selecting a target neighborhood for the NHS operation:

1. Basically sound housing structures showing early signs of lack of maintenance and deterioration.

2. Difficulty obtaining mortgages and home improvement loans.

3. A substantial number of owner-occupied structures (greater than 50%).

4. Distinct boundaries with a stable anchor

on one or two boundaries.

5. An area large enough to stimulate the imagination of those who must invest their energy and funds but small enough to permit an early visible success (1,000 - 2,000 structures).

6. Median income no less than 80% of the city-wide median.

7. Average repair costs not in excess of $5000.[8]

2) Fundraising and Program Maintenance. The Board of Directors is responsible for staffing the NHS local office(s), which generally consists of a director, assistant director, possibly a housing counsellor, and supportive staff. These individuals provide loan and homeownership counselling, refer "bankable" loans to participating financial institutions, and assist city officials in the code enforcement program. They may also help individuals interested in home improvement to draw up estimates, hire contractors, and oversee the rehabilitation. To finance this operation, the Board of Directors must engage in productive fund raising efforts. Contributions are primarily made by participating financial institutions, with other assistance provided by local and state programs, and private foundations.[9]

3) Administering a High-Risk Loan Fund. The high-risk loan fund is a crucial aspect of the NHS program, since it allows loan applicants who do not meet conventional underwriting standards to obtain home improvement loans at flexible rates and terms. Money for the fund is provided by foundations, local sources, and Community Development Block

Grant funds, with some assistance from the Urban Reinvestment Task Force. A subcommittee of the local Board of Directors reviews high-risk loan applications and makes the final decision on each loan.

As of Spring, 1977, the Task Force had helped thirty Neighborhood Housing Services programs become fully operational, and sixteen more programs were being developed. (BNA)[10] Two of the programs which are operational are located in Kansas City and Saint Louis, Missouri.

The program in Kansas City, called the 49-63 Homes Conservation Association Neighborhood Housing Services Program, has been in operation since November, 1974. The 49-63 area encompasses 4400 people in 1650 housing units. Homeownership accounts for 55-65% of all structures. Housing values range from $10,300 to $17,250 for single-family homes, which make up the majority of the structures. Median family income is approximately $11,000, with a non-white population of 15-21%. The neighborhood is located approximately five miles from the downtown area, and is near a university and major shopping center. The university owns a substantial amount of housing in the neighborhood.[11]

Since its formation, the 49-63 NHS program claims that code compliance for housing structures in the area has risen from 24% to 66%.[12] As of February, 1977, a total of 537 properties had been brought up to code at an estimated private expenditure of $615,000. At this time, the NHS office

had placed 25 conventional loans with an aggregate value of $181,619.[13] The City of Kansas City committed $800,000 in capital expenditures, including lighting, streets and curbs, trees, and a full-time building code inspector to provide code inspections for all properties in the target area.[14]

The 49-63 NHS program's high-risk revolving loan fund, an integral part of all NHS programs, had provided 42 loans with an aggregate value of $104,000.[15] The average value of the high risk loans was approximately $2,474 with a range of $257 - $5,900. According to the annual report, repayment of these loans has been relatively mediocre with 24 accounts current, 5 accounts 30 days past due and 9 accounts more than 90 days past due. The report contends that the abnormal number of delinquencies was caused by the high cost of utility bills during the severe winter.[16]

Michael Balmuth, former NHS director, projected that since the NHS program began, home values have increased by two to three thousand dollars.[17] Aside from its counselling and loan programs, NHS operations also include an urban homesteading program, operated by the city in coordination with the NHS to return abandoned properties to productive use, and a community action project aimed at improving neighborhood elementary schools. The NHS program is also considering expansion into the South Hyde Park neighborhood and/or the 31st - 47th-Troost-Paseo area.[18]

Based on a number of criteria, the 49-63 Homes Conservation Association Neighborhood Housing Services Program is

operating effectively. If a criterion for success is lender involvement, then NHS has made significant strides by the involvement of 24 Kansas City financial institutions, and by their demonstrated willingness to increase their funding to serve the new target neighborhood. However, during their first two years of operation, the 49-63 NHS program has successfully placed only 25 conventional loans with their sponsors, or one loan per bank in two years.

Another criterion for success may be in the upgrading of the neighborhood. Although this often rests on many intangibles, and on a number of factors beyond the control of the NHS (crime, quality of education, city maintenance), it is significant that the number of homes in building code compliance has more than doubled, that substantial amounts of money have been reinvested by homeowners into their properties, and that home values have risen by $2-3,000. An indicator of whether decline in the 49-63 neighborhood has been significantly arrested will lie in the continuing upgrading of structures, through both NHS and private activity, and the renewed interest by the city to provide not only capital improvements but continuing maintenance of the neighborhood as a viable place to live.

The second Missouri program, Neighborhood Housing Services of St. Louis, is a much newer program, having been in operation only since October, 1976. The NHS area is located on the near south side, approximately two miles from the downtown area. It is near two historic districts, called Sulard and Lafayette. Square. St. Louis University is nearby, as is a new privately-

financed redevelopment project known as LaSalle Park. The area includes 2800 structures, housing approximately 11,865 people. Twenty-eight percent of these structures are single family dwellings, and thirty-one percent are duplexes. Home-ownership accounts for 55% of all structures, and home values range from $5,000 to $10,000. The area is 99% white, with a median income of $6000.[19]

As of September, 1977, the Saint Louis NHS program, in cooperation with the City of Saint Louis, had inspected 300 properties.[20] NHS has developed a formal program to meet with residents on a block-by-block basis after their block has been inspected. The staff of the program had assisted in processing sixteen conventional loans with an aggregate value of $287,600, and had granted eight high risk loans for a total of $73,880. Through September, 1977, 52 property owners received personal financial counselling from NHS staff.[21]

The City of Saint Louis has supported NHS' activities in the target neighborhood by providing $47,200 in street resurfacing (1976-1977), $120,000 in new streets, curbs and sidewalks (1977), and a $100,000 grant to high risk revolving loan fund (1977).[22] For 1978, the city has made a commitment of $120,000 for street, curb and sidewalk improvements, and a $100,000 commitment to the high risk revolving loan fund.[23]

It is not yet possible to evaluate the Saint Louis program. However, the fact that 33 financial institutions have contributed to the NHS operating fund is a hopeful sign. The city's performance in providing capital improvements also represents

a substantial commitment to the program.

Conclusion

The overall operation of Neighborhood Housing Services throughout the country has been encouraging. The widespread interest in NHS indicates a growing demand for neighborhood revitalization programs which focus on housing and capital improvements, and involve the public, private and voluntary sectors.

Although NHS is primarily a local program assisted by a federal agency, there is potential for state involvement in a number of areas. By direct commitment of funds, a Missouri state agency can contribute to the operating expenses of the local program and the high risk loan fund, thus decreasing the program's start-up time and possibly increasing its scope. Secondly, the state agency might participate in the NHS development process, assisting the Urban Reinvestment Task Force in educational workshops with city, financial and community leaders. This would lessen the Task Force's time and financial burden and allow its resources to be stretched further within that state. The state agency might also wish to develop its own NHS-type program, perhaps one geared to smaller cities where the NHS development has been more difficult.

Finally, NHS should not be viewed in a vacuum, or as a substitute for other strategies. Several Neighborhood Housing Service programs have incorporated urban homesteading programs into their operations (Chicago, Kansas City, Baltimore). Many

have also received assistance through the Community Development Block Grant program. NHS may be only one element in a comprehensive strategy of housing assistance, capital improvements beyond those minimally required by NHS, improvement of public services such as schools, transportation, and garbage collection, business revitalization, or a number of other strategies.

Footnotes

1 Urban Reinvestment Task Force, Neighborhood Partnerships: The Urban Reinvestment Task Force in 1976 (Washington, D. C.: Urban Reinvestment Task Force, 1977), pp. 12-13.

2 Ibid., p. 7.

3 40, Federal Register, 50160 (October 28, 1977).

4 Urban Reinvestment Task Force, "Neighborhood Housing Services" (May 7, 1974), p. 2.

5 Ibid.

6 A local NHS program is a 501(c)(3) not-for-profit corporation.

7 42, Federal Register, 6665 (Feb. 3, 1977).

8 Supra., Note 4, p. 2.

9 Ibid., p. 3.

10 Housing and Development Reporter, Reference File Number 1 (Washington, D. C.: Bureau of National Affairs)

11 Neighborhood Housing Services of Kansas City, Inc., Third Annual Report To Members (February 28, 1977).

12 Ibid., p. 1.

13 Ibid., p. 16.

14 Ibid., p. 3.

15 Ibid., p. 4.

16 Ibid.

17 Telephone conversation between Michael Balmuth and Erica Pascal, February, 1977.

18 Supra., Note 11, pp. 6-8.

19 Information provided by the staff of Neighborhood Housing Services of Saint Louis, Inc.

20 Neighborhood Housing Services of Saint Louis, Inc., "Summary of Neighborhood Improvement Activity Through September, 1977."

21 Ibid.

22 Ibid.

23 Ibid.