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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D C 20548

RESOURCES AND ECONOMIC DEVELOPMENT DIVISION

AUG 1 1972

Dear Mr Watson

The General Accounting Office is currently reviewing the Department of Housing and Urban Development (HUD) program under which homeownership opportunities are provided to low-income families

Our review, which is directed primarily toward evaluating the effectiveness of this program, is being conducted at the central office of HUD and at several of its regional and area offices. We also included in this review local housing authorities (LHAs) in Raleigh, Winston-Salem, and Charlotte, North Carolina, Dallas, Texas, St Louis, Missouri, Gulfport, Mississippi, and Roanoke, Virginia.

On May 26, 1972, we met with HUD officials in Washington, D C and discussed certain weaknesses in the program which we noted during our review. The officials advised us that HUD was considering certain changes in the program and added that any information or observations we could provide, based on the preliminary results of our review, would assist HUD in its efforts to improve the administration of the program

The homeownership program for low-income families (HOPLIF) was initiated in 1967 when a pilot program was established in Gulfport, Mississippi In light of the relatively short time that has elapsed since the program began, accomplishments in terms of significant numbers of low-income families gaining homeownership cannot be expected We noted, however, a number of weaknesses which appear to materially affect the basic objectives of assisting low-income families in accomplishing the homeownership goals envisioned by HUD as described in its program criteria and guidelines.

These weaknesses deal with the failure of program participants (homebuyers) to make required monthly payments, perform routine maintenance, and make voluntary payments to LHAs Also, we noted certain problems relative to the refinancing aspects of the program and the apparent inability of LHAs to accomplish the social goals of the program as set forth by HUD Details of these observations are discussed below

LOW-INCOME FAMILIES ACQUIRING HOMEOWNERSHIP

Under the HOPLIF program, low-income families occupy LHA-owned homes under a lease/purchase arrangement and ultimately acquire ownership of the homes in about 25 to 30 years

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Basically, the concept of the HOPLIF program--as envisioned by HUD--is to provide homeownership opportunities to low-income families In acquiring homeownership, families are expected by HUD to assume certain responsibilities and obligations inherent in homeownership In this regard, families are to (1) make monthly payments that amount to about 20 to 25 percent of their monthly income and (2) perform routine maintenance of their homes The estimated costs of such maintenance performed by these families reduces the amortization period and families can therefore acquire title to their homes in a shorter time than would be possible if such maintenance was not performed In addition, families may make voluntary payments (over the required monthly payments) to further reduce the amortization period

Required Monthly Payments Are Not Being Made

At five of the seven LHAs we visited, low-income families were not making the required monthly payments to the LHA For example, at one LHA, 148 of the 387 families residing at two projects were delinquent in their monthly payments with 43 participants owing the LHA at least 2 payments In many instances, we noted that the families did not make such payments to the LHA unless they were ordered to do so by the courts At one location we found that 10 families had not made payments for periods ranging from 4 to 9 months

At another location, we were told by LHA officials that collection of monthly payments represented a very serious problem and each month the housing authority had to initiate court action to obtain such payments from about 25 percent of the families

Families Do Not Perform Routine Maintenance

As previously mentioned, families participating in this program are expected to properly maintain their homes At several locations we visited, many families had not performed the required maintenance and LHAs had to perform such maintenance We were informed by LHA officials at one location that 90 percent of the families were not performing the required maintenance. In a 6-month period, another LHA spent about $11,000 to perform project maintenance for the HOPLIF housing units In addition, at another LHA we noted that extensive repairs were required to renovate the HOPLIF housing units when vacated. At this location such renovation costs averaged about $360 a unit with costs as high as $800 for one unit In our opinion, the high cost of renovations shows that the houses were not properly maintained by the former occupants

Families Do Not Make Voluntary Payments

Families making voluntary payments to LHAs can acquire title to their homes at an earlier date than is otherwise possible without such payments Our review showed, however, that since the HOPLIF program was initiated about 4 years ago, few families have made such payments Of approximately 1,800 families participating in this program at the seven LHAs we visited, we found that only five families made voluntary payments totaling about $50

High Rate of Turnover of Program Participants

At six of the seven LHAs, we found that the number of families that dropped out of the program ranged from 11 to 37 percent of the families originally participating in the program At the 200-unit project in Gulfport, Mississippi for example, 75 families left the program. In addition, at this project, LHA officials said that they have not been able to keep the project fully occupied and an average of 18 units were vacant at all times

Similar views were expressed by LHA officials at another location we visited

Impact of the Brooke Amendment

The Brooke Amendment to the Housing Act of 1937, as amended, limits the monthly payments for housing expenses (including utilities) to 25 percent of the monthly income of the family.

At three locations, 190 families were not making required monthly payments to the LHAs because of the low-income level of the families and the application of the 25 percent housing expense limitation In addition, although families participating in the HOPLIF program are supposed to pay for utilities, we found that the LHAs in some cases were making such payments

INABILITY OF FAMILIES TO ACQUIRE HOMEOWNERSHIP UNDER OTHER HOUSING ASSISTANCE PROGRAMS

Under the HUD program guidelines, low-income families participating in the HOPLIF program are expected to attain homeownership by refinancing their homes under less-subsidized or unsubsidized programs when their income increases sufficiently

At five LHAs, the income levels of about 200 families were high enough for the families to qualify for assistance under less-subsidized housing assistance programs, however, none of the families refinanced their homes under such other programs In our opinion, the inability of families to refinance their homes under other housing assistance programs may be directly related to the high development costs of the HOPLIF units As you know, HUD requires LHAs to include costs for such items as pre- and post-occupancy training and community facilities in the total development costs of the HOPLIF units

To determine the impact of including such items in the development costs, we obtained FHA appraisals on 21 homes at five locations and found that the appraised market value of the homes was between $1,000 and $6,500 below the prices established for the homes under the HOPLIF program

The cost of housing units under the HOPLIF program also exceeded the insurable value limitations for homes under HUD's section 235 homeownership program At one location, the cost for a 3-bedroom unit under the HOPLIF program was $22,675 while the insurable value limitation under the section 235 program for a 3-bedroom home was $18,000 Under these circumstances, although the incomes of families in the HOPLIF program could entitle them to less subsidized financing, they could not refinance their homes under the section 235 program which was, according to HUD, established to assist low- and moderate-income level families to acquire homeownership.

SOCIAL GOALS OF THE PROGRAM ARE NOT BEING ACCOMPLISHED

HUD stressed the social goals and aspects of the HOPLIF program and pointed out, in its guidelines to LHAs, that through this program low-income families should experience a sense of responsibility and status that is associated with homeownership Such goals according to HUD, are to be accomplished primarily by LHAs providing pre- and post-occupancy training to low-income families and by establishing associations of homebuyers that consist of program participants

Although the type of such pre- and post-occupancy training varied between LHAs, we found that, generally speaking, the basic objectives of such training were not being accomplished These conclusions are based predominately on our observations that the program participants are not making required monthly payments and are not performing routine maintenance to their homes

One LHA did not provide any pre-occupancy training for the families and at two other LHAs this training was provided only to some of the families participating in the program At locations where pre-occupancy training was provided, LHA officials said that attendance was generally good because such training was a condition to participation in the program On the other hand, although LHAs, in most instances, provided post-occupancy training, we were told by LHA officials that attendance at such sessions was poor

HUD requires that LHAs assist the families in establishing an association of homebuyers for such purposes as (1) advising families of their rights and obligations as participants in the HOPLIF program, (2) expressing the needs of homebuyers in dealing with LHA management, and (3) ultimately assuming management responsibility for the projects

One LHA did not assist the participants in organizing an association of homebuyers We found that at the other LHAs, such associations did exist, or were being developed We were advised by LHA officials, however, that (1) lack of interest on the part of program participants, (2) serious disagreements between homebuyers association members and the LHA personnel, and (3) lack of leadership on the part of homebuyers significantly contributed to the apparent ineffectiveness of the homebuyers association in accomplishing the social goals set forth by HUD

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The HOPLIF program, as originally conceived by HUD, was in our opinion, designed to provide homeownership opportunities only for families eligible for assistance under the public housing program Our review showed, however, that at one LHA, about 50 percent of the families were admitted although they had incomes that exceeded public housing program admission limits

Based on our work at four locations, we noted that about 100 families were participating in the HOPLIF program with annual incomes ranging from about $7,500 to $14,300 Furthermore, the income of a number of families participating in the HOPLIF program was greater than the income of families who qualify for assistance under HUD's section 235 housing program

We recognize, as obviously some LHAs have, that by including families of higher income levels in the program, a greater possibility exists for families in the program to attain the desired objective of becoming homeowners. One LHA is now advertising to potential program participants that the HOPLIF program is designed to assist moderate-income level and not low-income level families in acquiring homeownership.

In view of the fact that HUD has stated that the HOPLIF program was implemented to help ensure that families of low-income will be afforded an opportunity to become homeowners, we would appreciate receiving your views relative to the income level of families that HUD plans to assist under this program

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We are continuing our review of the HOPLIF program at several locations. Upon the completion of this work, we will submit to HUD a report of our findings, together with appropriate recommendations for corrective actions

We shall be pleased to discuss with you or members of your staff, the matters discussed in this letter Copies of this letter are being provided to the Assistant Secretary for Housing Production and Mortgage Credit and the Inspector General, Department of Housing and Urban Development

We would appreciate your views and comments on any action taken or planned with respect to the above matters.

Sincerely yours,

Frank V. Subalusky

for B. E Birkle
Associate Director

The Honorable Norman V. Watson
Assistant Secretary for Housing
Management
Department of Housing and Urban
Development