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B-171630
3-27-74

REPORT TO THE CONGRESS 0948

Problems In The Homeownership Opportunities Program For Low-Income Families B-171630

Department of Housing and Urban Development

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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MARCH 27, 1974

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

B-171630

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

This is our report on problems in the homeownership opportunities program for low-income families, an administratively developed program of the Department of Housing and Urban Development.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the United States Housing Act of 1937, as amended (42 U.S.C. 1401).

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretary of Housing and Urban Development.

Elmer B. Staats

Comptroller General
of the United States

Contents

ABBREVIATIONS

FHA	Federal Housing Administration
GAO	General Accounting Office
HBA	homebuyers association
HOPLIF	homeownership opportunities program for low-income families
HUD	Department of Housing and Urban Development
LHA	local housing authority

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

PROBLEMS IN THE HOMEOWNERSHIP OPPORTUNITIES PROGRAM FOR LOW-INCOME FAMILIES
Department of Housing and Urban Development B-171630

D I G E S T

WHY THE REVIEW WAS MADE

GAO reviewed the homeownership opportunities program for low-income families (HOPLIF), an administratively developed program of the Department of Housing and Urban Development (HUD) also referred to as turnkey III, to evaluate the progress made since its start in 1968 and to identify areas where HUD could improve the program's effectiveness in helping low-income families to become homeowners.

In January 1973 HUD placed a moratorium on all its housing programs, including HOPLIF, to permit a study to determine whether the programs should be continued, revised, or terminated. HOPLIF was not specifically included in the study submitted to the Congress in September 1973, but funding of new homes under the program remains suspended.

FINDINGS AND CONCLUSIONS

HOPLIF enables low-income families to acquire homes under a lease-purchase agreement with a local housing authority (LHA) if they maintain their homes, make the required monthly payments, and remain in the homes for about 25 years. Such families can reduce the time to obtain homeownership by making voluntary payments or by financing the homes through other ways.

HUD records showed that at June 30, 1972, LHAs in 85 municipalities were managing 6,637 HOPLIF homes, had 6,439 HOPLIF homes under construction, and had 5,685 homes in the preconstruction or application stage. The estimated cost of these units is about $407 million.

Insufficient demand

The program has not attracted a sufficient number of qualified low-income families with homeownership potential to fill available houses. A review of 14 HOPLIF projects at 7 LHAs found that:

--Some had vacant units and were subjected to vandalism. (See p. 10.)

--To increase occupancy, many LHAs altered selection standards to the point where some participants did not have adequate income to meet the minimum payments while others had incomes high enough to qualify for programs more appropriately designed for moderate-income families. (See pp. 12 and 14.)

--The income of some families was so low that they were unable to make any payments. Under established procedures LHAs made, on their behalf, the required monthly deposits in the families' earned home payment and home maintenance reserve accounts at local banks. Some families received checks from the LHA to cover also the utility

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costs. LHAs payments are reimbursed to them under HUD's annual contribution agreement. (See p. 14.)

--To encourage participants to remain in HOPLIF, many LHAs offerred incentives that were contrary to requirements, such as reducing the homeowner's monthly payments and providing routine maintenance of homes without charge. (See p. 17.)

Failure to accept homeownership responsibility

Many families accepted in the program did not have homeowner potential and have not accepted homeownership responsibilities.

--At six LHAs, 405 of 1,619 participating families were delinquent for periods from 1 to 10 months in rental payments. (See p. 20.)

--Families at six LHAs generally were not performing routine maintenance and some of the project areas were becoming blighted. (See p. 21.)

Inadequate homeownership training

Failure to assume homeownership responsibilities may have resulted, in part, from the lack of sufficent homeownership training which LHAs or the homebuyers associations to be formed at each project were to provide. Of the 14 projects, 8 provided no formal training or trained only a limited number of participants because homebuyers associations had not been formed or were only partially formed. Records at several LHAs showed infrequent and poor attendance at training sessions. (See p. 25.)

HUD advised GAO during its review that it would provide additional funding toward a more balanced training program for participants covering such items as home maintenance, money management, and operation of homebuyers associations.

HUD should monitor LHAs' training efforts and insure that all participating families attend training sessions. (See p. 28.)

Other factors hindering accomplishment of program objectives

Since HOPLIF began in 1968, none of the 1,700 families at the seven LHAs had purchased their home or had refinanced them under another HUD program, as contemplated when HOPLIF was established. One deterrent has been the setting of a purchase price in excess of the home's appraised value and beyond the limits within which homes can be insured by HUD under its section 235 homeownership assistance program for low- and moderate-income families. The higher price of HOPLIF homes resulted from including certain additional costs which the LHA incurred in developing the projects. (See p. 35.)

HUD has recently revised its procedures for establishing purchase prices. GAO found that these prices generally still exceeded fair market values and provided a disincentive to homeownership. (See p. 30.)

HUD did not provide guidance to its area offices or to LHAs for assisting HOPLIF families who wished to obtain private financing or to refinance their homes under another HUD program. This has delayed refinancing of HOPLIF homes contrary to HUD's program objectives. (See p. 35.)

RECOMMENDATIONS OR SUGGESTIONS

The Secretary of HUD should evaluate the significance and seriousness of the problems noted and assess the relative merits of either (1) discontinuing the program or (2) strengthening the program to insure that the stated objectives are achieved. (See p. 19.)

If the program is to be continued, GAO recommends that the Secretary:

--Make sure that the criteria for selecting program participants are uniformly enforced so that only those low-income families having homeownership potential are admitted. (See p. 19.)

--Monitor LHAs' training efforts to insure that all participating families attend training and counseling activities and that homebuyers associations are promptly established in all HOPLIF projects.

--Require LHAs to identify those families in the program who are not meeting their maintenance and and payment obligations and direct them to other more suitable programs. (See p. 28.)

--Revise procedures to insure that low-income families are given an opportunity to buy HOPLIF homes at prices not to exceed fair market values. (See p. 33.)

--Establish procedures for assisting participants in refinancing their homes. (See p. 36.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

In commenting on the problems with the HOPLIF program, HUD assessed the program as being on its way toward an orderly operation. HUD also expressed the belief that regulations recently issued would improve the program and that the management of the program would be tightened. HUD advised that it plans to provide additional leadership needed to produce both effective management and attainment of program objectives. (See p. 19.)

HUD deferred making a final decision on the future of the program because it believed it did not have enough experience on which to base a definite decision on the program's effectiveness. HUD stated that it will continue its evaluations and make a final decision, at a later time, on whether to continue the program. (See p. 19.)

GAO has not had time to evaluate the effectiveness of the interim regulations HUD issued but a preliminary review indicates that they will not overcome the deficiencies described in this report without further corrective actions. (See pp. 19, 28, and 33.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

The purpose of this report is to inform the Congress of problems in achieving HOPLIF objectives. GAO's findings should assist in the consideration of any proposed legislation aimed at more effective housing programs for low-income families.

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CHAPTER 1

INTRODUCTION

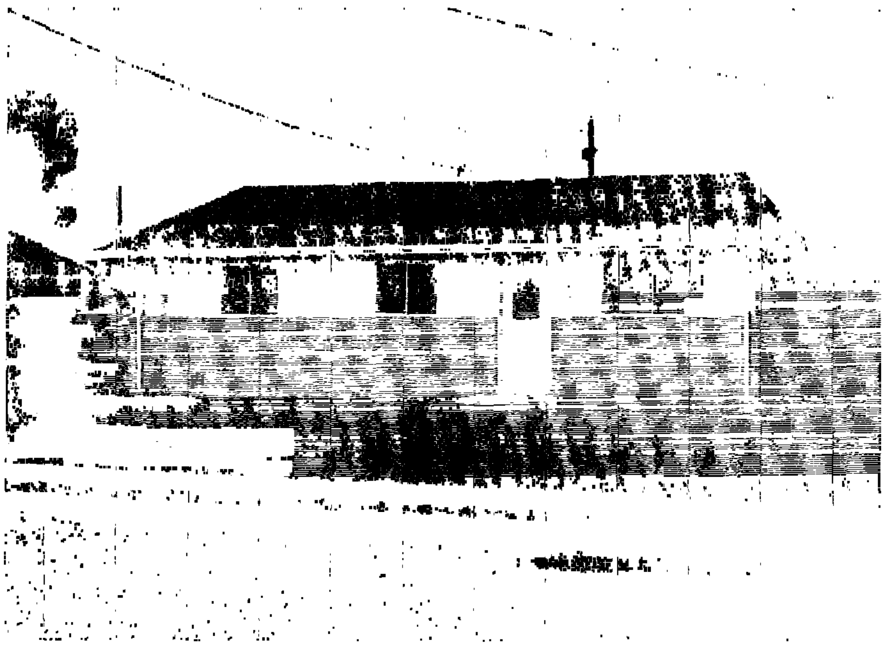
The United States Housing Act of 1937, as amended (42 U.S.C. 1401), provides for a low-rent housing program designed to make decent, safe, and sanitary dwellings available to low-income families at rents within their financial means. The act authorizes the Department of Housing and Urban Development (HUD) to assist local governments in establishing local housing authorities (LHAs) to develop and/or acquire, own, and operate low-rent public housing projects.

Under this authority, HUD in 1967 administratively developed the homeownership opportunities program for low-income families (HOPLIF), also referred to as turnkey III, to give low-income families the opportunity to become homeowners. This program enables low-income families to acquire LHA-owned homes under a lease-purchase agreement if they maintain the homes, make the required monthly payments of 20 to 25 percent of their incomes, and remain in the homes for about 25 years. Such families may also make voluntary payments to reduce the time required to obtain ownership or they may finance homes through other ways.

The first HOPLIF homes were completed in 1968. Latest available HUD statistics showed that at June 30, 1972, LHAs in 85 municipalities were managing 6,637 homes, had 6,439 homes under construction, and had 5,685 homes in the preconstruction or application stage. The estimated cost of these units is about $407 million.

In January 1973 HUD placed a moratorium on all its housing programs, including HOPLIF, to permit a study to determine whether the programs should be continued, revised, or terminated. HOPLIF was not specifically included in the study submitted to the Congress in September 1973, but funding of new HOPLIF homes remains suspended.

This photograph shows a typical home in the HOPLIF program which a family would eventually own.



A 3-bedroom HOPLIF home in Roanoke, Virginia

ESTABLISHMENT OF LOCAL PROGRAM

HUD requires that LHAs show a local need for low-income housing to help support their application for HUD assistance. HOPLIF houses may be newly constructed or privately owned dwelling units needing little or no rehabilitation.

LHAs finance HOPLIF projects by selling HUD-guaranteed notes which are amortized over about 30 years. The principal amount of the notes becomes the capital debt of the project with a proportionate share assigned to each home in the project. The investment in a HOPLIF home includes the family dwelling unit; the ground on which it is located; a prorated share of all common grounds, buildings, facilities; and counseling and training costs.

HUD provides financial assistance for HOPLIF projects by making loans and annual subsidies pursuant to contracts with LHAs. HUD's maximum allowable subsidy would pay the principal and interest on the notes LHAs sell according to a schedule that will insure the capital debt repayment of a project within 25 to 30 years. HUD also provides technical assistance to LHAs in developing the projects.

ELIGIBILITY AND SELECTION OF PARTICIPATING FAMILIES

Homebuyers under the HOPLIF program must be within the income limits an LHA establishes and HUD approves.

LHAs select participating families from their list of eligible applicants or through recommendations from a committee composed of local citizens, LHA representatives, and selected homebuyers.

Under HUD guidelines LHA procedures must insure that (1) applicants are selected who have the greatest potential for homeownership, (2) the applicants' constitutional rights are protected, and the selection does not automatically deny admission to a particular class but rather insures selection on a nondiscriminatory basis, and (3) the selection gives priority to families with a member who is employed or has employment potential.

SOCIAL GOALS

HUD stresses the program's social goals, that is, low-income families are expected to experience the responsibility and status that is associated with homeownership. LHAs are to help meet these goals by providing preoccupancy training and counseling to residents and by assisting them to form homebuyers associations (HBA).

HUD may advance to an LHA up to $500 per housing unit for (1) the preoccupancy and postoccupancy training and counseling activities and (2) the organization and operation of an HBA until the beginning of the project's initial operating period. During the initial operating period and thereafter, HUD funds the HBA as a regular operating expense if it meets its approval.

HUD requires LHAs to train and counsel approved applicants, before and after occupancy, about the care, maintenance, and management responsibilities which accompany homeownership and about their rights and obligations, such as making prompt monthly payments and maintaining their property. Families which do not participate in such training may not be selected or retained as homebuyers.

HUD also requires LHAs to help homebuyers organize and incorporate an HBA made up of all the families who have entered into homebuyers' ownership agreements. The HBA is responsible for pursuing the homebuyers' common interest, for effectively representing the needs of residents in dealing with management, and for taking over eventual management responsibility for the HOPLIF development.

REALIZATION OF HOMEOWNERSHIP

LHAs use home payment accounts to set aside a portion of the homebuyer's monthly payment to build up an equity in the home. This amount is to equal the estimated average monthly cost of routine maintenance for which the homebuyer is responsible, as if it were provided by the LHA. A smaller amount is set aside in a home maintenance reserve account for nonroutine major repairs and replacements. The LHA deposits these amounts monthly in interest-earning accounts set up for each homebuyer in a local bank. LHAs make these deposits even if the homebuyer fails to make the required monthly payment because the program requires a homebuyer to have a certain minimum balance in the earned home payment account within 2 years of entering the program to be entitled to the right to purchase the home.

If the family should decide to leave and not buy the home, the amount in its earned home payment account, less the amount needed to place the house in first-class condition for the next homebuyer, is refundable to the family, even though the LHAs and not the family's funds may have been paid into the account. This does not apply to the home maintenance reserve account, which stays with the house and becomes available to the next homebuyer for needed major repairs and replacements.

Through its annual contributions to LHA, HUD pays off a substantial amount of the capital debt on each HOPLIF home. For example, a HUD official estimated that, in the case of the LHA in Charlotte, North Carolina, HUD would pay about 85 percent of the capitalized cost of HOPLIF dwelling units and the homebuyers would pay only 15 percent.

To shorten the period in which title can be acquired, a homebuyer may voluntarily make payments over and above the required monthly payments for credit to the earned home payment account.

The family takes title to the property when the combined balances of the two accounts sufficiently cover the balance of the capital debt assigned to its home and after crediting payments HUD makes under its contribution contracts with the LHA. If a homebuyer fails to perform any of the required maintenance and the LHA performs the work, the cost of such work, unless it is a major repair or replacement, is charged to the homebuyer's earned home payment account.

When a participating family's income increases so that the family can obtain financing under a less subsidized federally assisted housing program or under an unsubsidized federally insured or guaranteed home loan program, the family is required to refinance the home.

CHAPTER 2

INSUFFICIENT DEMAND FOR HOPLIF HOUSING

LHAs have experienced problems in attracting low-income families to the HOPLIF program. We found that:

--Some projects had vacant units because of insufficient demand for them.

--LHAs had altered their standards for selecting participating families to try to increase the occupancy in HOPLIF projects.

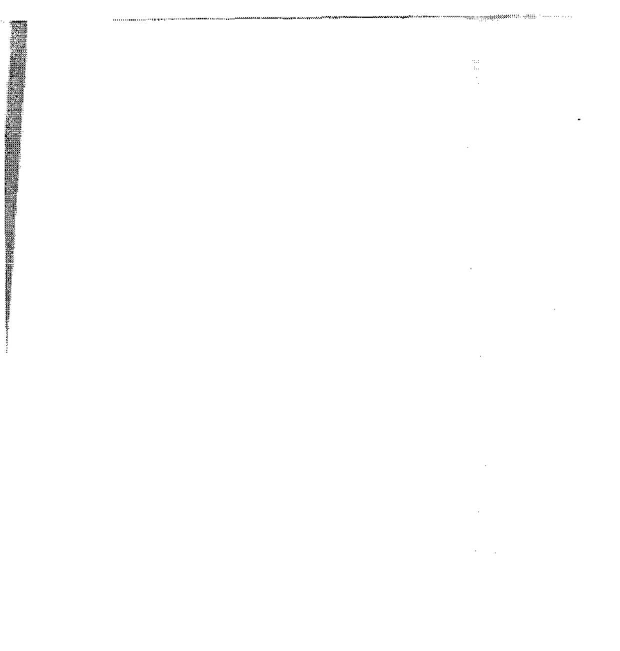
--LHAs had encouraged families to remain in the HOPLIF program by offering incentives that were contrary to program requirements.

VACANCIES IN HOPLIF UNITS

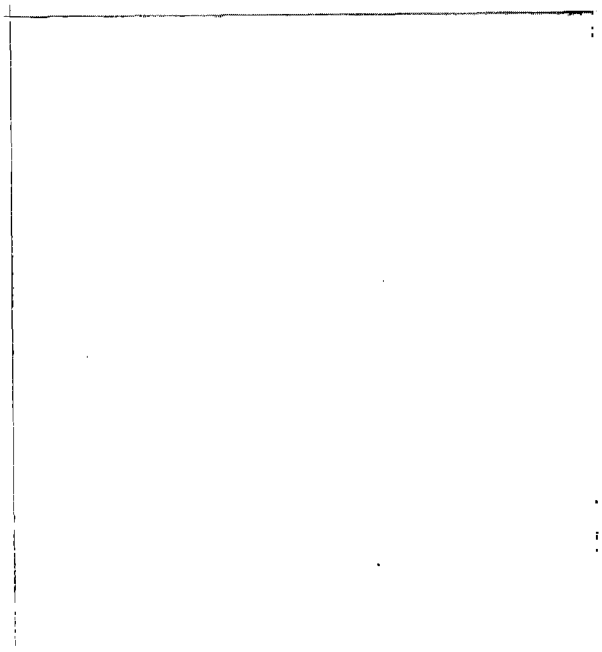
Two of the seven LHAs we visited had vacant HOPLIF units because of insufficient demand by low-income families. According to LHA officials at Gulfport, Mississippi, and Dallas, Texas, it was difficult to get low-income families to participate in the program. LHA officials at Gulfport said there had not been enough eligible and interested low-income applicants to fill vacancies, and the LHA Director cited an average of 18 vacancies in the 200-unit project since its construction. The project had 13 vacancies at the time of our field review and only 4 approved applications were on hand.

At Dallas, 28 of 387 units had been vacant for 3 to 8 months at the time of our field review and only 3 approved applications were on hand. Even after the LHA advertised the HOPLIF units for occupancy by moderate-income families, it was unable to fill all vacancies.

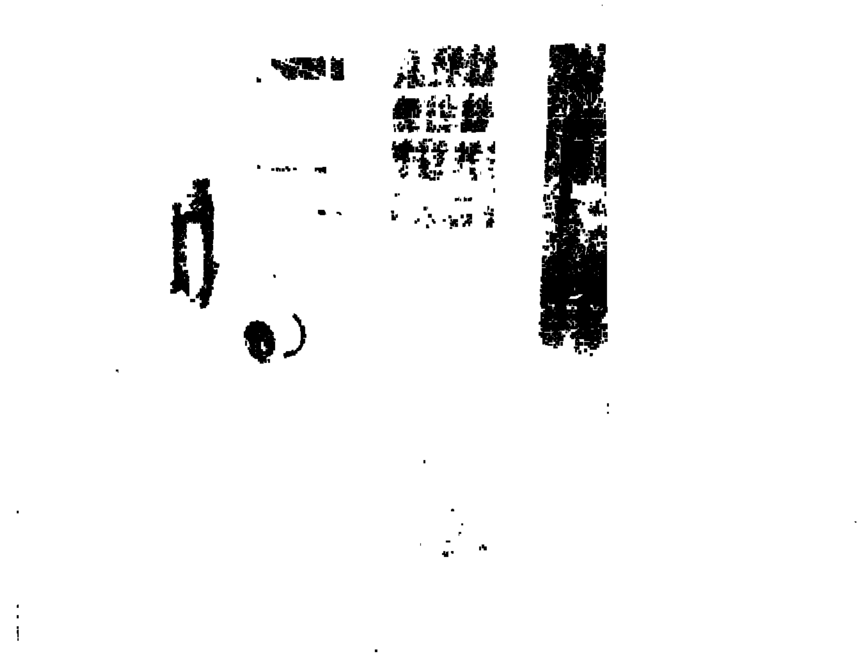
The presence of vacant units creates undesirable living conditions in a neighborhood because of vandalism which often occurs in such public housing projects. The repair and cleaning of vandalized dwelling units and surrounding community property result in costly expenses to LHAs. The following pictures show some of the damage resulting from vandalism to vacant HOPLIF dwelling units and community property.



Entire electrical panel bos removed from vacant unit in Raleigh, North Carolina



Damage to kitchen in vacant unit in Gulfport



Damage to wall, floor, and windows in Raleigh day-care center

SELECTION STANDARDS ALTERED TO INCREASE OCCUPANCY IN HOPLIF PROJECTS

About 38 percent of the families living in the projects the seven LHAs operated were permitted to move into the HOPLIF homes even though their incomes were above admission limits established for low-rent public housing. Some LHAs had increased the income limits, without HUD's approval, which enabled middle-income families to occupy HOPLIF homes. LHA officials said they were primarily concerned with filling homes rather than with the family's financial status or potential for homeownership, under HUD's guidelines. There was also a wide variance among LHAs in the deductions allowed from a family's income to determine its eligibility.

Income limits increased

Initially most LHAs used the low-rent public housing admission limits for low-income families for determining the HOPLIF program eligibility. We found that six LHAs had adopted the higher income limits established for continued occupancy in low-rent public housing. Two of these LHAs had revised their admission limits without HUD approval.

The following table shows the increases in the net income admission limits for HOPLIF at Dallas according to family size.

Family size (persons)	Admission limits established for public housing	Increased HOPLIF eligibility limits at 10-1-70	3-1-71	6-27-72	Total increase since program started Amount	Percent
2	$3,800	$4,400	$5,500	$6,000	$2,200	58
5	4,600	5,800	7,250	7,900	3,300	72
10 or more	4,600	6,800	8,500	9,400	4,800	104

At the 7 LHAs, 645, or 38 percent, of the 1,700 families had incomes above the admission limits established for low-income families for public housing when they were accepted into the program. Of the 645 families, 102 had incomes above the admission limits LHAs established specifically for the HOPLIF program. Furthermore, at the time of the LHAs' latest income reexamination, the incomes of 110 families were found to be greater than that established for families who qualify for assistance under HUD's section 235 homeownership assistance program for low- and moderate-income families. Examples of these conditions for nine families admitted into the program at two of the LHAs follow:

LHA	Family size	Family eligibility income at admission	Maximum admission eligibility limits: Public housing	HOPLIF	Section 235
Winston-Salem, North Carolina	3	$6,622	$4,100	$5,125	$5,535
	7	7,137	4,700	5,875	6,345
	4	8,325	4,600	5,750	6,210
	6	8,587	4,500	5,625	6,075
	8	9,188	4,800	6,000	6,480
Roanoke	4	6,248	4,100	4,800	5,535
	4	6,384	4,100	4,800	5,535
	5	7,124	4,400	5,200	5,940
	6	7,610	4,400	5,200	5,940

LHA officials at Gulfport, Dallas, and Raleigh said it was necessary to raise the income eligibility limits because they were having difficulty getting enough low-income families to participate. Income admission limits at the Gulfport LHA had been increased by about 30 percent between August 1968 and August 1970. The LHA Executive Director told us this was done to broaden the income range for selection because higher income families appear to be better suited for homeownership.

According to the applicant selection committee at Dallas, higher income limits were needed because there were not enough qualified low-income applicants to fill the available HOPLIF housing supply.

On October 9, 1973, HUD issued new regulations which allow an LHA to establish income limits for the HOPLIF program which are different from those for its conventional rental program, provided that those limits agree with all applicable statutory and administrative requirements and are approved by HUD. Because the HOPLIF program was administratively developed under the Housing Act of 1937, as amended, which provides for a low-rent housing program, the income limits for the HOPLIF program initially were the same as the limits for the conventional rental program.

However, increasing the admission income limits has opened the program to moderate-income people contrary to the program objective of providing homeownership opportunities for low-income families.

Wide variance of deductions allowed

HUD guidelines specify that certain deductions shall be made from a family's gross income to determine the eligibility for low-income housing projects. In addition, HUD can approve other deductions when LHAs request them. We found that the deductions HUD approved varied greatly among the LHAs we visited.

For example, the St. Louis LHA allowed deductions for such items as (1) State and Federal income taxes, (2) city earnings tax, (3) union dues, (4) social security tax, (5) pension, retirement, or charity fund payments, (6) health, accident, or medical insurance payments, and (7) exemptions for dependents. Total deductions for families ranged from $750 to about $4,800. Therefore a family of five with a gross annual income of $11,150 qualified for admission on the basis of an adjusted income of $6,370.

This family would not have been eligible for admission to the program at the LHAs in Gulfport and Charlotte which allowed, as deductions only, amounts received for disability or death in connection with military service. HUD had repeatedly told the St. Louis LHA that moderate-income families were being admitted to the program because of allowing these deductions, but the LHA had not changed its admission practice at the time of our review.

Although HUD seeks to allow individual LHAs discretion and flexibility in administering public housing programs, some uniformity is needed in establishing deductions from family gross income to insure equitable treatment of low-income families wishing to participate in the HOPLIF program.

Selection of participants lacking financial responsibility

HUD's HOPLIF handbook stresses that careful selection of participants is a prerequisite to successful homeownership. Selection criteria were aimed at identifying families who (1) were able and willing to repair and maintain their homes, (2) could anticipate owning their homes within 25 years, (3) wished to work and invest for homeownership, and (4) seemed likely to remain in their homes and make the required monthly payments.

We found indications that many participants have been unable to assume their share of homeownership's financial responsibilities. For example, 23 percent of the 209 HOPLIF families at the Raleigh LHA whose incomes the LHA reexamined during their 2d or 3d year of occupancy had experienced a decrease in their gross annual income since they were accepted into the program. At the time of our review, 72 of the 209 project families were not paying the required minimum monthly payment to cover their share of project operation and administrative expenses and reserves because of their low incomes. Of these families, nine had incomes that were so low that their actual monthly payments were zero.

One participant, a female head of household at Raleigh, with three dependents, met the LHAs eligibility income requirement of $3,300 on the basis of an adjusted income of $3,324 computed as follows:

Source	Amount
Part-time cook at college fraternity	$1,440
Seasonal laborer (6 weeks)	1,056
Support payments	1,020
	3,516
Less deductions	192
Total	$3,324

The LHA set her monthly payment at $36. About 1 year later, she advised the LHA that she was no longer employed and that support payments were her only income. The LHA reduced her monthly payment to zero and began sending her a monthly check to cover most of the utility costs. One year later, this arrangement was still in effect.

Even such a family, with monthly payments of zero, could continue to be eligible for homeownership. The LHA would continue to make payments on the capital debt of the home while at the same time it would make deposits into the family's earned home payment and home maintenance reserve accounts. (See p. 8.) Thus, at the end of the 25- to 30-year repayment period, the family could claim title to the property, having made no real contribution to the cost of the property.

LHA officials at Raleigh acknowledged difficulties in getting qualified people into the program and told us that at least 20 percent of the families participating in HOPLIF in Raleigh were unsuitable for homeownership. The training contractor, in its final report to the LHA, stated that apparently members of the selection committee principally wanted to make housing available and were not concerned with the program participants' ability to pay or their potential for acquiring ownership.

One of the families at a St. Louis HOPLIF project had been admitted even though a credit report the LHA obtained showed it to be an extremely poor credit risk. The report showed that the applicant had been sued twice within a 5-month period for $738 and $272 for unpaid debts and that the family had filed for voluntary bankruptcy and had listed assets of $600 and liabilities of $5,400. At the time of our review, this family was $465 in arrears in its monthly payments to the LHA.

Several residents and LHA officials at Gulfport, Raleigh, and St. Louis told us that some participating families had no desire to purchase their HOPLIF homes but were living in them because their monthly payments were lower than those they would have to pay for similar private rental property.

According to HUD area officials at Jackson, Mississippi, achievement of the program's social goals was greatly hindered because LHAs failed to carefully select families. HUD area officials at Greensboro, North Carolina, said selection committees were more concerned with filling new homes than selecting responsible families who were interested in owning these homes.

In August 1972, we advised the Assistant Secretary for Housing Management, HUD, of weaknesses we had noted that appeared to materially affect the accomplishment of program goals. The Assistant Secretary advised us in October 1972, that HUD would make special efforts to form a training program for LHAs to clarify tenant selection.

INCENTIVES TO RETAIN FAMILIES CONTRARY TO PROGRAM REQUIREMENTS

In an effort to retain families in the HOPLIF projects and to minimize vacancies, many LHAs offered incentives to the participating families in the form of reduced monthly payments or free maintenance service.

Reduced monthly payments

The Gulfport and St. Louis LHAs established ceiling payments to encourage families whose incomes had increased to stay in the houses without requiring them to make the maximum payments or to refinance the houses. These practices are contrary to HUD guidelines and tend to reduce the probability that these families will actually purchase their homes.

HUD guidelines to LHAs provide that:

> "In no event shall a family remain in the unit with the aid of HUD annual contributions after 25 percent of its adjusted income equals or exceeds the sum of the utility allowance, the required minimum monthly payment, the monthly debt service and real and personal property taxes, unless the LHA determines that, due to his inability to obtain the necessary financing or any other special circumstances, he is unable to find decent, safe, and sanitary housing within his financial reach although making every reasonable effort to do so. In such instances the homebuyer would be required to continue making monthly payments based on income up to a maximum equal to the greater of: (1) the breakeven amount plus the monthly debt service applicable to his home or (2) the unsubsidized market rent."

We noted the following case which illustrates this situation. The St. Louis LHA had a HOPLIF family whose adjusted income for payment purposes was $12,336. Under HUD guidelines, the LHA could have required the family to pay $169 a month for the 4-bedroom home it was occupying. If the family had been required to pay a monthly payment of 20 percent of adjusted income, the LHA would have received a rental of $205 per month. However, the LHA established a ceiling of

$119 as the monthly payment for the family. Similarly, 19 participating families at the Gulfport LHA had incomes which should have enabled them to make payments greater than the amount the LHA established for the HOPLIF program.

Routine maintenance provided without charge to families

Under HUD guidelines, program participants are responsible to LHA and HBA (if an HBA has been organized) for maintaining their dwellings and grounds. They are responsible for the upkeep of plumbing fixtures, water heaters, shades and screens, and other components of the house. They are also responsible for painting the interior of the house, but not for nonroutine maintenance, such as replacing the roof or appliances or painting the exterior of the house.

HUD guidelines provide that, if the homebuyer fails to perform the required maintenance, LHA will have the work done and will charge the cost to the homebuyer's earned home payments account. This increases the time required to obtain homeownership.

LHAs at Winston-Salem, Roanoke, and St. Louis performed routine maintenance of HOPLIF homes without charging the homebuyers' accounts. The director of housing operations at Winston-Salem told us that, if the LHA did not perform the maintenance and make other concessions, the families would move out; therefore, he made every effort to keep the houses occupied.

To illustrate, the Winston-Salem LHA spent about $13,400 on routine maintenance during the 6 months ended March 31, 1972, which was not charged to the homebuyers' accounts. In Roanoke, an estimated $11,500 was spent for the year ended September 30, 1972, but at the time of our review only a minor amount had been charged to the homebuyers' accounts.

CONCLUSION

The HOPLIF program has not attracted enough suitable low-income families to fill available houses. Faced with actual or threatened vacancies some LHAs have altered their eligibility and selection standards to encourage occupancy. Inequities have developed from these varying standards. The emphasis on filling vacancies rather than on suitability of applicants has caused a change in program direction in that LHAs are permitting families to occupy homes as renters rather than as purchasers, the program is not accomplishing its stated goals and objectives.

RECOMMENDATIONS

We recommend that the Secretary of HUD evaluate the significance and seriousness of the problems noted in applying HOPLIF and assess the relative merits of either (1) discontinuing the program or (2) strengthening the program to insure that the stated objectives are achieved.

If the program is to be continued, we recommend also that the Secretary take appropriate action to insure that the criteria for selecting program participants are uniformly enforced so that only those low-income families having homeownership potential are admitted to the program.

AGENCY COMMENTS AND OUR EVALUATIONS

In commenting on our report, HUD said administration of HOPLIF is on its way toward an orderly operation, new regulations adopted on October 9, 1973, included valuable substantive changes, and management will be tightened. (See app. I.)

Regarding the specific recommendation to consider the feasibility of discontinuing the HOPLIF program, HUD said it has not had enough experience on which to base a definite decision on the program's effectiveness but will continue its evaluation and make a final decision, at a later time, on whether to continue the program.

Regarding our recommendation that appropriate action be taken to insure that the criteria for selecting program participants are uniformly enforced, HUD said the section of the new regulations on eligibility and selection of homebuyers covered the matter fully and adequately and provided necessary guidance. HUD's new regulations do provide the basic criteria for eligibility and selection of homebuyers but do not provide specific criteria to insure that the regulations will be adequately enforced. In addition, the new guidelines do not provide any guidance for dealing with the variance in deductions from a family's gross income to determine the eligibility for low-income housing projects, which LHAs used and HUD approved.

CHAPTER 3

FACTORS WHICH HINDER THE ACCOMPLISHMENT OF PROGRAM GOALS

We found that several factors have limited the potential for achieving HOPLIF program goals.

--Many families have not accepted the responsibilities of homeownership.

--Homeownership training and assistance programs have not reached some HOPLIF families.

--Participants have been discouraged from purchasing HOPLIF homes because their prices exceeded those of other comparable housing.

--HOPLIF participants were receiving less house for their money than participants under HUD's 235 program.

--Many families have left the HOPLIF program.

--Although possible, no families participating in the program have realized homeownership or refinanced their homes.

FAMILIES HAVE NOT ACCEPTED HOMEOWNERSHIP RESPONSIBILITIES

HUD considers it vital that the HOPLIF program help develop in low-income families the feeling of pride, responsibility, and independence associated with homeownership while they pay for and maintain their homes. However, many families have failed to meet their required home payments and home maintenance responsibilities.

Families do not meet payment obligations

Many families were delinquent in making their required monthly payments to LHAs. The following summary shows that 10 to 59 percent of the HOPLIF families at six LHAs were delinquent in mid-1972.

LHA	Units occupied	Families delinquent in payment	Percent
St. Louis	82	48	59
Raleigh	209	85	41
Dallas	369	148	40
Gulfport	189	32	17
Charlotte	258	41	16
Winston-Salem	512	51	10
Total	1,619	405	

Of the 405 families, 56 were delinquent for 2 to 10 months and the others were delinquent by 1 month.

According to an LHA official at Gulfport, less than 2 percent of the occupants make their monthly payments on time, although over $250,000 had been spent to train the families for homeownership responsibilities. From August 1971 through July 1972, the LHA took legal action against an average of 28 HOPLIF families each month for not making required monthly payments.

LHA officials generally viewed the payment problem as serious and attributed it to the participants' poor money management which gave low priority to making the required monthly payments.

Also LHA officials considered HUD's provision unrealistic that families make additional voluntary payments to shorten the time for ownership. Only 8 of the 1,705 families at the 7 LHAs we visited had made any voluntary payments. Most were minimal--only one exceeded $100.

Families do not perform home maintenance

Families at six of the seven locations generally did not perform routine maintenance. The LHAs either performed the needed maintenance work or, in most instances, allowed poor maintenance conditions to exist. As previously discussed, the LHAs at Roanoke and Winston-Salem performed essentially all maintenance because the families were not fulfilling their obligations.

At Dallas, Gulfport, and Raleigh, where LHAs had not performed maintenance for families, project areas were becoming blighted. We inspected the grounds and the exterior of homes at these locations and observed some with damaged or missing screen doors; broken or boarded windows; unkept lawns; dirty doors, windows, and other trim; junked cars and parts; and general debris and rubbish in the yards.

Only 26 of the 200 houses at Gulfport showed that families were performing required routine maintenance. HBA and LHA inspections of the homes showed a general lack of interior maintenance. Their inspections in April 1972 revealed that many of the homes had leaking faucets and commodes, holes in walls, bathroom fixtures torn from walls, doors torn from hinges, handles missing from ranges, and dirty walls and floors.

The pictures on page 23 show the interior and exterior damage to a HOPLIF house at Gulfport that had been occupied for 6-1/2 months and had been vacated 2 days before our visit.

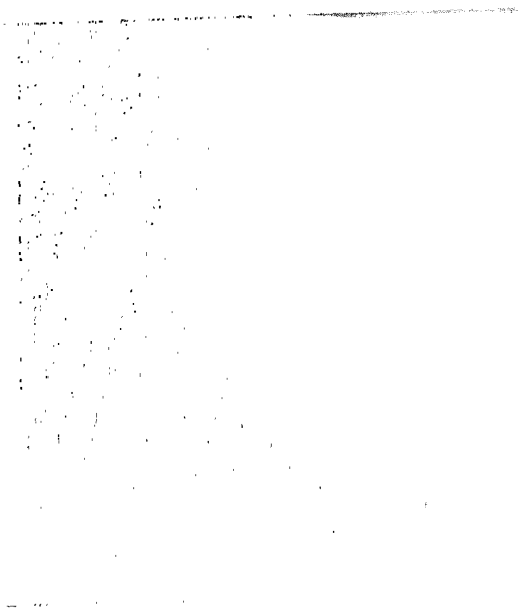
Other interior damage to this house included holes punched in doors, heavily soiled walls and floors, two broken windows, cracked counter top in kitchen, bedroom walls severely marked with paint, missing light fixtures, and a broken toilet tank.

Common property not maintained

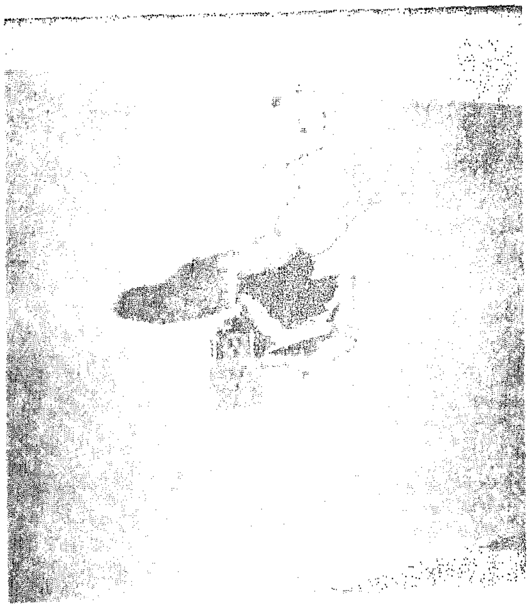
Another indication that families were not responding to their homeownership and community responsibilities was the vandalism committed to common property in some of the HOPLIF housing developments. The community centers at Raleigh and St. Louis were so heavily damaged that they were boarded up and were not being used. Because of misuse, the community property at Dallas needed substantial repairs. The pictures on page 24 show the interior damage to the center of Raleigh that was closed at the time of our visit.

Other damage at these three centers included large holes ripped in walls; damaged water cooler; floors littered and walls severely marked; broken windows, doors; bathroom fixtures; and a damaged fence.

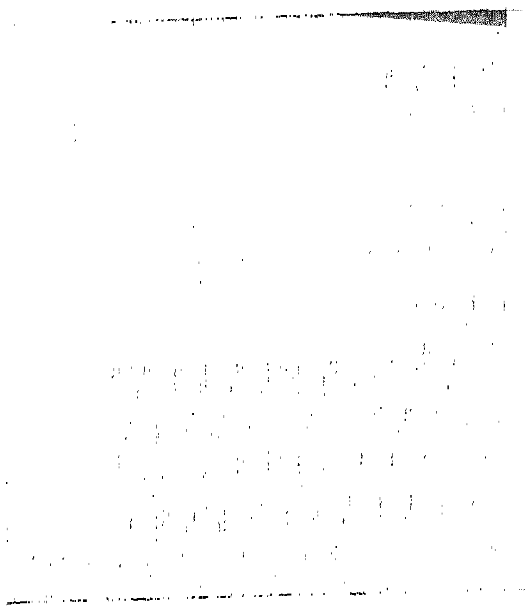
Damage at HOPLIF home in Gulfport



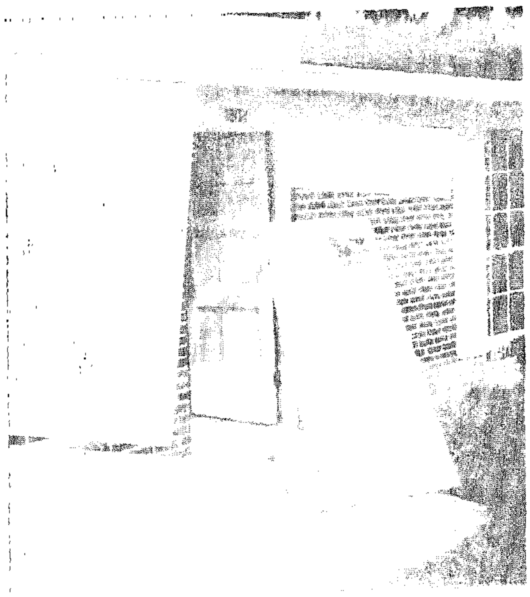
Hallway--large holes in wall



Bedroom--large hole in wall



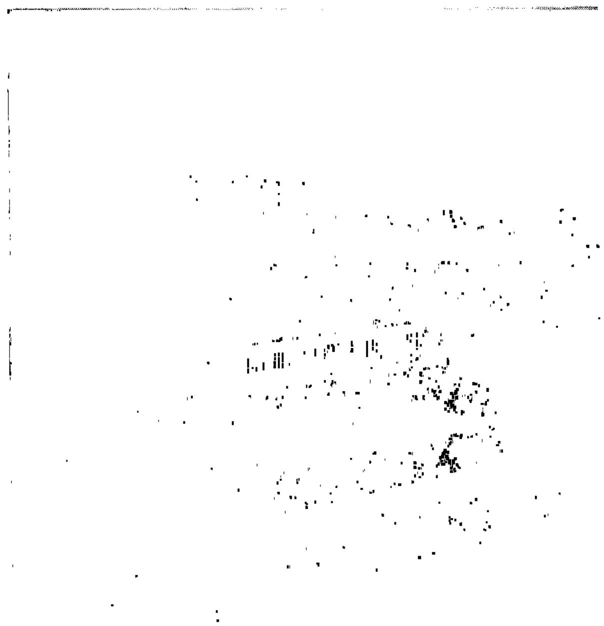
Kitchen--broken cabinet drawer



Front view--screen door ripped from hinges and screen torn from frame

Damaged HOPLIF Community Center in Raleigh

Large gaping holes in interior walls



Demolished piano

Damaged kitchen and appliances

HOMEOWNERSHIP TRAINING AND ASSISTANCE PROGRAMS ARE NOT REACHING HOPLIF FAMILIES

LHAs are authorized to conduct or contract for a homeownership training program to prepare families to carry out homeownership responsibilities. The training covers preparation for the move, explanation of the program, financial responsibility, home maintenance and repair, home management, and use of social agencies. Training should be given before and after the family moves in, but many families did not receive such training because it was not offered, the training contract expired before all of the families had moved in, or the families failed to attend the sessions.

HUD guidelines require that LHAs help HOPLIF families organize HBAs to (1) represent families, individually and collectively, in their relationships with LHAs, (2) establish association rules and recommend rules to LHAs for operation and management, (3) inform families of their rights and obligations in the program, and (4) periodically inspect the homes with LHAs. LHAs can contract with a private agency or use their own staff and resources in organizing an HBA. The guidelines further provide that the HBA be organized by the time 50 percent of the families have been selected and that the LHA provide counseling and training until the HBA is fully operational.

Delay or failure to establish training and assistance programs

LHA and HBA training and assistance programs for program participants were limited. The Raleigh, Roanoke, and St. Louis LHAs either did not provide formal training or provided it to a limited number of participants. For example, when the 80-home project at Roanoke was converted from a low-income rental project into a homeownership project under the HOPLIF program, no formal training was provided to participants. Although no formal training was subsequently provided, the maintenance supervisor informed us that his duties were to maintain the HOPLIF homes and to train residents to make repairs.

In Raleigh, the training contract expired several months before all families had moved into the homes. Of the 216 HOPLIF families, about 30 percent received no training.

In St. Louis, 76 of 82 families moved into the HOPLIF homes before they completed preoccupancy training because of the LHA's lack of coordination with and assignment of responsibility to the HBA. Only the Dallas LHA had a program to train new occupants when the original occupants moved from the projects. At the other six LHAs, many families were not the original occupants and had not received any training.

HBAs had not been formed or were only partially formed at 8 of the 14 projects visited. Two projects did not meet the criteria for establishing an HBA and at four projects, HBAs had been formed but, according to LHA and training officials, were not functioning as HUD intended. Failure to get these associations functioning properly in the early stages of the program may have contributed to such problems as families not meeting their financial, maintenance, and training obligations.

LHA and training officials cited various reasons why HBAs were not fully organized, including (1) weak leadership and apathy on the part of HOPLIF families, (2) dissension between LHA and HBA officials, and (3) questionable ability of low-income families to carry out assigned responsibilities.

<u>Inadequate participation in training and assistance programs</u>

HUD guidelines state that failure to participate in training sessions may cause the family to be dropped from the program. Attendance at most locations visited was generally good for preoccupancy training but was poor for postoccupancy training. The LHA training director in Winston-Salem told us that only about 15 percent of the families attended postoccupancy training. Charlotte LHA records showed that only 14 of 230 families attended the required postoccupancy training. The other six LHAs also had poor attendance.

HBA officers and HOPLIF families were not interested in participating in HBA functions, as evidenced by infrequent and poor attendance at meetings. Some families and LHA officials attributed the poor attendance to (1) little or nothing being done at such meetings, (2) considerable discussion and planning with little or no followup, and (3) apathy on the part of families to participate in HBA affairs.

One project in Dallas where the HBA and LHA had not jointly performed their annual maintenance inspection, as required, illustrates these conditions. According to the HBA president, the HBA had made very little effort because not enough families in the program were willing to spend the time and effort necessary for an effective HBA. For example, a local social services agency's attempt to organize and operate a day-care center had not been successful because the HBA had failed to survey families to assess the area's need as the agency requested.

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The Assistant Secretary for Housing Management advised us in October 1972 that his office had made similar observations for the localities we had visited, but that the conditions we described were not universal and that, in a number of locations not visited by our staff, completely favorable situations prevailed on the points we raised. We then enlarged our review to include Columbus, Ohio, a location which HUD officials considered favorable.

At the Columbus LHA, we found many of the same unfavorable conditions which existed at the other LHAs. However, certain social goals were being met better at Columbus because the HBA provided a more complete training program. Conversely, in meeting payment obligations, several participants were delinquent from 2 to 6 months, and as of October 25, 1972, 116 of 524 families or about 22 percent, were in arrears on their monthly payments.

An HBA inspection of two Columbus projects, the first in 3 years, showed that some repairs were needed on a majority of the homes. In our inspection of the third project, we also noted signs of a lack of maintenance by participants in the program.

The Assistant Secretary advised us that he expected that the provision of $500 per unit authorized in HUD's December 1971 handbook would be used to provide a more balanced training program for participants which would cover such items as home maintenance, money management, and operation of HBAs.

CONCLUSIONS

Many HOPLIF families have not accepted homeownership responsibilities in that they were delinquent in their payments and failed to perform the required maintenance. A contributing factor has been that homeownership training and assistance programs had not been provided.

Although it would be unrealistic to expect that every participant would adopt and appreciate homeowership values, the planned improvements in the program's overall training and counseling activities--including formation of HBAs--should help more participants to acquire a greater appreciation of and interest in homeownership and consequently live up to the responsibilities which accompany owning a home. Because of past experience, however, the LHAs should insure that all participating families attend the required training and counseling sessions and that HBAs are promptly organized in all projects to help carry out these functions. In addition, HUD should consider redirecting those families who do not fulfill their homeownership responsibilities within a reasonable period into other housing programs which are more suitable to their needs and interests.

RECOMMENDATIONS

We recommend that the Secretary of HUD:

--Monitor LHAs' training efforts to insure that all participating families attend training and counseling activities and that HBAs are promptly established in all HOPLIF projects.

--Require LHAs to identify those families in the HOPLIF program who are not meeting their maintenance and payment obligations and direct them to other more suitable programs.

AGENCY COMMENTS AND OUR EVALUATION

HUD said its new regulations provide the action to be taken if LHAs determine that a homebuyer no longer meets the standards for potential ownership. It said the regulations stress that applicants for admission to HOPLIF shall be advised of the counseling and training program and that failure to participate may result in the family not being selected or retained as a homebuyer.

The LHAs new regulations prescribing the action to be taken when a homebuyer fails to meet the standards for ownership, if properly implemented and enforced, should assist in meeting the program's objectives. The regulations for training and counseling provide the same guidance as the prior regulations and the results of their enforcement is described on page 25.

HOPLIF HOMES COST MORE BUT PROVIDE LESS AMENITIES

HUD's requirement that LHAs prorate the total cost of developing a project to all of the homes included in the project has resulted in the price of a HOPLIF home being higher than that of comparable housing. In addition, HOPLIF homes have provided less living space and less features than comparable housing. These factors discourage participating families from purchasing or refinancing HOPLIF homes.

HOPLIF prices exceed appraisals and insurable limits

In establishing the price a family must pay for a HOPLIF home, HUD requires LHAs to prorate the total cost of developing a project to all of the homes included in the project. These costs include (1) the dwelling structure and equipment, (2) the land on which the house is located, including landscaping cost, (3) all common grounds, buildings, and facilities, (4) preoccupancy and postoccupancy training of families, and (5) administrative costs. Including administrative, training, and certain common property costs in the price of a HOPLIF home makes it more expensive than comparable housing.

Because of indications that the price of HOPLIF homes exceeded prevailing market values, we requested the Federal Housing Administration (FHA) to appraise selected HOPLIF homes at the seven LHAs. FHA appraised 43 homes and we found that, in 38 instances, LHA prices exceeded FHA appraisal values by $197 to $6,486. For the other five homes, the appraised value exceeded the HOPLIF prices by $584 to $2,699. (See app. I.)

LHA and HUD officials told us that, in many instances, refinancing HOPLIF homes through conventional loans or other HUD housing programs was not possible because of the extra development costs associated with HOPLIF homes.

The prices of many HOPLIF homes exceeded their insurable values under HUD's section 235 homeownership assistance program which is one of the programs to which HOPLIF participants may convert. At 4 LHAs we found that the development cost of 25 out of 27 types of HOPLIF homes exceeded section 235 maximum insurable values by $500 to $5,300. Therefore 110 HOPLIF families with incomes that would otherwise make them eligible for the section 235 program could not refinance their homes under that program as a means of acquiring ownership.

HUD's revised regulations, issued October 9, 1973, changed the method used to determine the initial purchase price of HOPLIF homes. First, the LHA shall deduct from the total project development cost relocation costs, counseling and training costs, and the cost of any community, administration, or management facility. The LHA shall then adjust the appraised value of each home proportionately, to arrive at the initial purchase price for each home. We noted that these adjustments did not result in a purchase price which is in line with the home's appraised value.

For example, considering 43 homes for which we obtained FHA appraisals as one project and applying the new procedure for computing the initial purchase price of a HOPLIF home, we found that the assigned purchase price for 25 of the 43 homes would still exceed the appraised value.

Less house for the money--a disincentive to refinancing

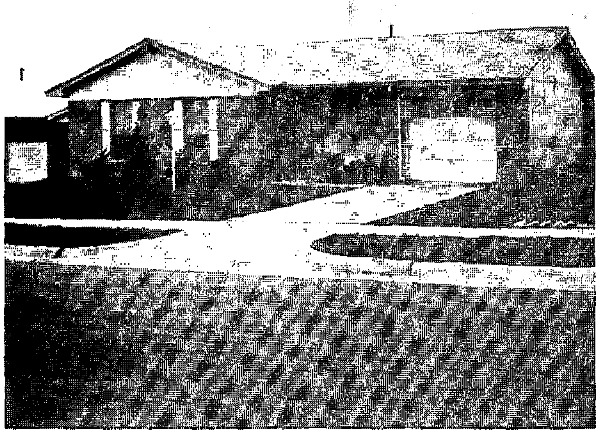
The prospect of getting less house for the money may also make a family reluctant to refinance a HOPLIF home. At six of the seven LHAs we found that the HOPLIF homes generally cost more to construct and appeared to offer less value than comparable section 235 homes in the area. We did not make a comparison at Roanoke.

The following table shows comparisons of the construction cost of nine HOPLIF homes with comparable section 235 homes in the same cities.

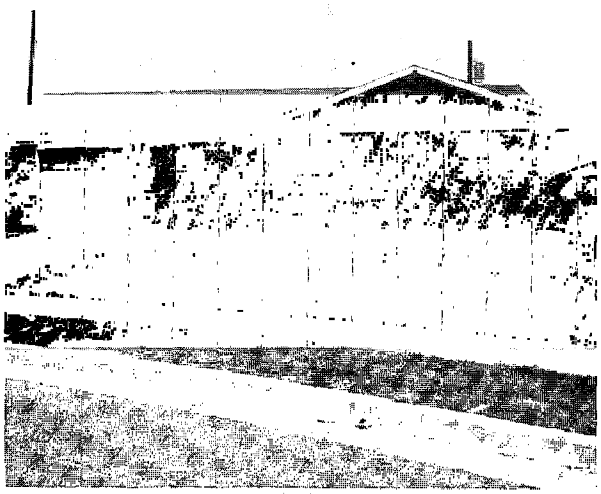
Location	Number of bedrooms	HOPLIF homes Square feet	HOPLIF homes Cost	Section 235 homes Square feet	Section 235 homes Cost
Winston-Salem	3	1,007	$18,881	1,004	$18,050
	3	1,080	19,573	1,036	18,100
Charlotte	3	986	22,500	918	18,050
	3	1,263	21,820	1,292	17,000
Dallas	3	1,170	18,908	1,209	18,100
Gulfport	4	1,196	17,875	1,148	17,500
Raleigh	3	1,007	18,000	1,080	18,050
	4	1,327	21,500	1,265	19,350
St. Louis	4	1,017	22,946	1,235	21,400

Section 235 homes at Charlotte cost from $4,500 to $5,000 less than nearby comparable HOPLIF homes. At St. Louis, section 235 homes offered from 150 to 250 more square feet in living space at $1,500 to $1,800 less cost than comparable HOPLIF homes. Section 235 homes at Dallas were comparable in construction and cost to nearby HOPLIF homes but provided additional features, such as central air conditioning, wall-to-wall carpeting, garbage disposals, and dishwashers, not included in HOPLIF homes.

The following pictures compare a 3-bedroom section 235 home and a 3-bedroom HOPLIF home at Dallas.



HUD section 235 home in Dallas



HUD HOPLIF home in Dallas

CONCLUSION

Purchase prices established for HOPLIF homes generally exceeded their appraised fair market values and provided less amenities than comparable section 235 housing. HUD has issued revised regulations for determining purchase prices, but our review showed that these prices, in many cases, will still exceed fair market values. It is unreasonable to expect homebuyers to pay prices exceeding market values, and charging such prices would be a disincentive to homeownership.

RECOMMENDATION

We recommend that the Secretary of HUD revise procedures to insure that low-income families are given an opportunity to buy HOPLIF homes at prices not to exceed fair market values.

AGENCY COMMENTS AND OUR EVALUATION

HUD agreed that there may be considerable differences between the appraised value and the development cost of HOPLIF homes. HUD stated, however, that it was hesitant to base HOPLIF prices solely on appraised value because the Government would ultimately have to absorb the portion of the development cost so excluded from the purchase price and because the program offers low-income families a unique opportunity for homeownership, the value of which would not be reflected in an FHA appraisal.

As stated previously, HUD is paying about 85 percent of the cost of each HOPLIF home already and no family, regardless of income, wants to pay more than the fair market value for a home. If HOPLIF is to be a workable program and provide low-income families with homeownership opportunities, the purchase price for HOPLIF homes should not exceed their fair market value. As stated on page 30, HUD's new regulations for determining the purchase price of HOPLIF homes still does not result in a purchase price which is in line with the home's appraised value.

HIGH RATE OF FAMILIES LEAVING HOPLIF PROGRAM

HOPLIF families who lack sufficient income to qualify for refinancing can acquire homeownership if they occupy them for about 25 years and carry out their homeownership responsibilities. However, the number of families leaving their HOPLIF homes during the initial 6 years of the program raises doubts concerning whether the homeownership objective can be successfully achieved.

An average of 15.5 percent of the original participants had left the program after an average occupancy of 26 months at the seven locations visited. Original HOPLIF participants who moved out ranged from a low of 5.9 percent at Winston-Salem to a high of 37 percent at Gulfport as shown below.

LHA	Number of projects	Date of initial occupancy	Number of units	Moveouts (note a) Unit affected	Percent
Gulfport	1	10-68	200	74	37.0
Roanoke	1	1-70	80	15	18.8
Dallas	2	7-70	387	72	18.6
Raleigh	1	7-69	216	41	19.0
Charlotte	3	8-70	265	33	12.5
St. Louis	1	10-69	82	9	11.0
Winston-Salem	5	9-70	546	32	5.9
Total	14		1,776	276	15.5

[a]The table shows number of units affected because the number of original occupants could not be readily ascertained.

Families left the HOPLIF program for various reasons. For example, they had (1) moved from the area, (2) become disenchanted with the program, (3) purchased another home, (4) accepted employment elsewhere, or (5) experienced family difficulties and separated.

The incidence of families moving from HOPLIF homes seems likely to continue in view of Bureau of the Census data which shows that low-income families are normally more mobile than other income-level groups and that, overall, about 20 percent of all families in the United States move each year.

HOMEOWNERSHIP POSSIBLE BUT NOT REALIZED

Since the first HOPLIF houses were built in 1968, none of the 1,700 families at the LHAs we visited had purchased their homes or had refinanced them under a less subsidized or unsubsidized federally assisted housing program or under a guaranteed home loan program. Although it is too early to reach firm conclusions regarding the success of the program after 6 years of operation, an unfavorable trend has become apparent since LHA records showed that 528 of the 1,700 families had sufficient incomes to qualify for less subsidized housing assistance programs but have not refinanced their homes.

The lack of HUD procedures for the conversion to other types of financing may be a significant reason why HOPLIF families have not acquired homeownership through such conversion. Officials at the Dallas LHA have repeatedly but unsuccessfully tried to obtain HUD guidelines and instructions for refinancing some of its HOPLIF homes.

In December 1970 the Dallas LHA requested HUD's Dallas area office to provide procedures for refinancing HOPLIF homes under HUD's section 235 homeownership assistance program. The letter stated, in part:

> "We now have at least four occupants who may be eligible for 235 loans inasmuch as a second family member has become employed after moving into the Turnkey III homes. Your expediting a procedure for sale of these homes will be appreciated."

The LHA wrote followup letters on April 16 and July 14, 1971, asking for authorization to refinance HOPLIF homes under section 235. On July 21, 1971, HUD's Dallas area office director said he had repeatedly requested the central office to give the procedures necessary for converting these turnkey III homes under the 235 program. He stated:

> "The only answer we have been able to get to date is that there are still important policy and legal problems which must be resolved before detailed instructions can be issued for the conversion of public housing homeownership units

to individual section 235 mortgage insurance commitments."

The Dallas LHA Executive Director then wrote to HUD's Associate General Counsel for General Legal Services on June 22, July 26, August 16, October 29, 1971, and on January 14, 1972. In the January 1972 letter he said:

"As of this date, however, no procedures for financing Turnkey III homes by FHA 235 loans has been established. This fact is a deterrent to the homebuyer's incentive for a maximum buildup in the Earned House Payments Account. * * * In view of the above, it appears that the original concept of the low-income homeownership program is being defeated."

At the time of our review, some 6 years after the program began, procedures had not been established for converting the HOPLIF homes to private ownership and no HOPLIF homes had been sold or refinanced.

According to HUD officials, when HOPLIF projects were originally planned, it was not anticipated that the families would be eligible to refinance their homes for at least 4 or 5 years. Consequently HUD had drafted no regulations for refinancing to achieve homeownership under less subsidized programs, such as section 235.

CONCLUSION

Since one of the HOPLIF program's objective is to encourage upward mobility in program participants, HUD should develop procedures which would guide its area offices and LHAs in assisting families who wish to obtain private financing or to refinance their home under a less subsidized federally assisted housing program or under a guaranteed home loan program.

RECOMMENDATION

We recommend that the Secretary of HUD establish procedures for assisting HOPLIF participants in refinancing their homes.

AGENCY COMMENTS

HUD agreed with the importance of developing procedures for refinancing HOPLIF homes and stated that it was working on methods to overcome the obstacles in assisting qualified homebuyers to obtain suitable financing for purchasing their homes.

CHAPTER 4

SCOPE OF REVIEW

Our review of the HOPLIF program included the applicable legislation, HUD policies and procedures, and the procedures followed by selected LHAs.

We reviewed 13 HOPLIF projects which contained 1,716 homes under management and 1 project in which 60 homes were occupied and 140 homes were still under construction. The projects were located and managed by LHAs in Gulfport, St. Louis, Charlotte, Raleigh, Winston-Salem, Dallas, and Roanoke.

We made our review at the site of the seven LHAs; at the five HUD area offices having jurisdiction over these LHAs; and at HUD headquarters in Washington, D.C. We reviewed LHA and HUD project records and interviewed LHA and HUD officials and selected HOPLIF families occupying the projects we visited. We also obtained FHA appraisals on selected HOPLIF homes for comparison with their established purchase prices and with similar housing under HUD programs.

We made a more limited review at the Columbus LHA because HUD considered this project to have one of the best managed HOPLIF programs.

THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C.. 20410

December 13, 1973

Mr. Wilbur Campbell
Associate Director
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Campbell:

This is in response to your letter of November 19, 1973, which transmitted a revised draft report entitled: "Problems in the Homeownership Opportunities Program for Low-Income Families." You invited our comments so that they can be presented in a report to be released by the General Accounting Office.

Before responding to the specific recommendations, I would like to state some of the steps that have been taken to standardize operations and to tighten control over the Homeownership Opportunities Program for Low-Income Families (HOPLIF) since the GAO started its report. These steps are:

a. A revised "Low-Rent Housing Homeownership Opportunities Handbook" (7419.1) was issued on 1/6/72.

b. HUD regulations were published in the Federal Register for proposed rulemaking for the Low-Rent Housing Homeownership Opportunities Program (Turnkey III) on November 4, 1972.

c. HUD regulations were adopted in the Federal Register 38 FR 27888 on October 9, 1973.

During steps b and c above, formal training sessions were held for both HUD and Local Housing Authority (LHA) personnel on a Regional basis in the field. These sessions indicated that the undertaking was achieving its objectives.

A collateral benefit derived by the Central Office team was an accumulation of useful operating information obtained from "Question and Answer" sessions and discussions with field personnel. The experiences and problems were carefully examined and discussed upon the team's return to Washington. As a result, the Regulations as adopted include valuable substantive changes stemming from the training sessions.

Currently, I assess administration of HOPLIF as on its way toward an orderly operation. Operating documents are close to publication. Accounting instructions and a technical Handbook are ready to follow.

The control of management of HOPLIF will be tightened. Certain statistical information has already been requested on a regular basis so that we may more carefully monitor the program. Now that the Regulations have been published, we plan to provide additional leadership needed to produce both effective management and attainment of program objectives.

You recommend that the Secretary consider the feasibility of discontinuing the HOPLIF Program. At this time, we do not feel the Department has had enough experience on which to base a definite decision on the effectiveness of this program. Therefore, we will continue our evaluation and will make a final decision, at a later time, on whether to continue the program.

You found that there was a need for uniformly enforcing eligibility and selection criteria among program participants. Section 1270.104 "Eligibility and Selection of Homebuyers" of the HUD Regulations published in the Federal Register covers all of these matters fully and adequately and provides necessary guidance.

Through the publication of Regulations, the recent training program, the ensuing common understanding of the program and its objectives by both LHA and HUD personnel, and the continuing leadership and direction being provided in the Central Office during this transitional period, we feel confident that administration of this phase of the operation will improve.

GAO note: Material has been deleted because of changes to final report.

GAO note: Material has been deleted because of changes to final report.

You recommend that HUD emphasize participation in training sessions provided for in the HOPLIF guidelines, and require LHAs to act more aggressively to organize Homebuyers Associations. The Regulations stress that applicants for admission to HOPLIF shall be advised of the counseling and training program. The application for admission shall include a statement by the applicant that he and his family shall participate and cooperate fully in all official preoccupancy and postoccupancy training activities. Participation in these activities will be funded by part of the $500 per unit authorized for training of program participants. Failure to participate as agreed may result in the family not being selected or retained as a homebuyer.

The Homebuyers Ownership Opportunity Agreement requires that the local housing authority provide training and counseling, and that the homebuyer agree to participate in and cooperate fully in all official training and counseling.

The next recommendation is that HUD consider establishing the purchase price of HOPLIF homes based on the appraised value at the time of its occupancy to insure that low-income families are given the opportunity to buy homes comparable in cost to privately built homes. As pointed out in the GAO draft report, the differences between the appraised value and the development cost is considerable with the appraised value being the lesser. The reason for the disparity is that the HOPLIF units have added costs resulting from the legal requirement for payment of Davis-Bacon wage rates, LHA administrative costs, and other costs that private developers do not incur.

To bring the development cost more in line with the appraised value, the Regulations now provide for the following items to be deducted from the units' development cost:

1. Relocation costs;

2. Counseling and training costs;

3. Cost of any community facilities, administration or management facilities including the land, equipment, and furnishings attributable to such facilities.

Initial purchase price for each unit is arrived at by apportioning the remaining development cost (i.e., after deduction of the above factors) on the basis of an FHA appraisal of each unit adjusted up or down by the percentage difference between the total of the appraisals and the development cost.

Although this computation may still result in a purchase price greater than the FHA appraised value, we are hesitant to base the purchase price solely on the lower appraised value because the portion of the development cost so excluded from the purchase price would ultimately have to be absorbed by the Government, and because the program offers low-income families a unique opportunity for homeownership, the value of which is not reflected in an FHA appraisal.

The final recommendation states that HUD should develop procedures for the refinancing of HOPLIF homes. We agree as to the importance of doing this, and we are currently working on methods of overcoming the obstacles and assisting qualified homebuyers in obtaining suitable financing for their acquisition of title.

Sincerely,

James T. Lynn

COMPARISON OF PURCHASE

PRICES WITH FHA APPRAISED VALUES

FOR SELECTED HOPLIF HOMES

Location	HOPLIF prices	FHA appraised values	Prices over under(-) appraisal
Raleigh	$18,000	$15,500	$2,500
	21,500	18,950	2,550
	21,500	18,950	2,550
	22,500	21,500	1,000
Roanoke	16,651	19,350	-2,699
	16,651	18,850	-2,199
	21,616	22,200	-584
	20,286	19,650	636
Charlotte	21,820	22,600	-780
	21,820	20,000	1,820
	22,500	16,900	5,600
	22,000	20,050	1,950
	22,000	18,000	4,000
	22,000	19,500	2,500
	21,820	23,500	-1,680
	24,500	21,350	3,150
	23,000	21,500	1,500
	23,000	22,750	250
	23,000	22,000	1,000
Winston-Salem	19,573	18,050	1,523
	22,675	19,050	3,625
	18,881	16,500	2,381
	20,266	17,550	2,716
	26,363	21,600	4,763
	24,113	21,100	3,013
	22,773	18,550	4,223
	22,357	19,050	3,307
	25,866	23,100	2,766
Dallas	16,432	15,700	732
	17,420	15,550	1,870
	18,160	16,500	1,660
	18,908	17,000	1,908
	18,351	17,400	951
	19,047	17,650	1,397
	19,601	19,250	351
	19,736	18,750	986
St. Louis	21,368	15,000	6,368
	24,986	18,500	6,486
	22,947	17,000	5,947
Gulfport	15,797	15,600	197
	18,205	17,500	705
	17,875	17,000	875
	19,450	18,500	950

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT RESPONSIBLE FOR ADMINISTERING ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF HOUSING AND URBAN DEVELOPMENT:		
Robert C. Weaver	Feb. 1961	Dec. 1968
Robert C. Wood	Jan. 1969	Jan. 1969
George W. Romney	Jan. 1969	Feb. 1973
James T. Lynn	Feb. 1973	Present
ASSISTANT SECRETARY FOR HOUSING PRODUCTION AND MORTGAGE CREDIT-FHA COMMISSIONER:		
Phillip N. Brownstein	Mar. 1963	Feb. 1969
William B. Ross (acting)	Feb. 1969	Sept. 1969
Eugene A. Gulledge	Oct. 1969	Jan. 1973
Woodward Kingman (acting)	Jan. 1973	July 1973
Sheldon B. Lubar	July 1973	Present
ASSISTANT SECRETARY FOR HOUSING MANAGEMENT:		
Don Hummel	May 1966	Feb. 1969
Howard J. Wharton (acting)	Feb. 1969	Mar. 1969
Lawrence M. Cox	Mar. 1969	July 1970
Norman V. Watson	July 1970	Jan. 1973
Abner D. Silverman (acting)	Jan. 1973	Mar. 1973
H. R. Crawford	Apr. 1973	Present

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