



Evaluation of the Hope 3 Program

Evaluation of the HOPE 3 Program

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FOREWORD

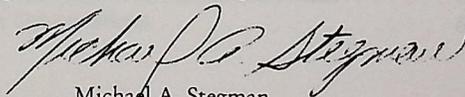
The U.S. Department of Housing and Urban Development is committed to promoting homeownership for all Americans, including families of modest means. Owning a home is an important part of the American dream. Through homeownership, a family acquires a place to live and raise children, and invests in an asset that can grow in value and provide the capital needed for future economic opportunities. Homeownership can also stimulate the physical, economic, and social revitalization of neighborhoods. *Evaluation of the HOPE 3 Program: Interim Report* provides initial findings about one of HUD's many efforts to help more Americans make homeownership a reality.

The HOPE 3 Single-Family Homeownership program, created in 1990 to succeed the Urban Homesteading Program, provides grants to nonprofit organizations and public agencies to assist low-income, first-time homebuyers in purchasing publicly held properties. This report, which covers the first 18 months of the HOPE 3 program, focuses on the initial experience of grantees and problems they have encountered in implementing the program.

This interim evaluation finds that the program has had considerable success in achieving its broad objectives. Implementation grantees selected in the first round are helping almost 3,300 low-income families become homeowners. Approximately one-third of the houses transferred thus far have been sold to buyers with incomes below 50 percent of the area median. These local efforts have leveraged State, local and private resources, drawing over half their funding from matching funds and other sources. HOPE 3 is also helping build capacity in the nonprofit sector by requiring grantees to be either nonprofits, or to partner with nonprofits.

Despite these encouraging results, the evaluation identifies several problems in the initial implementation of the program. For example, planning grants, funded only in the first year of the program, appear to have had no impact on an organization's ability to submit a successful implementation grant application. In addition, a change in FHA policy adversely affected grantee performance. HOPE 3 grantees were originally allowed first-choice on FHA properties that became available for purchase. When this policy was changed, grantees were left with fewer and less desirable properties to choose from, which created delays in purchasing and in rehabilitating the homes. As a result, most grantees are unlikely to meet the program's 2-year deadline for transferring homes to qualified buyers. The FHA has since restored priority status to HOPE 3 grantees.

HUD will continue its evaluation of the HOPE 3 program through 1995, culminating in a final report that will identify the costs involved in providing homeownership opportunities, the difficulties encountered, and the benefits to homebuyers. Although the HOPE 3 program is unlikely to continue as a separate program, findings from this evaluation will provide valuable lessons for States and localities administering their own homeownership programs as HUD consolidates and reorganizes its housing programs, providing communities with the discretion and flexibility they need to address local housing and community development needs.



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EVALUATION OF THE HOPE 3 PROGRAM

EXECUTIVE SUMMARY

This report presents interim findings from the Evaluation of the HOPE 3 Single-Family Homeownership Program. HOPE 3 provides grants to non-profits and public agencies to acquire, rehabilitate, and resell publicly-owned properties to lower income families. The evaluation is a three year effort designed to describe program implementation and to assess the initial effectiveness of HOPE 3 based on the experience of the 103 grantees that received funding in FY 1992. This is the Interim Report of the evaluation, covering the first year and a half of program implementation. Currently, the grantees have acquired just over half of the properties to be completed under the program and have transferred about 10 percent to new homebuyers. The Final Report of the evaluation, covering two and a half years of program implementation, will be submitted in the fall of 1995.

Background and Data Sources

The HOPE 3 program was created by Title IV of the National Affordable Housing Act of 1990. A direct descendent of the Urban Homesteading Program, which was operational between 1975 and 1991, HOPE 3 helps low-income families purchase single family properties owned by federal, state, and local governments. The program operates through non-profit organizations or public agencies working in conjunction with non-profits by providing grants for the development of local homeownership programs.

Initially, the HOPE 3 program offered two types of grants: planning grants and implementation grants. In FY 1992, a total of \$95 million was made available for HOPE 3: \$10 million in planning grants and \$85 million for implementation grants. In FY 1993, \$93 million was made available for HOPE 3 implementation grants; however, the planning grant portion of the program was not funded.

The HOPE 3 program has three principal objectives: to promote homeownership for low-income families and individuals; to support the development of non-profit housing providers; and to tap new funding sources for housing development. Implementation grants are designed to assist grantees in acquiring eligible property, to fund rehabilitation, and to subsidize the sale of properties to homebuyers. In addition, the program permits the use of funds to provide homeownership counseling and job training, recognizing that such assistance can be crucial for first-time homebuyers. To help support the program, FY 1992 and FY 1993 grantees must provide non-federal matching funds of at least \$1 for every \$3 of HOPE 3 funds. As of April 1994, the match requirement for subsequent grants was reduced to \$1 for every \$4 of grant funds.

Eligible homebuyers are families who have an annual income of no more than 80 percent of the area's median income and who have not owned a home for at least three years. Grantees

must ensure that families have sound credit history and adequate financial capacity. Preference must be given to families who already occupy program units, who live in public or Indian housing, or who have participated in self-sufficiency programs. The program requires that homebuyers spend no less than 20 percent but no more than 30 percent of their adjusted income on monthly payments for principal, interest, taxes, and insurance. While homeowners are allowed to sell their homes at any time, HUD prohibits homeowners from renting the homes for a period of six years and has established a number of restrictions on resale to prevent windfall profits.

All HOPE 3 properties must be acquired and transferred to eligible families within two years of grant agreement (HUD may grant an extension), and must meet local housing codes or HUD housing quality standards (whichever are higher) within two years of transfer. The full grant amount must be spent within four years of grant agreement.

The objectives of this evaluation are to describe and analyze the early implementation experience of the HOPE 3 program and to assess the initial effectiveness of the program in providing affordable homeownership opportunities, developing non-profit capacity, and obtaining new sources of public and private funding. In this interim phase, a high degree of emphasis is placed on the evolution of program designs, that is, the extent to which grantees modified their original approaches or encountered difficulties which substantially altered their initial schedules or budgets.

The sources of data used in this report include the applications submitted to HUD by the grantees in 1992; a survey of all grantees conducted in January and February 1994; and site visits to a sample of 26 sites selected for intensive study conducted in April and May 1994. In addition, the study uses data from HUD's HOPE 3 Cash and Management Information (C/MI) system, which provides information on the individual properties developed with HOPE 3 funding. Future data collection for this study will include a second round of visits to the 26 intensive study sites in spring of 1995, continued use of C/MI data, and a telephone survey of a representative sample of HOPE 3 homebuyers.

Planning Grants

The purpose of planning grants was to build capacity among grantees, support initial design and feasibility work, and assist grantees in preparing and submitting an application for an implementation grant. As noted above, only one round of planning grants was funded. Key aspects of the planning grant process are highlighted below, along with outcomes in terms of generating successful implementation grant proposals.

- Planning grants were awarded to 136 grantees: 84 non-profits and 52 public agencies. (Since that time, three grantees dropped out of the program.) Competition for planning grants was intense, with requests exceeding available funds by a factor of three.

- The average planning grant was \$74,804 with little difference by sponsor type. Nine categories of activities were eligible for support: assessing the available stock; applicant training; feasibility studies; preliminary architectural and engineering work; developing homebuyer counseling programs; economic development planning; security planning; preparing applications; and administration. The largest budget line items were feasibility studies, administration, and assessing the stock. Not all grantees proposed costs in all categories however. Categories least likely to be included in the budgets were security and economic development planning.
- Data from HUD's Line of Credit Control System (LOCCS) show that after the close of the one-year grant period, average planning grant expenditures were only 82 percent of budget. Approximately one third of all grantees had spent less than 80 percent of their funding limit. These lower than anticipated expenditures suggest that planning grants may have been too large; in fact, HUD considered cutting grants from a maximum of \$100,000 to a maximum of \$50,000, before deciding to stop funding the program. This is confirmed by the results of our grantee survey, where about one third of the grantees indicated that some activities simply took less time than anticipated or were ultimately dropped from the local programs. (Since the completion of the grant period, HUD has moved aggressively to recapture unused planning grant funds.)
- The efficacy of planning grants may be measured in the transition to implementation grants. Overall, 84 planning grantees (62 percent) submitted a FY 1993 application for an implementation grant, but only 39 of them (29 percent) submitted a *successful* application. Thus the desired result—transition to an implementation grant—was achieved in under a third of the cases.
- Among those planning grantees who applied for an implementation grant, the success rate was 50 percent. While this was significantly higher than the rate for applicants who had no previous experience with HOPE 3, planning grantees were significantly less successful than FY 1992 implementation grantees who reapplied in FY 1993, and there was no statistically significant difference in success rates between planning grantees and unsuccessful first round applicants that resubmitted in FY 1993.
- Despite the modest success rates of planning grantees who applied for an implementation grant, 42 percent of the FY 1993 implementation grantees include at least one partner that participated in planning grant activities. There may also be some long term value from the planning grants in terms of non-profit capacity building: about 40 percent of the non-profits involved in the program (both leads and partners) hired one or more new staff to work on the planning grant activities.

Implementation Grantees: Characteristics and Organizational Arrangements

The first round of implementation grants was signed in November 1992, covering 103 grantees. This group, which is the focus of this study, was evenly split between public agency and non-profit grantees. Data on the characteristics of the FY 1992 grantees and the partnerships they have formed to implement HOPE 3 are presented below.

- The public agencies participating in HOPE 3 are overwhelmingly city (67 percent) or county (12 percent) governments; PHAs comprise 14 percent of the public agency grantees; other entities, including state agencies, comprise the remainder. Most of the city or county-level agencies are community development departments which are also responsible for administering CDBG. Many (43 percent) had experience under the Urban Homesteading Program which HOPE 3 replaced.
- In keeping with the program's emphasis on building non-profit capacity, public agencies are required to enter into partnerships with non-profits to implement HOPE 3 activities. Most often public agencies work with a single non-profit partner (68 percent), but a minority have multiple non-profit and other public agency partners. Most public agencies described the division of labor between the partners as functional, although 15 percent divided the program by geographic area. Although many sites shared responsibilities among partners, the non-profits were more likely to be involved in counseling and economic development activities (where applicable) than the central acquisition and rehabilitation tasks.
- The non-profit grantees participating in the implementation grant component of HOPE 3 had considerably more housing production experience than the planning grantees, with a median previous homeownership output of 20 units as compared to only 2 units for the planning grantees. Nevertheless, these organizations are relatively inexperienced compared to other housing-oriented community development corporations that have been studied. Median staff size for the HOPE 3 non-profits was seven; the mean organizational budget in the year prior to HOPE 3 was \$2.3 million.
- Non-profit grantees included a small proportion of neighborhood-based organizations (22 percent), with the majority having city or county-wide service areas. In addition, the grantees included a number of government-sponsored entities. Of the non-profits participating in the 26 intensive study sites, four (including both leads and partners) were established by local government and shared staff with a local government agency.

Program Status

As of May 1994, there are 101 active FY 1992 HOPE 3 grantees (two had dropped out). The typical HOPE 3 grantee has established and/or acquired 56 percent of its planned units and

transferred 10 percent to new owners. However, since grant agreement, there have been alterations to the planned number of units to be completed in about a quarter of the sites. This has resulted in a net decrease of 367 units (about 10 percent of the total), mostly among public agency grantees. Total planned production under the program is currently 3,284 units. The median program size is 20 units.

Program rules call for the acquisition and transfer of all HOPE 3 units within two years of grant agreement unless an extension is granted by the HUD field office. These two years end in November 1994 for most grantees. However, for reasons described below, many grantees have experienced slower than anticipated acquisition. This means that a large number of grantees are likely to need an extension of the two-year transfer deadline.

Implementation Approaches

In designing their HOPE 3 programs, the most common approach adopted by the grantees is a basic "acquisition/rehab" model, in which the units are fully rehabbed by the grantee prior to resale to a new homebuyer (78 percent of grantees). The second most common approach (but used by only 14 percent of the grantees) is similar, but involves transfer to the buyer *prior* to rehab. Programs that selected this approach often did so because it gives the buyers input into the rehabilitation of their home. However, most of these grantees retained a great deal of control over rehab decisions. The least common approach, used by only 8 percent of the grantees, is direct purchase, wherein the program facilitates purchase by the homebuyer but never actually takes title to the property. Direct purchase programs vary in the extent of grantee involvement in rehab, ranging from none, to the provision of rehab loans and even rehab management.

The proportions reported above refer to the model used for the *majority* of units in each site; however, some sites operate more than one model simultaneously. The most common combination is a direct purchase model along with an acquisition/rehab model. Among our 26 intensive study sites, five used more than one model.

Property Acquisition

Over the first program year, the focus of most grantees was on property acquisition. However, acquisition has proved to be more difficult than expected for many grantees, resulting in only about half of all units being acquired thus far. Key acquisition plans and problems are described below.

- Based on current plans, 52 percent of all HOPE 3 properties will come from FHA, 22 percent will come from local sources, and the remaining 27 percent will come from other eligible sources (VA, RTC, PHAs, FmHA, and the states). Non-profits rely more on FHA (66 percent) than public agencies (40 percent), and both type^s of grantees (but particularly non profits) have increased their reliance

on FHA units since grant agreement. Increased use of FHA properties is somewhat curious, however, given the difficulties many grantees reported in acquiring such properties since the priority for HOPE 3 grantees was rescinded by FHA in November 1993.

- Methods of acquisition include: purchase by the grantee (69 percent); use of donated properties (19 percent); and direct purchase by homebuyers (12 percent). Since application, the proportion of units to be directly purchased by homeowners has gone down, and the proportion to be donated has increased. Increased usage of donated properties may well reflect new opportunities that were not available at grant agreement, but have been seized upon by the grantees, particularly as FHA properties became more scarce.
- According to the grantees, the most important factors in property selection were price, rehab cost, and neighborhood location. Acquisition and rehab cost reflect an obvious tradeoff. Location proved to be important in two ways. First, some grantees used the program strategically to promote neighborhood or block improvement. For others, neighborhood quality was an important factor in marketability. In addition, several grantees mentioned the importance of locating first-time homebuyers in solid, stable areas.
- The properties being used by the grantees are almost all single family homes. The units are overwhelmingly vacant at acquisition. The average price of a "typical" three-bedroom property as estimated by grantees is about \$27,000. Interestingly, this figure is somewhat less than grantees estimated at application (\$31,000), despite the fact that many grantees report higher than expected acquisition costs.
- The types of acquisition problems experienced by the grantees fell into three general categories: difficulty finding suitable or suitably priced units; problems with selling agencies; and delays associated with local laws or regulations. While some grantees experienced difficulty locating suitable units well before the November 1993 FHA policy change, the loss of priority for FHA units appeared to vastly reduce the number of units from which grantees could choose, sometimes forcing them towards less than optimal properties. Loss of priority was also the major source of complaints about selling agencies, although difficulty getting up-to-date lists from some agencies and overly short time limits on closing were also mentioned. Delays resulting from local law included environmental and historic preservation review requirements for grantees in New Jersey; in addition, grantees in Texas and Florida ran into local legal interpretations regarding the sale of public property that would have ended their programs if they had been implemented as originally planned.
- While HOPE 3 does not include neighborhood targeting requirements, it was assumed that some grantees would attempt to concentrate improvement activity

in a small set of target areas. However, only 28 percent of the grantees report that they target one or a few neighborhoods. Non-profits were more likely to target (36 percent) than public agencies (22 percent), and neighborhood-based non-profits are the most likely to target (70 percent). However, more in-depth consideration of these responses (based on the 26 intensive study sites) reveals that very few sites actually concentrate improvements geographically. Some of the programs that responded positively to the targeting questions do in fact acquire properties strategically (and have explicit community development goals), although their efforts may involve a relatively small number of units spread out over relatively large areas. Programs that did not target neighborhoods (the vast majority) indicated that the locations of available properties, local politics, and, in some cases, economic and racial deconcentration goals informed this decision.

- Overwhelmingly, grantee recommendations, as reported in the grantee survey, focused on acquisition. The single most frequent recommendation was to restore the priority at FHA for HOPE 3 grantees, something that, in fact, the HOPE 3 office at HUD has been endeavoring to do. A number of sites pointed out that HOPE 3 is caught between the conflicting goals of Office of Community Planning and Development programs (focusing on producing affordable units) and those of HUD's property disposition branch (realizing maximum return on HUD-held properties). It was clear that the grantees view HOPE 3 as an affordability program and have little interest in the disposition element. In fact, several recommended that the program not be linked to specific property sources at all but rather that grantees be allowed to purchase properties on the open market.

Rehabilitation

As mentioned previously, the majority of the programs involve rehab before sale. Moreover, even if transfer to the new owner occurs prior to rehab, grantees often control rehab decisions and rehab management. Direct purchase programs may or may not involve rehab.

- Based on estimates for a typical unit, rehab costs average about \$27,000. Interestingly, about a quarter of the grantees estimated typical costs that exceeded the \$33,500 per unit rehab cost limit that was originally part of the HOPE 3 program. Actual costs for the 92 properties completed thus far were considerably lower (\$18,154) than those reported in the survey, however the C/MI data are unrepresentative owing to limited coverage across grantees and the small number of properties included thus far.
- The level of rehabilitation undertaken by the grantees is a function both of initial property condition (which may or may not be within the grantees' control) and organizational philosophy. Some grantees seek out properties with the greatest preservation need; others try to ensure long-term affordability for new homeowners by undertaking a very high level of rehab.

- Information on the numbers of units requiring different types of rehab work shows that few of the HOPE 3 units will require little or no rehab (only 6 percent). Approximately 82 percent require at least exterior and interior cosmetic repairs; 66 percent require replacement of one or more major systems; and 41 percent require repair of major systems. Lead-based paint abatement will be required in about a quarter of the units.
- HOPE 3 units may not include "luxury items" defined as "better than customary or average for similar properties" in the area. While grantees differed in their interpretations of luxury items (for example, dishwashers), during site visits we did not observe any inappropriate levels of rehab at any site. Similarly, we did not observe or hear about instances of quality problems or HQS failures that had not been immediately resolved. Based on the 26 intensive study sites, only about a quarter undertake bare-minimum rehab. In three quarters of sites, grantees undertake a level of rehab that exceeds basic code, adding amenities, more durable materials, energy efficient features, or undertaking a broader scope of work in order to assure the long-term affordability of the units.

Other Activities

In addition to acquisition and rehab activities, grantees must market the HOPE 3 units to new homebuyers and provide purchasers with homebuyer counseling. Grantees may also undertake economic development activities, which for HOPE 3 may include job training and day care assistance for purchasers.

- Approaches to buyer outreach varied among the sites, but most commonly included newspaper ads, outreach through a PHA, and outreach through community organizations. Overall, the level of demand was judged to be adequate or more than adequate in all but two of the 26 intensive study sites. One of the two grantees found that after screening initial applications for over 400 prospective buyers, only about two percent were both qualified for the program and still interested in buying. The other grantee has experienced difficulty getting buyers to take advantage of downpayment assistance in its direct purchase program, presumably because favorable financing already available from FHA and VA means that buyers can afford the units without additional assistance.
- Because the HOPE 3 program requires that preference be given to public housing residents and self-sufficiency graduates, we looked specifically at the extent of outreach to these groups. While 10 of the 26 intensive study sites appeared to have made little effort in this direction (because they thought that PHA residents would be unlikely to qualify), 16 of the 26 sites made substantial attempts to recruit from this group. For several of these sites, a sizable proportion of homebuyers are former PHA residents.

- Homebuyer counseling is a required element of HOPE 3, reflecting the belief that such training can prepare first-time homebuyers to meet their responsibilities and, ultimately, may reduce delinquency and foreclosure. One HOPE 3 grantee noted that not only are the HOPE 3 buyers first-time homeowners, but many are "first-generation" homebuyers, and thus the purpose of the counseling is to acquaint them with the "homeowner mindset." Across programs the intensity of counseling varies substantially, ranging from only two hours in one site up to 500 hours in a site that includes sweat equity work under the category of training. All of the intensive study sites provided pre-purchase counseling. Just under half provided post purchase training as well, with this component typically focusing on home maintenance.
- Although HOPE 3 grantees can use up to \$250,000 in HOPE 3 grant funds for economic development, only 24 percent of public agencies and 20 percent of non-profits have economic development as part of their programs. Most of these programs involve job counseling and job training; only a few grantees use the funds for day care assistance.

Sources of Program Funding and Program Budgets

As noted above, the first-round HOPE 3 grantees were required to provide a non-federal match of \$1 for every \$3 in HOPE 3 funding. Matching funds may be in the form of cash, or they may represent the value of in-kind contributions such as donated properties, donated labor or materials, or the present value of the interest subsidy on a below market interest rate loan. Because matching funds and contributions might still be insufficient to complete the program, funds from other sources may be needed as well. Information on overall program budgets was taken from the applications of the 101 (current) grantees and updated for 96 grantees who responded to the grantee survey. Additional information about the sources of matching funds was collected from the 26 intensive study sites.

- Program budgets (as updated through the survey) show that per unit total program costs are about \$58,000, approximately 16 percent higher than at application. Public agency costs have increased dramatically as compared to non-profit costs, and per unit costs for this group (\$63,365) now exceed non-profit costs (\$51,216) by 24 percent. The large change for public agencies results both from a 14 percent decrease in the number of units to be produced by public agencies and a 7 percent increase in overall budgets. It is also important to point out that revised budget information is self-reported and may not reflect consistent updating across grantees.
- For the average HOPE 3 unit, 44 percent of funds come from HOPE 3, 10 percent each come from cash and in-kind matching funds, and 36 percent come from "other" sources. Both grantee types exceed program requirements of

\$1 dollar in matching funds for every \$3 in HOPE 3 funds, with public agencies showing a slightly higher leveraging ratio.

- Since an objective of the HOPE program is to leverage new sources of funding for housing, we categorized matching funds for the 26 sites based on whether they were from a source that was new to the particular grantee or a source that had been used previously to support grantee activities. Based on this definition, we categorized 63 percent of the matching funds raised by the 26 sites as "new". Overall, 79 percent of all matching funds came from public sources and only 19 percent came from private sources.
- "Other" funding sources accounted for 35 percent of all funds budgeted for the typical HOPE 3 unit. The category includes a variety of different types of funds: grantee development funds, extra CDBG money, other grant funds for excess administration costs, construction loans, permanent loans, and sales proceeds that are put back into the program. "Other" funds sometimes included items that could have been counted as matching funds had the grantee chosen to do so.

Affordability Methods

The study collected survey data from grantees describing the approaches they planned to use to achieve affordability goals for homeowners, including a detailed example of the development costs and financing for a typical unit. Data were also available from the C/MI on homebuyer financing for 211 units that have been transferred thus far.

- The most common affordability strategies included the provision of downpayment assistance, closing cost assistance, and below market interest rate loans to homebuyers. In addition, most of the sites planned to sell the units at prices below their fair market values and/or to offer deferred payment loans to bridge the gap between an affordable first mortgage amount and the purchase price of the home. Sweat equity, grants, and tax abatement were being used by under a fifth of the sites. Most sites used multiple mechanisms and many used different mechanisms for different buyers.
- Based on the survey data for a typical unit, 49 percent of the units were to be sold at prices below their fair market value (with an average discount when used of 19 percent). In approximately 60 percent of the cases, buyers were provided with a grant or loan for downpayments and/or closing costs, and about 10 percent received cash grants to help cover other costs. Finally, in 39 percent of the cases, the buyer was provided with a deferred payment loan (usually from HOPE 3 funds). The average value of deferred payment loans was roughly \$14,000 when used.

- Grantees' expectations about sources of financing included conventional loans (64 percent), HOPE 3 loans (50 percent), FHA, VA, or FmHA loans (28 percent), state housing financing agencies (21 percent), and local governments (17 percent), with most grantees indicating multiple sources. Based on the site visits, we found that in many cases private banks offered HOPE 3 homebuyers slightly below market interest rate loans with reduced downpayments and discounted closing costs. Thus many of the sites benefitted from the broader trend towards "community lending" in addition to those sites that were able to negotiate favorable terms specifically for HOPE 3.
- It is also important to note that the grantees' costs to produce the units were typically well above the after-rehab value of the properties (as well as above the often-discounted sales prices charged to buyers). Costs exceeded value in roughly 75 percent of the model units. When we analyzed typical unit data for the 26 intensive sites, we found that total subsidies, including both the difference between grantee cost and fair market value and the various subsidies to homebuyers (reduced sales prices, grants, and deferred payment loans), varied substantially. Subsidies ranged from *negative* \$1,350 up to \$85,000 per unit. The negative subsidy is found in a site that is often able to sell its units for more than the non-profit's costs for acquisition and rehab, and where only modest assistance (less than \$2,000) is provided to the buyer. The \$85,000 subsidy occurs in a site where the grantee's community development orientation results in the selection of units that require a great deal of rehab work as well as large homebuyer subsidies to make the units affordable.
- Based on available data from the C/MI, HOPE 3 affordability goals are being met. Approximately two thirds of the 211 buyers thus far are lower income (income between 50 and 80 percent of median) and the remaining one third are very low income (under 50 percent of median). Buyer incomes averaged just under \$20,000 annually, and households pay on average 23.5 percent of income for principal, interest, taxes and insurance. The average value of HOPE 3 homes was \$53,477 and the average purchase price was \$48,294.
- C/MI data on homebuyer characteristics (for 211 buyers thus far) show that 46 percent are African American, 38 percent are white, and 15 percent are Hispanic. About half of the homebuyers are single parent families; 16 percent are single individuals.

Program Administration and Capacity Building

- Based on the grantee survey, HOPE 3 grantees spent about three full time equivalents (FTEs) on their HOPE programs during the first year. Most staff appear to have been reassigned from other activities, but there was at least one new hire in the majority of the 26 intensive study sites.

- The first program year saw substantial changes in plans among the grantees. In addition to the schedule, budget, and unit production changes noted above, other changes included revisions to acquisition strategies, changes in marketing and affordability plans, and modifications to an array of other program features. Changes sometimes reflected inadequacies in the original plans, but also the need to adapt to changing markets or circumstances, such as the loss of priority for FHA units.
- HUD central office staff have had a relatively high level of contact with grantees, and many grantees reported that these staff were responsive in providing them with interpretations of rules or dealing with problems. Nevertheless, some of the grantees are unclear about certain program requirements. Among the areas that we identified where technical assistance could be of use are: C/MI reporting; procedures for amending budgets or program designs; outreach strategies (particularly to PHA residents); alternative property sources and acquisition strategies; lead-based paint abatement requirements; provisions governing the use and reporting of sales proceeds; strategies for monitoring homebuyer compliance with use and resale restrictions; and acceptable forms of documentation for matching funds and in-kind contributions.
- In terms of capacity building, the relatively low experience levels of many of the non-profit grantees suggests that HOPE 3 can have an important impact by increasing the scale and range of housing activities for these organizations. Non-profit grantees are already taking advantage of training opportunities using HOPE 3 funds (to a greater extent than public agencies); they also report the addition of new non-profit staff in close to half the sites. Sites reporting the greatest capacity building gains thus far also appear to show greater interest in continuing in the program based on rates of reapplication in FY 1993 and their expressed interest in applying for future HOPE 3 funding rounds.

CHAPTER 1

INTRODUCTION AND BACKGROUND

This report presents interim findings from the Evaluation of the HOPE 3 Single-Family Homeownership program. HOPE 3 provides grants to public agencies and non-profit organizations to acquire, rehabilitate, and resell publicly-owned properties to lower income households. The evaluation is a three year effort designed to describe program implementation and to assess the initial effectiveness of HOPE 3 in meeting its primary objectives. This study focuses on the first round of HOPE 3 grantees — those that responded to the FY 1992 NOFA. The report is based on site visits and other data collection conducted for these grantees in early 1994, after the program had been in operation for approximately one year. During that first year, most of the grantees focused their efforts on acquiring properties for the program, and, consequently, much of the report focuses on this issue. The report also examines the evolution of program designs, that is, the extent to which the grantees either needed to modify their initial plans as programs got under way or encountered difficulties that resulted in substantial changes in program approach.

This is the Interim Report of the evaluation. A Final Report will be submitted in the fall of 1995, reflecting program activity over the first two-and-one-half program years. The current report is organized into six chapters. Chapter 1 provides background information on the HOPE 3 program and the research methods used in this evaluation. Chapter 2 assesses the usefulness of Planning Grants (a program component which was not funded after 1992.) Chapter 3 describes the public agencies and non-profit organizations that are participating in the HOPE 3 program. Chapter 4 focuses on program implementation, including organizational arrangements under HOPE 3, progress in acquiring properties, rehab methods and approaches, and strategies for marketing and homebuyer counseling. Chapter 5 presents information on program budgets, including required matching funds, and on the affordability of the units produced with HOPE 3 grants. Finally, Chapter 6 examines program administration issues and the extent to which the program is building the capacity of non-profit organizations to deliver housing services.

1.1 OVERVIEW OF THE HOPE 3 PROGRAM

Homeownership is an integral part of the American Dream. As the largest asset that most people own in the course of their lives, a home is a significant financial investment and often a source of pride. Homeownership, it is argued, also brings with it benefits to society more generally. By promoting stability and fostering a deep commitment to one's home and environment, homeownership may enhance the attractiveness and safety of neighborhoods and ultimately generate higher tax revenues.

The federal government has supported homeownership in various ways since the 1930s.¹ Partly as a result of these incentives, two-thirds of American families now own their own homes. In addition, numerous efforts have been made in the past few decades to expand homeownership opportunities to families with low and moderate incomes.² Still, only 44 percent of low-income families own their own homes.³

The HOPE 3 program is most directly descended from the Urban Homesteading Program, which was operational between 1975 and 1991. However, HOPE 3 differs from Homesteading in several important ways. First, HOPE 3 includes — in fact focuses on — non-profits for the delivery of housing services. Public agencies may operate HOPE 3 programs (as they did most Urban Homesteading Programs) but they must do so in conjunction with a non-profit partner. Second, the types of properties that can be used in HOPE 3 are broader than those permitted under Homesteading. HOPE 3 properties can be obtained from virtually any federal source and may also include locally-owned properties.⁴ Third, the size of the HOPE 3 program greatly exceeds that of Homesteading. The number of units proposed by the first year HOPE 3 grantees exceeded the last year of Urban Homesteading by five and a half times.⁵ Funding for HOPE 3 is also much higher — \$85 million in FY 1992 as compared to about \$13 million — for the last year of Urban Homesteading. Finally, while federal homesteading dollars were used to acquire properties (which were then sold to buyers for a nominal amount), HOPE 3 grant funds can be used in almost any fashion desired by the grantee — to write down development costs, to provide direct financial assistance to buyers (including direct program loans), or to cover other program costs such as homebuyer counseling. Where total subsidy needs are modest, home sales can be used to generate income that provides the grantee with a "development fund" for additional homeownership units.

¹ Federal involvement started with the establishment of the Federal Home Loan Bank in 1932. Since then, the Federal government has created a national mortgage system (including insurance for long-term mortgages under FHA and chartered secondary market institutions) and has consistently offered tax deductions to homeowners of all incomes. In addition, every major piece of federal housing legislation since 1954 has included some program designed to promote homeownership.

² Examples include: the Section 235 Program; Mortgage Revenue Bonds; Urban Homesteading; the Mutual Help Homeownership Opportunity Program; the Turnkey III Homeownership Opportunity Program; the Public Housing Homeownership Program; and most recently, the Nehemiah Housing Opportunity Program.

³ Tabulations of the American Housing Survey, 1989, Department of Housing and Urban Development/Policy Development and Research.

⁴ Federal Urban Homesteading was limited to FHA, VA, and FmHA properties.

⁵ In 1989, the last year for which research data are available, 97 Urban Homesteading sites transferred 653 properties. This is compared to 3,651 units proposed by the first year HOPE 3 grantees. Note also that the number of proposed HOPE 3 units is equal to about 80 percent of all FHA dispositions in 1989 for units under \$25,000 in active homesteading areas.

1.1.1 Legislative History

The HOPE programs were signed into law on November 28, 1990 as Title IV of the National Affordable Housing Act of 1990. The Act introduced three homeownership programs: HOPE for Public and Indian Housing Homeownership (HOPE 1); HOPE for Homeownership of Multifamily Units (HOPE 2); and HOPE for Homeownership of Single Family Homes (HOPE 3).

HOPE 3 was intended to help eligible low-income families purchase Federal, state, and local government-owned single-family properties.⁶ Specifically, the program awards grants to non-profits, cooperative associations, and public agencies in conjunction with non-profits to establish and operate homeownership programs. Initially, the HOPE 3 program offered two types of grants: planning grants and implementation grants. In FY 1992, a total of \$95 million was made available for HOPE 3: \$10 million in planning grants and \$85 million for implementation grants. In FY 1993, \$93 million was made available for HOPE 3 implementation grants; however, the planning grant portion of the program was not funded.

1.1.2 Program Objectives and Design

The HOPE 3 program has three principal objectives: 1) to promote homeownership for low-income families and individuals; 2) to support the development of non-profit housing providers; and 3) to tap new sources of funding for low-income housing activities.

Planning Grants

For those organizations not quite ready to operate homeownership programs, HOPE 3 offered planning grants to support the development of organizational capacity, the preparation of future implementation grant applications, and the completion of feasibility studies. Planning grants were to be used to support a range of feasibility and pre-development activities. Specific activities include: assessing stock of eligible properties; training of grantee staff to assist in developing homeownership programs; feasibility studies of homeownership programs; preliminary architectural and engineering work; identification of educational materials for homebuyer/homeowner counseling and training; planning for eligible economic development activities; development of security plans, such as creating tenant patrols or hiring security personnel; preparation of an application for an implementation grant; and program administration. The maximum award for a planning grant in FY 1992 was \$100,000 per grantee.

⁶ Units in scattered site, single-family public and Indian housing developments were eligible properties under HOPE 3 for FY 1992 grantees. Beginning with the FY 1993 NOFA, these properties were shifted from HOPE 3 to HOPE 1.

Implementation Grants

Implementation grants are designed to assist grantees in acquiring eligible property, to fund rehabilitation, and to subsidize the sale of properties to homebuyers. In addition, the program permits the use of funds to provide job and homeownership training, recognizing that such assistance can be crucial for first-time homebuyers. Specifically, eligible activities include:

- Architectural and engineering work;
- Acquisition of eligible properties;
- Financial assistance to homebuyers, including interest rate reductions, downpayment assistance, and payment of closing costs and other expenses;
- Rehabilitation;
- Administrative costs, but not beyond 15 percent of the amount of the HOPE 3 grant;
- Counseling and training of homebuyers and homeowners in such topics as home repair, home maintenance, financial management;
- Relocation of residents originally housed in a program unit who elect to move rather than participate in the program;
- Temporary relocation costs of residents during rehabilitation work;
- Replacement reserves to help ensure long-term affordability;
- Legal fees;
- Ongoing training courses for grantees related to developing and carrying out homeownership programs;
- Job training and day care costs of those homebuyers participating in approved training/retraining activities;⁷ and
- Other activities approved by HUD.

As mentioned above, the HOPE 3 program is designed to utilize government-owned single family properties. The original program rules permitted applicants to use single family properties, containing no more than four units, that are owned or held by HUD, the Department

⁷ The total amount allocated to such activities may not exceed \$250,000 per site.

of Veteran's Affairs, the Department of Agriculture, the Resolution Trust Corporation, a state or local government, or a public or Indian housing authority. This has now been expanded to include virtually any federally-owned property.⁸

Eligible homebuyers are families whose annual income is no more than 80 percent of the area's median income who have not owned a home for at least three years.⁹ HUD requires that grantees ensure that families have sound credit history and adequate financial capacity and give first priority to families who already occupy units included in the program or who live in public or Indian housing. In addition, grantees must give a secondary preference to families who have participated in a self-sufficiency program such as Project Self-Sufficiency, Operation Bootstrap, Family Self-Sufficiency, or JOBS.

To ensure that units are affordable to homebuyers, and at the same time to guard against potential abuse, HUD requires that homebuyers spend no less than 20 percent but no more than 30 percent of their adjusted income on monthly expenditures for principal, interest, taxes, and insurance. (HUD may approve a floor lower than 20 percent in areas where utility costs are high.) Each eligible family must also make an investment in the property which may consist of a downpayment, proceeds of a loan secured by a mortgage on the property, or sweat equity.

While homeowners are allowed to sell their homes at any time, HUD prohibits homeowners from renting the homes for a period of six years and has established a number of restrictions on resale to prevent windfall profits. At the time of initial sale, the agency requires each owner to execute a promissory note equal to the difference, if any, between the fair market value of the unit and the purchase price. If an owner sells the property within the first six years of ownership, he or she will have to repay the full amount of the promissory note, to the extent that proceeds remain after paying off all other outstanding debt and deducting the amount of equity the family contributed to the property, including down payment, sweat equity, principal payments, and home improvements.¹⁰ After six years of ownership, the amount of the promissory note will decline by a steady amount each month, so that by the end of 20 years, the owner may retain all sale proceeds. Finally, if, during the 20-year period, a subsequent purchaser buys the property for less than the then-current fair market value, he or she must also execute a promissory note at closing for the amount of the discount which extends for whatever time period remains of the original 20-year period.

⁸ The Housing and Community Development Act of 1992 amended the National Affordable Housing Act (NAHA) to expand the eligible property sources to include the Federal Deposit Insurance Corporation (FDIC), the Department of Defense (DoD), the Department of Transportation (DoT), the General Services Administration (GSA), and all other Federal agencies. Although this amendment now applies to FY 1992 grantees, recipients must amend their approved applications to use any properties from these new federal sources. As mentioned above, scattered-site public and Indian Housing properties were no longer eligible HOPE 3 properties after FY 1992.

⁹ Displaced homemakers, however, who owned a home while married, may still be eligible to participate in the program.

¹⁰ If a house is being sold to a non-low income family, the grantee or public housing authority must be given the opportunity to meet the prospective buyer's price.

are available only for 92 properties, however, and cannot be considered representative of the program at this time.

The *third phase* of the study will begin in early 1995 — roughly two years from program start up. At that time we expect that additional C/MI data will be available to track costs and outputs for the universe of programs. A second round of site visits will be conducted to the sampled 26 sites to collect detailed implementation and outcome data, with an emphasis on organizational impacts and the ability of the grantees to meet match requirements. The final analysis will also assess the success of the program in meeting its affordable housing objectives through an analysis of units produced, costs to develop and transfer units, affordability levels, and perceived benefits to homeowners. Homebuyer data will come from the C/MI system and a telephone survey to be administered to a sample of HOPE 3 purchasers drawn from the 26 intensive study sites. The final report of the project will describe the design and implementation of the HOPE 3 program over its first two-and-one-half years of operation, and assess its initial effectiveness in creating affordable homeownership opportunities, building non-profit capacity to deliver housing services, and raising new funds for homeownership activities.

CHAPTER 2

HOPE 3 PLANNING GRANTS

During the first year of the program, planning grants were made available to entities that wanted to develop a HOPE 3 program but were not yet ready to apply for an implementation grant. The purposes of the planning grants were to build capacity among these organizations, support feasibility analyses and other pre-program design work, and assist grantees in preparing an application for an implementation grant. Planning grants were not a pre-requisite for an implementation grant, but were intended to result in an implementation application, presumably within the next year.

In 1992, HUD awarded approximately \$10 million in planning grants to 136 entities. After this first round, however, the planning grant component of the program was no longer funded. This chapter focuses on the 1992 planning grants, including the types of organizations that received grants and the activities that were supported with grant funds. The final sections of the chapter examine the role of planning grants in enhancing non-profit capacity and the transition to implementation grants—i.e., the extent to which the grants were successful in generating viable implementation grant applications from the recipient organizations.

Information contained in this chapter is drawn from the planning grant applications submitted in early 1992, a mail/telephone survey of planning grantees conducted in January 1994, and HUD's Line of Credit Control System (LOCCS), which provides ongoing information on drawdowns of HOPE 3 funds.

2.1 CHARACTERISTICS OF PLANNING GRANT RECIPIENTS

Exhibit 2-1 shows the number and types of entities that received HOPE 3 planning grants in 1992. Of the 136 original grantees, 62 percent were non-profits and 38 percent were public agencies working in conjunction with one or more non-profit partners. Among public agencies, about half were city- or county-level agencies and close to 40 percent were housing authorities.¹ The remainder of the public agency grantees were state level agencies (5 grantees) and development districts (2 grantees).

¹ The original HOPE legislation permitted the use of scattered site public housing units under HOPE 3. Programs using public housing units were subsequently shifted to HOPE 1.

Exhibit 2-1

Planning Grants: Grantee Type

Distribution of Planning Grants by Type

Type	Number	Percent
Non-Profit	84	62%
Public Agency	52	38
Total	136	100%

Source: Applications

Breakdown of Public Agency Grantees by Agency Type

Agency Type	Number	Percent
City	15	29%
County	10	19
State	5	10
PHA/IHA	20	38
Other	2	4
Total	52	100%

Source: Applications

2.1.1 Selection Process / Recipients Versus Applicants

Planning grants were awarded by national competition (after the top three applicants in each region were selected). There were a total of 351 applicants for planning grants, with combined grant requests totaling \$28,144,710, nearly three times the available funding for the planning grant component.

Exhibit 2-2 shows the distribution of planning grantees and applicants by HUD region. As indicated, planning grantees are heavily concentrated in Regions 4 (Atlanta), 5 (Chicago), and 6 (Fort Worth). These areas also correspond with the most active regions for the Urban Homesteading Program during FY 1989. Together the three regions account for 60 percent of the grantees and 62 percent of all planning grant funds awarded in 1992. Likewise, 58 percent of the 351 applicants were located in these regions, representing some 59 percent of total grant requests. The exhibit also compares applicants and recipients by non-profit/public agency status. As shown, 33 percent of the non-profit applicants received planning grants as did 54 percent of the public agencies. Tests of significance show that public agency applicants were significantly more likely than non-profits to receive a planning grant award.²

We also examined available data on the characteristics of non-profit planning grant recipients as compared to unsuccessful non-profit applicants. Overall, successful non-profits were slightly more experienced than unsuccessful applicants in terms of the age of the organization (the mean age of grantees was 16 years versus 14 years for applicants) and also in terms of housing development experience. Although the latter was difficult to determine with any precision from the applications, over three quarters of the successful applicants appeared to have *at least some* previous rental or ownership development experience as compared to fewer than half of the unsuccessful applicants.

After review and approval by HUD, final planning grant awards were made at the end of 1992. Exhibit 2-3 shows mean grant awards by region and by sponsor type. As shown, the average grant amount was \$76,850, with only small differences observed by sponsor type. While there was considerable variation in mean grant size across regions, the number of grants in some regions was quite small.

2.1.2 Recipient Organization and Structure

In order to collect more detailed data on planning grant activities, a survey of grantees was conducted in early 1994, at the conclusion of the one-year grant period. The survey database includes information for 127 grantees, excluding six non-respondents to the survey as

² Test based on the standard difference of proportions at the 95 percent confidence interval.

Exhibit 2-2

Comparison of Planning Grantees and Applicants

Distribution of Planning Grantees and Applicants by HUD Region

HUD Region	Applicants		Grantees	
	Number	Percent	Number	Percent
1 Boston	13	4%	3	2%
2 New York	27	8	14	10
3 Philadelphia	43	12	12	9
4 Atlanta	73	21	35	26
5 Chicago	64	18	25	18
6 Ft. Worth	68	19	22	16
7 Kansas City	25	7	13	10
8 Denver	12	3	3	2
9 San Francisco	16	5	6	5
10 Seattle	10	3	3	2
Total	351	100%	136	100%

Source: Applications

Distribution of Planning Grantees and Applicants by Grantee Type

Grantee Type	Applicants	Grantees	Percent Successful
Non-Profit	254	84	33%
Public Agency	97	52	54%
All	351	136	39%

Source: Applications

Figure 2-2
Hope 3 Planning Grantees by HUD Region

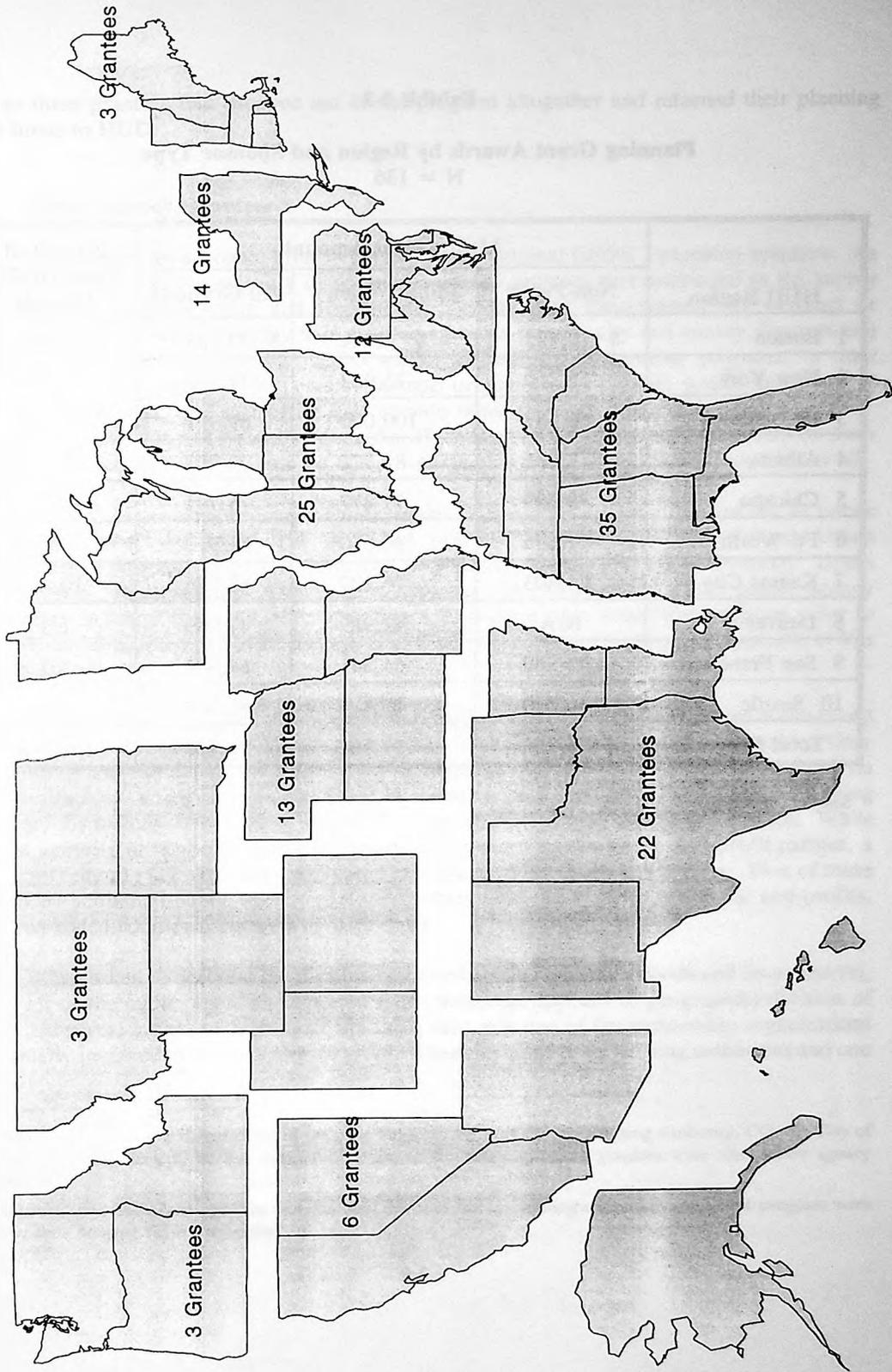


Exhibit 2-3

Planning Grant Awards by Region and Sponsor Type

N = 136

HUD Region	Mean Grant Amount			Percent of Total HOPE 3 Funds
	Non-Profit	Public Agency	All Grantees	
1 Boston	\$ 79,425	\$ N/A	\$ 79,425	2.3%
2 New York	75,360	73,967	74,763	10.0
3 Philadelphia	66,587	100,000	69,371	8.0
4 Atlanta	77,931	81,572	79,907	26.8
5 Chicago	73,799	79,877	75,744	18.1
6 Ft. Worth	77,878	90,550	81,910	17.2
7 Kansas City	86,403	76,207	83,266	10.4
8 Denver	N/A	42,989	42,989	1.2
9 San Francisco	71,960	61,341	64,884	3.7
10 Seattle	80,360	N/A	80,360	2.3
Total Program	\$ 76,261	\$ 77,802	\$ 76,850	100.0%

Source: Applications

well as three grantees that dropped out of the program altogether and returned their planning grant funds to HUD.³

Public Agency Grantees

Public agencies accounted for 38 percent of the original HOPE 3 planning grantees. As shown in Exhibit 2-4, the majority of the public agency grantees that responded to the survey were city or county Housing and Community Development Departments (42 percent) or PHA/IHAs (36 percent). Roughly half of these agencies (mostly city and county departments) are responsible for administering CDBG and/or HOME-funded housing programs in their jurisdictions. The majority (60 percent) operate programs that provide grants and loans to existing homeowners, and just under half operate other types of homeownership programs. PHAs, by contrast, do not typically administer HOME or CDBG programs, and many of them (7 sites) indicated that they operate no homeownership or rental development programs at all.

In terms of previous experience with similar HUD programs, only three of the 45 public agency respondents indicated that they had previously administered the federal Urban Homesteading Program and two indicated experience under the Local Property Urban Homesteading Demonstration. Altogether, however, 15 (35 percent) of the public agency respondents indicated that they were operating a homeownership acquisition program prior to HOPE 3, and 5 of these indicated that the HOPE effort was a continuation or expansion of this existing effort⁴.

Under HOPE 3, public agencies are required to apply in conjunction with a non-profit partner. These co-applicants usually sign a Memorandum of Understanding describing their respective responsibilities in carrying out HOPE activities. Exhibit 2-5 provides information on the organizational arrangements established by public agencies to carry out HOPE 3 planning activities. As indicated, the size of the HOPE 3 partnerships ranges from 2 to 5 entities. While the vast majority of the public agency grantees (73 percent) have a single non-profit partner, a significant minority (12 sites) have additional partners working on grant activities. Five of these sites added additional public agency partners to their team, four added additional non-profits, and three added additional partners of both types.

When asked to describe the division of labor between the lead grantee and its partner(s), almost all of the public agencies indicated a functional (as opposed to geographic) division of labor. However, a total of 5 grantees indicated that only one of the partnership organizations was actually involved in grant-supported work. These included three housing authorities and one

³ The three entities that dropped out of the program were the Fort Collins Housing Authority, CO; the City of Gulfport, MS; and the City of San Juan, PR. Most of the non-responding grantees were also public agency grantees.

⁴ Interestingly, half of the agencies that indicated that they had an ongoing ownership acquisition program were PHAs or state housing finance agencies.

Exhibit 2-4

Characteristics of Public Agency Grantees

Distribution by Agency Type

Type of Agency	Number	Percent
Planning Department	4	9%
Housing/Community Development Department	19	42%
Community Affairs Agency	1	2%
PHA/IHA	16	36%
Other	5	11%
Total	45	100%

Source: Grantee Survey

Number and Percent of Sites Administering Major HUD Programs

HUD Programs	Number	Percent
Home	23	51%
CDBG	20	44%
Both Home and CDBG	20	44%
Neither Home nor CDBG	17	38%

Source: Grantee Survey

**Number and Percent of Sites Currently Undertaking Other Housing Activities
in Addition to HOPE**

Other Activities	Number	Percent
Rental Development	24	53%
Home Improvement Grants/Loans	27	60%
Other Homeownership	21	47%
None of the Above	7	16%

Source: Grantee Survey

Exhibit 2-5

Public Agency Grantees: Organizational Arrangements for HOPE 3

Distribution of Sites by Number of Partner Organizations

Number of Partners	Number of Grantees	Percent
1	33	73%
2	5	11%
3	5	11%
4	2	4%
Total	45	100%

Source: Grantee Survey

**Mean Proportion of Activities Undertaken
by Lead Agency, Partners, and Others**

Activity	Lead	Partner(s)	Contractors	Percent Indicating This Activity
1 Assessing Stock	48%	26%	26%	93%
2 Training for Grantee	43	28	29	84
3 Feasibility Study	30	27	43	91
4 Preliminary A & E	34	16	50	58
5 Homebuyer Counseling Planning	20	55	25	91
6 Economic Development Planning	22	37	41	67
7 Security Planning	69	9	22	38
8 Preparing Grant Application	48	22	30	87
9 Grant Administration	84	16	0	91

Source: Grantee Survey

city grantee where all of the work was being completed by public agency staff without any non-profit involvement. In the last case, the non-profit partner of a city grantee was responsible for completing all of the planning work.

Exhibit 2-5 also indicates the way in which responsibilities were divided among the public agency and its partners, and shows the extent to which contractors were used to complete different elements of the work. Note that not all activities were completed by all of the grantees; for example, only 67 percent of the grantees indicated that work on economic development planning was carried out, and only 38 percent included security planning activities. The figures in the exhibit represent the mean proportion of each task completed by the various actors, excluding those sites where the activity was not a part of the scope of work. As shown, partner agencies (for the most part non-profits) were most active in the areas of homebuyer counseling and economic development. On average, they completed over half of the counseling work and 37 percent of the economic development work. These two areas represent the only activity types where partners completed a higher proportion of the work than the public agency leads. Contractor participation in these areas was also substantial, meaning that public agencies on average played only a minor role in these efforts. Areas where public agencies were more likely to take the lead included grant administration, security planning⁵, assessing the stock, and actually preparing the grant application.

Non-Profit Grantees

Non-profit organizations comprised just under two thirds of the planning grantees. The vast majority of these organizations (85 percent) undertook planning grant activities alone, without the involvement of other partners. The exceptions were 13 non-profit organizations who were working with other non-profit or public agency partners.

Exhibit 2-6 presents information on the characteristics of non-profit grantees. Where possible, the Exhibit compares information for non-profit leads with similar data collected for the primary non-profit partner of the public agencies described above. Presumably, grantees serving as leads would be more experienced than those participating only as a partner to a public agency. In any case, both groups are interesting from the perspective of the HOPE 3 goal of building non-profit capacity. Note, however, that the number of non-profit partners is rather small, making comparisons based on proportions somewhat risky.

As shown in the exhibit, the median age of non-profit leads was 15 years, implying an incorporation date in the mid-1970s.⁶ Leads tended to include a higher proportion of organizations in the older age categories; however, mean age was similar for both groups. The mean annual budget for non-profit grantees (in the year prior to receiving HOPE 3 funds) was

⁵ Note that this is based on a small number of responses.

⁶ Data on organization age come from program applications submitted in 1992.

Exhibit 2-6

Characteristics of Non-Profit Leads & Partners

Characteristics	Non-Profit Lead		Primary Non-Profit Where Public Agency Leads	
	Number	Percent	Number	Percent
Organization Age	(N=76)		(N=42)	
1 - 2 Years	9	12%	8	19%
3 - 5 Years	11	14%	6	14%
6 - 10 Years	9	12%	8	19%
11 - 15 Years	10	13%	5	12%
16 - 20 Years	3	4%	2	5%
21 - 30 Years	33	43%	10	24%
Over 31 Years	1	1%	3	7%
Mean Age (Years)	16		15	
Median Age (Years)	15		10	
Size of Budget (Prior to Hope)	(N=76)		(N=35)	
\$0 - \$100,000	10	13%	12	34%
\$100,001 - \$400,000	24	32%	9	26%
\$400,001 - \$1,000,000	12	16%	5	14%
\$1,000,001 - \$5,000,000	21	28%	7	20%
\$5,000,001 or more	9	12%	2	6%
Mean Budget (\$)	\$1,693,495		\$1,093,160	
Total Staff Size (in FTE)	(N=77)		(N=36)	
Less than One	4	5%	2	6%
1-10	35	45%	22	61%
11-50	17	22%	5	14%
51-100	10	13%	5	14%
101 or More	11	14%	2	6%
Mean Staff Size	43 FTE		42 FTE	
Median Staff Size	10 FTE		4 FTE	
Housing Staff Size (in FTE)	(N=76)		(N=31)	
Less than 1	7	9%	7	23%
1-5	48	63%	20	65%
6-10	7	9%	2	6%
11+	14	18%	2	6%
Mean Housing Staff	8 FTE		4 FTE	
Median Housing Staff	3 FTE		3 FTE	

(continued on next page)

Exhibit 2-6 (continued)

Characteristics of Non-Profit Leads & Partners

Characteristics	Non-Profit Lead		Primary Non-Profit Where Public Agency Leads	
	Number	Percent	Number	Percent
Primary Organizational Activities	(N=82)		(N=38)	
Housing Development		85%		68%
Housing Management		50%		24%
Housing Counseling		59%		68%
Social Services Delivery		46%		36%
Advocacy		48%		31%
Job Training/Employment		30%		21%
Economic Development		16%		8%
Commercial Development		7%		3%
Nature of Service Area	(N=82)		(N=38)	
Single/Several Neighborhoods	22	27%	7	18%
City-or County-Wide	23	28%	18	47%
Multi-County	28	34%	6	16%
State	7	9%	3	8%
Other	2	2%	4	11%
Rental Units Developed	(N=78)		(N=37)	
0	38	49%	22	59%
1-19	12	15%	2	5%
20-49	9	12%	1	3%
50-99	6	8%	6	16%
100+	13	17%	6	16%
Median Rental Units Developed	2 units		0 units	
Ownership Units Developed	(N=78)		(N=36)	
0	36	46%	18	50%
1-19	26	33%	10	28%
20-49	6	8%	2	6%
50-99	3	4%	0	0%
100+	7	9%	6	17%
Median Ownership Units Developed	2 units		0 units	

Source: Applications and Grantee Survey

about \$1.7 million, with 45 percent having annual budgets of under \$400,000. For non-profit partners, the overall mean was \$1.1 million, with about 60 percent having budgets under \$400,000 annually.

Information on staff size shows that non-profit lead organizations had a median staff size of 10 Full-Time Equivalents (FTE). However, eleven percent of the grantees had very large organizations of between 100 and 302 FTEs, contributing to a mean staff size for lead organizations of 43 FTE. Non-profit partners showed a similar mean (owing to one very large organization), but a lower median of 4 FTE.

The table also shows distributions and averages for staff engaged in housing activities. Based on the ratio of housing staff to total staff, we found that roughly one third of the lead non-profits are primarily engaged in housing work (defined as 80 percent or more staff time devoted to this activity.) Interestingly, the non-profit partners were more likely to be predominantly engaged in housing work than the organizations that served as leads; among the partner group, nearly half of the agencies devoted 80 percent of all staff time to housing.

Other characteristics of non-profit grantees shown in Exhibit 2-6 include information on organizational activities, service areas, and previous housing production. In terms of organizational activity, 85 percent of the lead grantees listed housing development as one of their primary activity areas, and over half listed housing-related activities—such as housing management and housing counseling—as primary activities. Smaller proportions (under 50 percent) identified social service delivery and/or advocacy as key program areas, while relatively few of the grantees identified themselves as being involved in job training (30 percent) or economic development (16 percent) activities.

Interestingly, only about 27 percent of the lead grantees are neighborhood-based organizations, i.e., organizations with a service area that is limited to one or a few neighborhoods. About the same proportion were city or county-wide organizations, and, surprisingly, over one third of the non-profit leads indicated that they had multi-county service areas. Among the partner organizations, an even lower proportion were neighborhood-based (18 percent); the majority (47 percent) were city or county-wide organizations.

Finally, the exhibit indicates the previous production experience of the grantees with respect to both rental and ownership housing. Overall, 51 percent of the lead grantees and 41 percent of the partners had some previous rental production experience. With respect to ownership units, somewhat more than half of the lead grantees (54 percent) reported previous development experience. Most of these sites indicated modest levels of previous output, typically between 1 and 20 units; however, a few organizations had developed several hundred units prior to HOPE 3. Median ownership output was 2 units for non-profit leads. Non-profit partners had lower overall levels of experience, but also included a few entities with several hundreds of units to their credit.

2.2 PLANNING GRANT ACTIVITIES AND EXPENDITURES

HOPE 3 Planning Grant funds can be used for nine basic program activities. Exhibit 2-7 shows the mean amount of funding budgeted for each activity, presented for all grantees, and separately for non-profit and public agencies. Note that not all grantees received funding in each category; the percent of grantees receiving each type of funds is shown in the final column of the exhibit.

Assessing the Stock of Eligible Properties: This category includes activities such as compiling lists or databases of available properties and contacting selling agencies to determine rules, procedures, and sales prices for possible HOPE 3 units. As indicated by their applications, many grantees also included under this expense category various property-specific assessment activities such as inspecting candidate properties, checking on ownership and tax status, and determining values and financial feasibility. On average, this category accounted for the third largest budget item and one of the most commonly included accounts.

Training and Technical Assistance for Applicants: This category covers training for grantee staff, typically through attendance at workshops, classes, or seminars. Frequently mentioned topics for staff training include homebuyer counseling, loan processing, homeownership affordability strategies, and homeowner finance. In addition to these specific training activities, many sites included in this category a more general exploration of alternative program models based on networking with other local organizations or site visits to other cities. Finally, a few grantees interpreted this category to include the development of training programs for homebuyers. Applicant training budgets averaged \$8,850.

Feasibility Studies: Feasibility work proposed under HOPE 3 included either assessing the feasibility of specific properties identified for the program (assessing rehab needs, examining property values, determining affordability, and matching properties with clients) or assessing the overall feasibility of the program (identifying funding sources and affordability strategies, examining likely buyer characteristics, determining need for the program, and establishing the marketability of the units.) This line item accounted for the largest category of funds on average, and was included in virtually all of the grantee budgets.

Preliminary Architectural and Engineering Work: Activities under this category pertained to the specific units to be selected for the programs, and include conducting property inspections, preparing work write ups and cost estimates, commissioning structural analyses and drawings as necessary, and preparing specifications or bid packages. A&E budgets averaged \$8,686 but were less likely to be included as a line item than most other activities.

Exhibit 2-7

Planning Grant Budgets by Activity and Sponsor Type

Activity	Mean Grant Amount			Percent of Grantees with Funding in this Category
	Non-Profit N=83	Public Agency N=49	All Grantees N=132	
1 Assessing Stock	\$ 10,755	\$ 9,635	\$ 10,339	95%
2 Training for Grantee	8,472	9,490	8,850	80
3 Feasibility Study	11,863	12,500	12,099	92
4 Preliminary A & E	9,782	6,828	8,686	79
5 Homebuyer Counseling Planning	7,927	10,945	9,047	90
6 Economic Development Planning	4,597	8,250	5,953	70
7 Security Planning	2,063	1,889	1,999	46
8 Preparing Grant Application	7,411	7,324	7,379	89
9 Grant Administration	10,720	9,999	10,452	95%
Total	\$ 73,591	\$ 76,859	\$ 74,804	

Source: HUD/LOCCS

Identification of Counseling Curricula and Sources: Based on their applications, the majority of grantees planned to develop a new in-house counseling program (or possibly to expand on an existing program) as a part of this task. Funds were to be used to review existing programs, select the curriculum, and develop new materials. A minority of sites indicated that they would investigate and contract with existing programs or consultants for the counseling component. Counseling planning accounted for the fourth highest budget element overall and was included in almost all program budgets.

Economic Development Planning: Grantees proposed to use these funds to investigate local providers and to develop strategies for linking HOPE 3 with existing training programs, such as Job Partnership Training Act activities. Numerous sponsors also proposed to assess the need for an economic development component and/or to conduct needs assessments of individual clients. Economic Development activities were included in only 70 percent of all budgets. They averaged \$5,953 overall.

Security Planning: Security-related activities tended to fall into three categories: 1) dealing with problems of security during construction, 2) identifying security needs and security systems for specific units, or 3) engaging in anti-crime activities such as researching crime in the neighborhood, establishing a community watch program, or networking with the police. Many grantees did not propose any activities under this category. The amount of funds budgeted for security planning (a mean of \$1,999) was markedly lower than other categories, both overall and for those sites that included it in their budgets.

Preparation of a HOPE Application: This category was to be used to cover staff time needed to attend relevant workshops and prepare the application documents. In a few cases, grantees indicated that consultants would be used to prepare the application. Application costs were \$7,379 on average.

Administration: These funds were used for office and equipment costs, staff salaries and benefits, audit and legal costs, and travel. Administration accounted for the second largest budget item on average and was included in almost all budgets.

In contrast to program budgets, Exhibit 2-8 shows actual expenditures of the HOPE 3 grantees, by line item and in total.⁷ These data are drawn from the HOPE 3 LOCCS system and include data for 132 grantees.⁸ Almost all of the grants had been closed at this point, with only a very few continuing on extensions. A surprisingly large proportion of grantees had funds remaining as of this point, resulting in an average grant expenditure of \$62,067 as opposed to \$74,804 budgeted. As shown in the bottom panel of the exhibit, over a third of the grantees had used 80 percent or less of their planning grant funds.

These data suggest that the initial planning grant amounts were probably too large. In fact, HUD considered reducing the \$100,000 maximum grant to \$50,000 before deciding not to fund planning grants after 1992. As a part of the survey, we asked grantees to explain any unused funds, and about one-third of the grantees indicated that some grant activities took less time than anticipated or were dropped. The line item with lowest level of expenditures was preliminary architectural and engineering work (only 53 percent of planned funds were used), suggesting that few grantees had selected specific properties for A&E review. The only activity for which expenditures exceeded plan was administration (by about 2 percent).

It should also be noted that the HOPE 3 office has been aggressive in recapturing unused planning grant funds. The figures cited above imply about \$1.6 million in recapture from the 132 active planning grantees. The overall impact is a 17 percent reduction in the average grant amount.

2.3 PLANNING GRANT IMPLEMENTATION/CAPACITY BUILDING

In establishing the HOPE 3 program, Congress set out to build the capacity of non-profit organizations, both by requiring non-profit participation in HOPE 3 activities and by creating a separate planning component that could be used by less experienced organizations to prepare themselves for implementation grants. This section focuses on capacity building aspects of the program, with emphasis both on broad capacity building issues (such as staff development and training) and the more narrow role of the program in helping grantees design HOPE 3 programs.

⁷ Note that 11 of the 136 planning grantees had secured funding in addition to the HOPE 3 Planning Grant. The amounts of other funds ranged from \$5,000 to \$135,000 and are not included in Exhibit 2-8. Other funds accounted for less than 20 percent of the total (HUD grant plus other funds) in five sites, between 20 and 40 percent in five sites, and exceeded the HUD grant (62 percent of total) in one site. The latter was the Interfaith Development Corp of Bucks County, PA, which had secured \$135,000 in state funding in addition to its HUD grant of \$81,183. Among the sites with other funds, three were local governments and nine were non-profits. The majority of non-profits provided funds from their own resources, although several raised contributions from state or local agencies.

⁸ Three of the four sites with zero budgets are those listed earlier in this chapter that had dropped out of the program as of our grantee survey. The fourth (Newcap, Inc. in Wisconsin) decided not to participate in the program at some point after the survey contact.

Exhibit 2-8

**Average Budgets Versus Actual Expenditures by Category
(Dollars)**

Activity	Non-Profit N=83		Public Agency N=49		All Grantees N=132	
	Budgeted	Expended	Budgeted	Expended	Budgeted	Expended
1. Assessing Stock	\$10,755	\$9,696	\$9,635	\$7,025	\$10,339	\$8,705
2. Training for Grantee	8,472	7,741	9,490	6,205	8,850	7,171
3. Feasibility Study	11,863	11,029	12,500	10,728	12,099	10,917
4. A & E	9,782	5,128	6,828	3,698	8,686	4,597
5. Homebuyer Counseling Planning	7,927	6,993	10,945	8,861	9,047	7,686
6. Economic Development Planning	4,597	3,238	8,250	6,692	5,953	4,520
7. Security Planning	2,063	1,558	1,889	1,314	1,999	1,468
8. Preparing Grant Application	7,411	6,556	7,324	6,202	7,379	6,425
9. Grant Administration	10,720	11,670	9,999	8,728	10,452	10,578
Total	\$73,591	\$63,610	\$76,859	\$59,454	\$74,804	\$62,067

Source: HUD/LOCCS

**Actual Expenditures as a Percentage of Budget
N=132**

Percent Expended	Non-Profit	Public Agency	All Grantees
0 - 20	0%	4%	2%
21 - 40	6%	4%	5%
41 - 60	6%	14%	9%
61 - 80	17%	20%	18%
81 - 100	71%	57%	66%
	100%	100%	100%
Mean	85%	77%	82%

Source: HUD/LOCCS

2.3.1 Staffing and Staff Training

HOPE 3 provided grantees with an important opportunity to fund staff time for development work, to add new staff, and to enhance the skills of existing staff. As shown in Exhibit 2-9, for non-profit lead agencies, total staff time spent on HOPE 3 over the year averaged 1.62 FTEs—the vast majority by non-profit as opposed to public agency staff. Public agency grantees spent slightly less time completing HOPE 3 activities—1.41 FTEs on average—however nearly 40 percent of this time was contributed by non-profit partners who worked on grant activities.

A number of grantees also indicated new staff hires to assist in HOPE 3. Non-profits (both leads and partners) reportedly added 70 staff at 42 organizations, and public agencies added 25 staff across 15 sites. Among non-profit grantees that hired staff, the types of skills brought by these individuals most frequently included homeowner counseling (45 percent), grant management (45 percent), and homeowner financing (44 percent).

Finally, HOPE 3 provided funding for grantee training as part of the capacity building goals of the program. Exhibit 2-9, lists the types of training received by non-profit staff. As indicated, the most frequently identified training topics were the specifics of HOPE 3 and homeownership financing mechanisms. Training sources included a mix of outside classes and customized/consultant provided training. For non-profit grantees, total hours of training provided averaged 134 (almost all for non-profit staff); for public agency grantees, training averaged 47 hours (about a third of which went to non-profit staff.)

2.3.2 Use of Consultants and Contractors

In addition to grantee staff, consultants and contractors played a substantial role in carrying out planning grant activities. Eighty-one percent of the non-profit grantees reported using contractors for some activities, compared to about 70 percent of public agency grantees. The value of outside contracts averaged \$21,683 for non-profits and \$24,592 for public agencies, representing about 28 to 32 percent of overall budgets. Non-profits were most likely to use consultants for staff training, A&E work, feasibility studies, and preparation of their application for an implementation grant. Public agencies frequently used consultants for feasibility studies and A&E work. From the perspective of capacity building, the nature of the consultant's involvement can be as important as the level: on the one hand, high reliance on consultants may mean that the organization does not build experience that it can incorporate into its future work; on the other hand, consultants can fill an important capacity building role if they work closely with non-profit staff in carrying out tasks. Almost three quarters of the non-profits that reported using consultants or contractors described their role as "working closely" with grantee staff, including sharing one or more tasks.

Exhibit 2-9

**Measures of Capacity Building
Mean Staff Time Spent on HOPE 3 (in FTEs)**

HOPE FTE	Non-Profit Grantees	Public Agency Grantees
Non-Profit Staff	1.55	.55
Public Agency Staff	.07	.86
Total Staff (FTE)	1.62	1.41

New Hires for HOPE 3

Grantee Type	Number of New Staff	Number of Organizations with New Hires
Non-Profit Hires	70	42
Public Hires	25	15
Total New Hires	95	57

Specific Staff Skills Brought by New Hires

Type of Skill	Percent of Sites Indicating this Skill
Grant Management/Admin.	45%
Rehab/Construction Skills	33%
Homeownership Finance	44%
Credit Analysis/Loan Processing	36%
Homebuyer Counseling	45%
Economic Development	25%

Training Received by Non-Profit Grantee Staff

Type of Training Received	Number of Sites	Percent of Sites
None	8	10%
HOPE 3 Workshops	66	80%
Management Training	31	38%
Ownership Finance	40	49%
Household Credit Analysis	29	35%
Rehabilitation Specs.	27	33%
Construction Management	20	24%
Marketing and Sales	21	26%

Source: Grantee Survey

2.3.3 Other Measures

In order to further examine the *potential impact* of planning grants on the organizations involved, we examined the size of the HOPE 3 grant relative to the non-profit organization's overall pre-HOPE 3 budget and the number of new hires indicated for HOPE 3 relative to its overall FTE. Overall, the HOPE 3 grants had a significant budget impact for many of the planning grantees. Exhibit 2-10 shows that while the HOPE 3 grant accounted for less than 20 percent of the organization's overall budget in the majority of sites, these funds accounted for half of the organization's budgets in 20 percent of the sites and exceeded their pre-HOPE budgets in 11 percent of the sites. However, when the number of new hires was compared to overall staff FTE, less potential impact is apparent. First, 58 percent of the sites did not make any new hires in connection with HOPE 3, and in only a handful of sites did new hires (assuming full time positions) amount to more than 20 percent of total FTE.

In terms of *perceived impacts*, grantees were positive about the overall effect of the grant on the organization's capabilities to deliver housing services, with 83 percent of non-profits and 73 percent of public agencies indicating that the grant had a "substantial" or "moderate" impact on their capacity.

Finally, grantees were asked to indicate how valuable the HOPE 3 planning grant was in helping them prepare an application for the implementation portion of the program. Responses were overwhelmingly positive, with 89 percent of non-profits and 82 percent of public agencies indicating that the grant was very helpful (as opposed to somewhat helpful or not at all helpful). As reported by grantees who actually applied for a 1993 grant, specific areas in which the grant was reportedly most helpful included: identifying suitable properties (89 percent); assessing acquisition and rehab costs (84 percent); staff development (68 percent); identifying homebuyer counseling sources (80 percent); and identifying matching fund sources (82 percent).

2.4 TRANSITION TO IMPLEMENTATION GRANTS

As noted at the outset, a primary objective of the planning grant component of HOPE 3 was to generate viable applications for implementation grants. This section examines the extent to which planning grantees submitted 1993 applications, and the role that such grants may have played in actually receiving a 1993 award.

Exhibit 2-11 presents information on the numbers of planning grantees, by type, that submitted applications for 1993 implementation grants. As shown, of the 136 grantees, 62 percent submitted an application for 1993, and 29 percent submitted a *successful* 1993 application. Thus the desired outcome—submission of a winning implementation grant application—was achieved in less than a third of the sites. It should be noted, however, that 15

Exhibit 2-10

HOPE 3 Grant as a Percentage of Pre-HOPE Budget

Percent of Budget	Number of Sites	Percent of Sites
<1 - 5%	31	42%
6 - 20%	13	18%
21 - 40%	12	16%
41 - 60%	8	11%
61 - 80%	0	0%
81 - 100%	2	3%
Over 100%	8	11%

Source: Grantee Survey

Exhibit 2-11

**Extent to Which Planning Grantees
Applied for and Received 1993 Implementation Grants**

Outcomes for Planning Grantees

Grantee Type	Number of Planning Grantees	Number/Percent Applying for 1993 Grants		Number/Percent Receiving 1993 Grants ^b	
		Number	Percent	Number	Percent
Public Agencies	52	29	56%	18	35%
Non-Profits	84	55	65%	21	25%
All	136	84	62%	39	29%

Source: HUD Application Files

Success Rates for Various Groups of 1993 Applicants

Applicant Group	1993 Applicants	1993 Grantees	Percent of Applicants That Were Successful
Applicants with Planning Grants	92 ^a	46 ^b	50.0%
Previous Implementation Grantees	48 ^c	33 ^c	68.8%
Applicants No Previous HOPE 3 Experience	64	12	18.8%
Unsuccessful 1992 Applicants	37	19	51.4%
All Applicants	241	110	45.6%

^a Includes four applicants that had been a partner (as opposed to lead grantee) in 1992, as well as five 1992 lead grantees that served as partners in a 1993 application.

^b Includes three of four applications by 1992 partners and four of five cases in which a 1992 lead served as a partner in 1993.

^c Includes two separate grant requests and awards from Coordinated Community Services of Arizona which had a single 1992 grant under the name of Human Action for Chandler.

Source: HUD Application Files

of the 52 grantees that failed to apply in 1993 indicated in their survey responses that they planned to apply for 1994 funds. Thus, it is possible that additional winning applications may be generated in future rounds.

As shown in Exhibit 2-11, a somewhat higher proportion of non-profit grantees submitted 1993 applications than public agency grantees. One possible reason for this is that PHAs that had planned to develop programs using scattered site public housing units applied under the HOPE 1 program in 1993. When asked to identify the primary reason for not applying, the most frequently mentioned reasons among non-applicants (of both types) were a lack of suitable properties or problems with property requirements (7 sites); problems meeting the application deadline (7 sites); difficulties raising matching funds (4 sites); and problems of lack of capacity or support (4 sites).

Although they appear less likely to apply, public agencies were more successful than their non-profit counterparts in actually winning HOPE 3 grant awards; roughly 62 percent of the public agencies who submitted an application were successful as compared to 38 percent of non-profit applicants.

In order to assess the overall utility of the planning grants, we examined whether 1993 applicants who had previously received planning grants were more likely to be selected than those who did not have a planning grant. The results are shown in Exhibit 2-11, which presents success rates for four groups of applicants 1) planning grantees, 2) 1992 implementation grantees that applied again in 1993, 3) applicants who had no previous HOPE 3 grant experience, and 4) applicants who had originally applied (albeit unsuccessfully) for a HOPE 3 grant in 1992.

Note that the numbers for planning grants in the lower panel of Exhibit 2-11 differ from those in the upper panel in that they are not limited to "lead" grantees. In order to better capture the impact of planning grants on partnerships, the counts in the bottom panel include four 1993 applicants that had been a planning grant partner in 1992 and five planning grantees who submitted a 1993 application as a partner to another organization. Thus the figures reflect all of the applications generated from planning grants, regardless of the role of the organization.⁹

Measured this way, the success rate for planning grantees is 50 percent. However, significantly higher success rates were achieved by previous implementation grantees who reapplied in 1993. This group had the highest success rate of any group (68.8 percent). Planning grantees did fare significantly better than applicants without any previous HOPE 3 experience (the success rate for this group was 18.8 percent). However, there was no statistically significant difference between planning grantees and unsuccessful 1992 applicants who reapplied in 1993 (51.4 percent of whom were successful).

⁹ It is interesting to note that three of the 1993 applications were a partnership of two 1992 implementation grantees. There was also one 1993 application that was a partnership of two 1992 planning grantees.

Overall, then, there is no indication that planning grants had a positive impact on the likelihood of success in winning an implementation grant. While planning grants may still have positive benefits on grantee organizations or have improved the programs of individual applicants (particularly those with less experience), the program does not appear to be a useful approach for generating successful implementation applications. In addition, the fact that many grantees were unable to spend all of the grant funds suggests that the amounts awarded for planning activities were too large.



CHAPTER 3

HOPE 3 IMPLEMENTATION GRANTEES

In 1992, HUD awarded approximately \$85 million in implementation grants to 103 entities. This chapter focuses on the FY 1992 implementation grantees, including the characteristics of the organizations which received HOPE 3 awards and the process by which they were selected. Information contained in this chapter is drawn from the original implementation grant applications submitted in early 1992 and a mail/telephone survey of implementation grantees conducted in January 1994.

3.1 CHARACTERISTICS OF IMPLEMENTATION GRANT RECIPIENTS

Exhibit 3-1 shows the number and types of organizations that received HOPE 3 implementation grants in 1992. Of the 103 original grantees, half were non-profits and half were public agencies working in conjunction with one or more non-profit partners. Among the public agencies, over three-fourths were city- or county-level agencies and 14 percent were housing authorities.¹ The remainder of the public agency grantees were two state level agencies, a homesteading authority, and a city/county agency.

3.1.1 Selection Process/Recipients Versus Applicants

There were a total of 201 applicants for implementation grants in 1992, with combined grant requests totaling \$165,936,927, or nearly twice the available funding for the implementation grant component. Implementation grants were awarded by competition within regions. HUD allocated funds to each of the 10 regions using a formula that considered the total number of occupied rental units in the region, the number occupied by low-income families, the number of substandard units, and the number of single family properties owned by HUD, RTC, and VA.

Exhibit 3-2 shows the distribution of implementation grantees by HUD region. As indicated, the grantees are concentrated in regions 3 (Philadelphia), 4 (Atlanta), 5 (Chicago), and 6 (Fort Worth). Together these regions account for 56 percent of the grantees and 60 percent of all implementation grant funds awarded in 1992. Likewise, 70 percent of the applicants were located in these regions, representing some 70 percent of total grant requests. The exhibit also compares applicants and recipients by non-profit/public agency status. As shown, 58 percent

¹ This includes FY 1992 grantees who planned to use scattered site public housing units for their programs. Beginning with the FY 1993 NOFA, however, public housing units could only be proposed under HOPE 1.

Exhibit 3-1

Implementation Grants: Grantee Type

Distribution of Implementation Grants by Type

Type	Number	Percent
Non-Profit	51	49.5 %
Public Agency	52	50.5
Total	103	100%

Source: Applications

Breakdown of Public Agency Grantees by Agency Type

Agency Type	Number	Percent
City	35	67%
County	6	12
State	2	4
PHA/IHA	7	14
Other	2	4
Total	52	100%

Source: Applications

Exhibit 3-2

Comparison of Implementation Grantees and Applicants

Distribution of Implementation Grantees and Applicants by HUD Region

HUD Region	Applicants		Grantees	
	Number	Percent	Number	Percent
1 Boston	4	2%	4	4%
2 New York	13	7	8	8
3 Philadelphia	31	15	11	11
4 Atlanta	41	20	18	17
5 Chicago	40	20	14	13
6 Ft. Worth	30	15	16	15
7 Kansas City	9	4	6	6
8 Denver	15	8	10	10
9 San Francisco	13	7	13	13
10 Seattle	5	2	3	3
Total	201	100%	103	100%

Distribution of Implementation Grantees and Applicants by Grantee Type

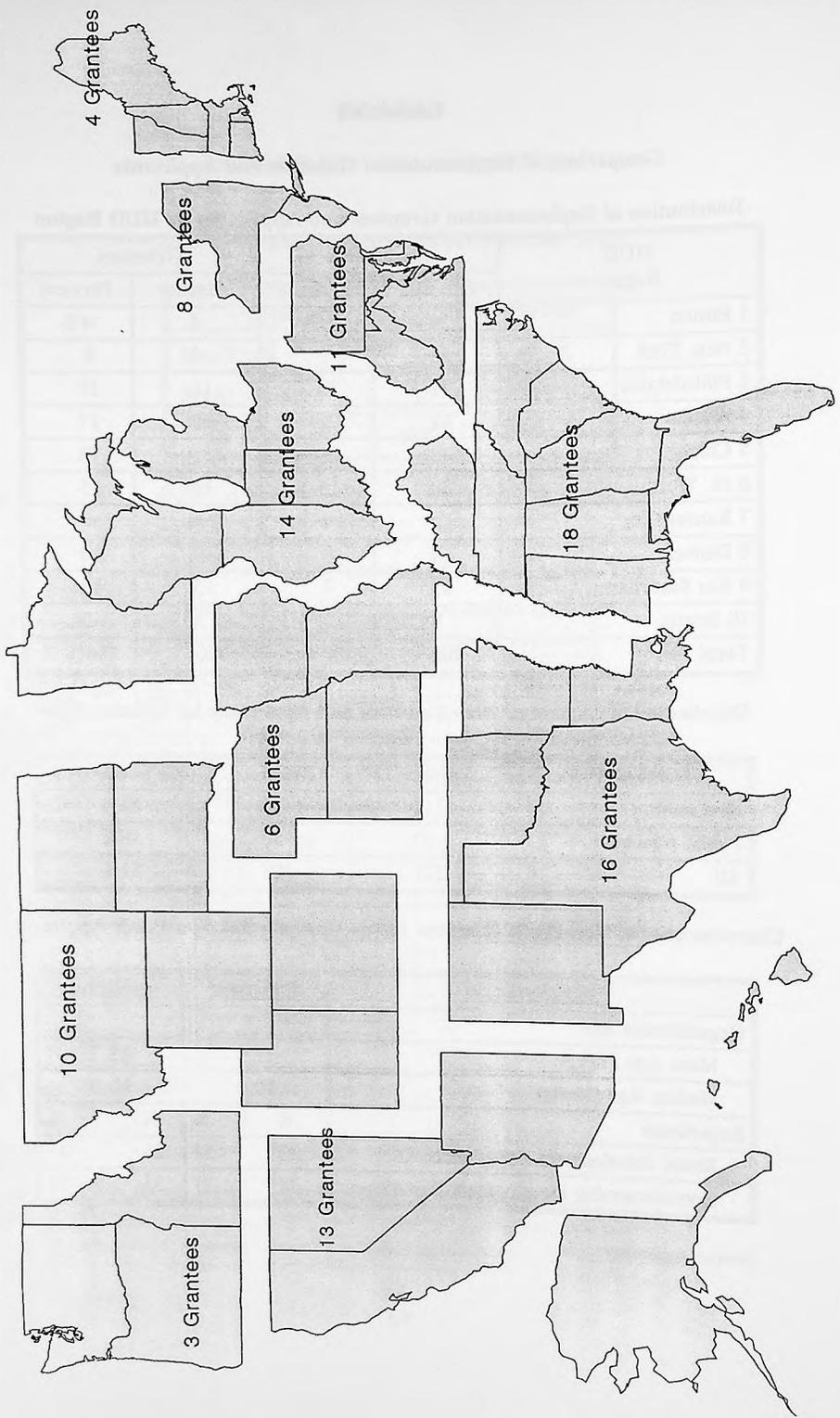
Grantee Type	Applicants	Grantees	% Successful
Nonprofit	112	51	46%
Public Agency	89	52	58%
All	201	103	51%

Characteristics of Non-Profit Grantees versus Unsuccessful Non-Profit Applicants

Characteristics	Grantees		Applicants	
Organization Age				
Mean Age (Years)	11.9		13.7	
Median Age (Years)	10.0		10.0	
Experience	N	%	N	%
Rental Development Experience	23	51	25	41
Homeownership Development Experience	32	71	33	54

Source: Applications

Figure 3-2
Hope 3 Implementation Grantees by HUD Region



of the public agency applicants received implementation grants as opposed to 46 percent of the non-profit agencies; however, this difference in success is not statistically significant.²

We also examined available data on the characteristics of non-profit implementation grant recipients as compared to unsuccessful non-profit applicants. Overall, successful non-profits and unsuccessful non-profit applicants appear to be very similar, with the unsuccessful applicants being slightly older in mean organizational age and the grantees being more experienced in rental and homeownership development. Although the level of past housing experience was difficult to determine from the applications, it appears that 71 percent of the grantees had *at least some* previous homeownership development experience, while 54 percent of the unsuccessful applicants had previous homeownership experience.

The final Implementation Grant awards were made at the end of 1992. Exhibit 3-3 shows mean grant amounts by region and by sponsor type. As shown, the average grant amount was \$831,348. The mean grant amount varied considerably by sponsor type, a difference explained by the larger size of public agency programs. On the whole, the average size of public agency programs at grant agreement was 42 units in contrast to 30 units for non-profits. While there was also considerable variation in mean grant size across regions, it is important to note that the number of grants in some regions was quite small.

3.1.2 Recipient Organization and Structure

In order to collect more detailed data on implementation grant activities, a survey of FY 1992 grantees was conducted in early 1994, at the conclusion of the first program year. The survey database includes information for 96 grantees, excluding five non-respondents to the survey as well as two grantees that dropped out of the program altogether and returned their implementation grant funds to HUD.³

Public Agency Grantees

Public agencies accounted for half of the FY 1992 HOPE 3 implementation grantees. As shown in Exhibit 3-4, the majority of the public agency grantees that responded to the survey were city or county Housing and Community Development Departments (80 percent). Approximately 95 percent of these departments are also responsible for administering the CDBG program in their jurisdictions. The majority of public agencies operate programs that provide home improvement grants and loans to existing homeowners (88 percent), rental development programs (73 percent), or other types of homeownership programs (73 percent). Only three

² The test of significance is based on the difference of proportions at the 95% confidence interval.

³ The two entities that dropped out of the program were the Overview Housing Assistance Corporation, GA, and the Philadelphia Neighborhood Enterprise, PA. Most of the non-responding grantees were also non-profit agency grantees.

Exhibit 3-3

Implementation Grant Awards by Region and Sponsor Type

N = 103

HUD Region	Mean Grant Amount			Percent of Total Hope Funds
	Non-Profit	Public Agency	All Grantees	
1 Boston	\$ 627,937	\$ 1,090,563	\$ 859,250	4%
2 New York	836,520	1,194,640	1,149,875	11
3 Philadelphia	504,900	2,430,000	679,909	9
4 Atlanta	880,221	1,017,890	949,056	20
5 Chicago	870,963	1,011,717	931,286	15
6 Ft. Worth	1,286,433	845,746	928,375	17
7 Kansas City	483,381	700,738	555,833	4
8 Denver	307,201	510,866	429,400	5
9 San Francisco	657,226	1,348,154	816,671	12
10 Seattle	N/A	764,357	764,357	3
Total Program	\$ 698,529	\$ 961,612	\$ 831,348	100%

Source: Application Files

Exhibit 3-4

Characteristics of Public Agency Grantees

Distribution by Agency Type

Type of Agency	Number	Percent
Planning Department	1	2%
Housing/Community Development Dept.	41	80%
Community Affairs Agency	1	2%
PHA/IHA	5	10%
Other	3	6%
Total	51	100%

Source: Grantee Survey

**Number and Percent of Public Agency Grantees Currently Operating
Other Housing Programs in Addition to HOPE 3**

Other Activities	Number	Percent
Rental Development	37	73%
Home Improvement Grants/Loans	45	88%
Other Homeownership	37	73%
None of the Above	3	6%

Source: Grantee Survey

public agency grantees indicated that they operated no other homeownership or rental development programs. Those grantees were two city agencies and one housing authority.

In terms of previous experience with similar HUD programs, 43 percent of public agency respondents indicated that they had previously administered the Federal Urban Homesteading Program, and 10 percent indicated experience under the Local Property Urban Homesteading Demonstration. Altogether, 39 (78 percent) of the public agency respondents indicated that they were operating a homeownership acquisition program prior to HOPE 3, and 13 of these (33 percent) indicated that HOPE 3 was a continuation or expansion of this existing effort.

Under HOPE 3, public agencies are required to apply in conjunction with a non-profit partner. These co-applicants sign a Memorandum of Understanding or Agreement describing their respective responsibilities in carrying out HOPE activities. Exhibit 3-5 provides information on the partnerships established by public agencies to carry out HOPE 3 implementation activities. The majority of the public agency grantees (62 percent) have a single non-profit partner, while 32 percent have additional partners working on grant activities. Of those with additional partners, three grantees added an additional public agency partner, twelve added additional non-profit partners, and one grantee added both additional public agencies and non-profits. Three of the public agencies told us that their non-profit partner was not actively participating in program work.⁴

Non-Profit Grantees

Non-profit organizations comprised half of the implementation grantees. The majority of these organizations (69 percent) undertook implementation grant activities alone, without the involvement of other partners. However, 14 non-profit organizations (31 %) chose to work with other non-profit or public agency partners.

Exhibit 3-6 presents information on the characteristics of non-profit grantees. Where possible, the exhibit compares information for these non-profit lead grantees with similar data collected for the primary non-profit partner of the public agencies described above.

As shown in the exhibit, the median age of non-profit leads was 10 years, implying an incorporation date in the early 1980s.⁵ Non-profit partners were only slightly older, with a median age of 12 years. The mean annual budget for non-profit leads (in the year prior to receiving HOPE 3 funds) was about \$2.3 million. For non-profit partners, the overall mean was \$1.9 million. Both non-profit leads and partners had a similar proportion of agencies with annual budgets under \$400,000. Roughly 43 percent of the non-profit grantees had a budget of

⁴ In one case, a PHA grantee dropped the non-profit that was to have provided homeownership counseling because the non-profit lacked capacity; a contractor is now filling this role. In the other two cases, the non-profits remain on the project team but appear to be playing only passive or subsidiary roles.

⁵ Data on organization age comes from program applications submitted in 1992.

Exhibit 3-5

**Distribution of Grants by Number of Partners
(Number of Sites)**

Number of Partners	Non-Profit	Public Agency	All Grantees
Single Applicant	31	3	34
1 Partner	7	31	38
2 Partners	1	12	13
3 Partners	2	2	4
4+ Partners	4	2	6
Total	45	50	95

Source: Grantee Survey

Exhibit 3-6

Characteristics of Implementation Non-Profit Leads & Partners

Characteristics	Non-Profit Lead		Primary Non-Profit Where Public Agency Leads	
	Number	Percent	Number	Percent
Organization Age	(N=47)		(N=41)	
1 - 2 Years	2	4%	8	20%
3 - 5 Years	12	26%	3	7%
6 - 10 Years	10	22%	8	20%
11 - 15 Years	7	15%	9	22%
16 - 20 Years	7	14%	4	10%
21 - 30 Years	9	19%	7	17%
Over 31 Years	0	0%	2	5%
Mean Age Years	11.9		13.0	
Median Age Years	10.0		12.0	
Size of Budget Prior to Hope	(N=42)		(N=38)	
\$1 - \$100,000	6	14%	11	29%
\$100,001 - \$400,000	8	19%	6	16%
\$400,001 - \$1,000,000	10	24%	11	29%
\$1,000,001 - \$5,000,000	15	36%	7	18%
\$5,000,001 or more	3	7%	3	8%
Mean Budget \$	\$2,320,160		\$1,961,780	
Total Staff Size in FTE	(N=42)		(N=40)	
Less than one	1	2%	5	12%
1-10	24	57%	19	48%
11-50	12	29%	13	33%
51-100	2	5%	2	5%
101 or more	3	7%	1	2%
Mean Staff Size	39.4		16.5	
Median Staff Size	7.3		7.0	
Housing Staff Size in FTE	(N=41)		(N=39)	
Less than 1	2	5%	9	23%
1-5	20	49%	17	44%
6-10	11	27%	6	15%
11+	8	19%	7	18%
Mean Housing Staff	8.4		8.1	
Median Housing Staff	5.0		2.8	

(Continued on next page)

Exhibit 3-6 (continued)

Characteristics of Implementation Non-Profit Leads & Partners

Characteristics	Non-Profit Lead		Primary Non-Profit Where Public Agency Leads	
	Number	Percent	Number	Percent
Primary Organizational Activities¹	(N=45)		(N=51)	
Housing Development	43	96%	39	77%
Housing Management	16	36%	19	37%
Housing Counseling	32	71%	33	64%
Social Services Delivery	13	29%	17	33%
Advocacy	14	31%	25	49%
Job Training/Employment	10	22%	10	20%
Business Development	7	16%	9	18%
Commercial Development	2	4%	4	8%
Nature of Service Area	(N=45)		(N=37)	
Single/several neighborhood	10	22%	12	26%
City or County Wide	23	51%	21	45%
Multi County	8	18%	11	23%
State	4	9%	1	2%
Other	0	0%	2	4%
Rental Units Developed	(N=45)		(N=36)	
0	22	49%	23	64%
1-19	8	18%	3	8%
20-49	5	11%	3	8%
50-99	2	4%	2	6%
100+	8	18%	5	14%
Median Rental Units Developed	1 unit		0 units	
Ownership Units Developed	(N=43)		(N=40)	
0	11	26%	18	45%
1-19	10	23%	12	30%
20-49	5	11%	4	10%
50-99	6	14%	1	2%
100+	11	26%	5	13%
Median Ownership Units Developed	20 units		3 units	

¹ Not limited to a single response.

Source: Grantee Survey

\$1 million or more, while only 26 percent of the non-profit partners had budgets of \$1 million or more.

Information on staff size shows that the typical non-profit lead had a total staff size of 7.3 full-time equivalents (FTE). Almost 60 percent of these organizations had 10 full time staff or fewer; by contrast, seven percent of the non-profit grantees had very large organizations of between 120 and 780 FTEs, contributing to a mean staff size for lead organizations of 39.4 FTE. The overall mean for non-profit partners was only 16.5 FTE with a median of 7 FTE.

The table also shows distributions and averages for staff engaged in housing activities. Based on the ratio of housing to total staff, we found that roughly 60 percent of the lead non-profits are primarily engaged in housing work (defined as 80 percent or more staff time devoted to this activity). The non-profit partners were less likely than lead non-profits to be "housing only" organizations; among the partner group, only about 44 percent of the agencies devoted 80 percent or more of all staff time to housing.

Other characteristics of non-profit grantees shown in Exhibit 3-6 include information on organizational activities, service areas, and previous housing production. In terms of organizational activity, 96 percent of the lead grantees listed housing development as one of their primary activity areas, and over half listed other housing-related activities—such as housing management and housing counseling—as primary activities. A smaller proportion identified social service provision (29 percent) and advocacy (31 percent) as key program areas, while relatively few of the grantees identified themselves as being involved in job training (22 percent) or economic development activities (16 percent). The non-profit partners showed a fairly similar distribution, with roughly 77 percent listing housing development as a primary activity.

Only about 22 percent of the lead grantees are neighborhood-based organizations, i.e., organizations with a service area that is limited to one or a few neighborhoods. Over 50 percent indicated that they were city or county-wide organizations, and 18 percent indicated that they had multi-county service areas. Like the non-profit leads, many partner organizations (45 percent) were city or county-wide organizations; only 26 percent were neighborhood-based organizations.

Finally, the exhibit indicates the previous production experience of the grantees with respect to both rental and ownership housing. Overall, 51 percent of the lead grantees and 36 percent of the partners had some previous rental production experience. With respect to ownership units, almost three-quarters of the lead grantees (74 percent) reported previous development experience, while 55 percent of the non-profit partners had some previous development experience. Most of these sites indicated modest levels of previous output, typically between one and twenty units; however, eleven of the non-profit leads had developed several hundred units prior to HOPE 3. Median ownership output was 20 units for non-profit leads. Non-profit partners had lower overall levels of experience with a median of ownership of only three units, but the group did include five entities with several hundreds of units to their credit.

It is important to note that, overall, the non-profits participating in HOPE 3 are relatively inexperienced as housing producers. Data developed by the National Congress for Community Economic Development and by Avis Vidal of the New School for Social Research suggest that the median output for a housing development-oriented non-profit in their samples is 21 units *per year*—as opposed to 20 units in *lifetime* output indicated by the implementation grantees.⁶

3.1.3 Implementation Grantees versus Planning Grantees

There are a few differences that stand out when comparing the implementation grantees to the planning grantees described in Chapter 2. For public agencies, over 70 percent of the implementation grantees reported being involved in rental or homeownership opportunities in addition to HOPE 3, in comparison to only about half of the planning grantees. The non-profits in the two different programs also varied in a number of characteristics. Overall, the implementation grantees consisted of fewer small organizations in terms of budgets, were more likely to include agencies whose primary focus was housing development, and had much more homeownership experience (the median number of units previously developed by implementation grantees was 20 as opposed to two for planning grantees). Interestingly, implementation grantees were younger than the planning grantees (median age of 10 as opposed to 15 years) and also tended to have smaller staffs. Implementation grantees were even less likely than planning grantees to be neighborhood based (22 percent versus 27 percent for planning grantees). They were more likely, however, to serve a single jurisdiction such as a city or county, as opposed to multi-county areas.

3.2 CHANGES IN THE APPLICANT POOL

The Notice of Funding Availability (NOFA) for 1993 HOPE 3 funding was issued in July 1993 with available funding of \$95,000,000. In response, HUD received 241 applications for the program requesting \$234,506,188 in funding, over twice the amount available for the program. As shown in Exhibit 3-7 the number of applications slightly increased from 1992, and once again, there were more non-profit (153) than public agencies (88) that applied for funding.

As discussed in Chapter 2, of the 241 applicants for 1993, only 64 applicants (27 percent) were completely new to the HOPE 3 program, having neither successfully nor unsuccessfully applied for a 1992 grant. The remaining 1993 applicants included 37 applicants (15 percent) who were previously unsuccessful in their bid for a planning or implementation grant; 92 applicants (38 percent) who were 1992 planning grantees; and finally 48 applicants (20 percent) who were previous 1992 implementation grantees. As shown in Exhibit 3-8, the overall success rate for 1992 implementation grantees was 69 percent. This was significantly greater than either

⁶ See Avis Vidal, "Rebuilding Communities: A National Study of Urban Community Development Corporations," New School for Social Research, 1992. Vidal's sample includes 130 "high-performing" CDCs.

Exhibit 3-7

**Distribution of Applicants and Grantees by Grantee Type
(FY 1992 and FY 1993)**

Grantee Type	Applicants	Grantees	% Successful
FY 1992			
Non-profit	112	51	46%
Public Agency	89	52	58%
All	201	103	51%
FY 1993			
Non-profit	153	69	45%
Public Agency	88	41	47%
All	241	110	46%

Source: HUD Application Files

Sources of the 1993 Applicant Pool

Applicant Group	1993 Applicants		1993 Grantees		Percent of Applicants That Were Successful
	Number	Percent	Number	Percent	
Applicants with Planning Grants	92 ^a	38	46 ^b	42	50.0%
Previous Implementation Grantees	48 ^c	20	33 ^c	29	68.8%
Applicants With No Previous HOPE 3 Experience	64	27	12	11	18.8%
Unsuccessful 1992 Applicants	37	15	19	18	51.4%
All Applicants	241	100	110	100	45.6%

^a Includes four applicants that had been a partner (as opposed to lead grantee) in 1992, as well as five 1992 lead grantees that served as partners in a 1993 application.

^b Includes three of the four applications by 1992 partners and four of the five cases in which a 1992 lead served as a partner in 1993.

^c Includes two separate applications and awards for Coordinated Community Services of Arizona which had a single 1992 grant under the name of Human Action for Chandler.

Source: HUD Application Files

Exhibit 3-8

Outcomes for Implementation Grantees

Grantee Type	Number of 1992 Implementation Grantees	Number/Percent Applying for 1993 Grants		Number/Percent of Applicants Receiving 1993 Grants ^b	
		Number	Percent	Number	Percent
Public Agencies	52	23	44%	16	70%
Non-Profits	51	25	49%	16	64%
All	103	48 ^a	47%	32 ^a	67%

^a Includes both 1992 Texas Department of Housing and Community Development Grants; however only one 1993 grant was awarded resulting in a total of 32 awards.

Source: HUD Application Files

the planning grantee or no experience groups, but was not significantly different from the group that applied unsuccessfully in 1992. Among 1992 implementation grantees, about the same number of non-profits as public agencies applied, and their success rates were not significantly different.⁷

⁷ Tests based on the standard difference of proportions at the 95 confidence interval.

CHAPTER 4

PROGRAM IMPLEMENTATION

This chapter focuses on how the HOPE 3 grantees have chosen to organize their programs and their experience implementing HOPE 3 activities over the first program year. The chapter draws from initial program applications submitted in 1992, the Grantee Survey, which describes program designs and experience as of the end of 1993, and from site visits to a sample of 26 grantees conducted in the spring of 1994. The chapter begins with a brief overview of the current status of the FY 1992 grantees.

4.1 PROGRAM STATUS

According to HUD's C/MI data system, as of May 1994, the FY 1992 HOPE 3 grantees had acquired or "set up" a total of 1,685 units of housing and had transferred 229 units to new homebuyers.¹ Overall, the typical site had acquired approximately 56 percent of its total expected units and had transferred 10 percent. There was little difference in set up or transfer rates for non-profit versus public agency grantees.

It is important to note that production estimates for the HOPE 3 grantees have in many cases changed as programs got underway, and, in some sites, are still not firm. Excluding two sites that dropped out of the program, the 101 first-year grantees committed initially to 3,651 units of HOPE 3 housing. However, among the 95 sites that provided survey data, 22—or just under a quarter—had reduced the number of units to be produced since grant agreement, while four sites increased their projected unit output. These changes resulted in a net reduction of 367 units and a projected overall output of 3,284 HOPE 3 units for the FY 1992 grantees. Although most grantees that plan reductions in unit output still expect to complete at least 70 percent of their initially proposed units (the threshold for HUD sanctions) a number have now fallen below this floor.²

¹ All HOPE 3 units must be "set up" in HUD's C/MI system before funds can be drawn down for the unit. Although the vast majority of units that are "set up" have been acquired by the grantee, some are purchased directly by the new homeowners and, thus, are not actually "acquired". Note also that the set up numbers may overstate the actual number of units being produced. Six sites have set up over 100 percent of their planned units. In four of these cases the difference is small and may well reflect additional production. In two others, the C/MI contains duplicate records for some units. This includes 43 extra records in New York City and 7 excess records in Cincinnati. Finally, of the 229 transfers identified in the C/MI system, 18 are lease-purchase units, meaning that actual transfer will occur at some point in the future.

² Seven sites reported revised production numbers that were less than 70 percent of the original agreement number, the threshold established by the program regulations for "remedial actions" including requiring a grantee to repay all or part of its grant.

Exhibit 4-1 shows the current distribution of the 101 grantees by program size. As shown, most of the HOPE 3 programs are fairly small. Based on current projections, nearly three quarters of the grantees have fewer than 40 units and almost half have fewer than 20 units. (Both of the two sites that originally proposed programs of over 200 units have now reduced them below this level.) The average program size based on current projections is 33 units, down slightly from 36 units as of grant agreement.

Current program production estimates generally assume an extension of the transfer deadline. According to the HOPE 3 regulations, all units are to be transferred to new owners by the end of the second grant year—roughly the end of November 1994 for most grantees.³ However, as will be described below, many grantees have encountered difficulty in the acquisition phase, and many expect that they will not be able to complete the transfers by the end of the year. Based on the 26 intensive study sites, fewer than half of the grantees are likely to finish within the two year deadline. Some 68 percent of the respondents to the grantee survey indicated that they were behind schedule in completing their programs. The median length of delay reported by these grantees was six months.

4.2 DEVELOPMENT APPROACHES AND ACTIVITIES

In designing their HOPE 3 programs, grantees were given considerable freedom to develop implementation approaches and affordability strategies that best fit local circumstances. In fact, the grantees vary widely (as will be seen below) in the ways they have approached different activities. Before examining these variations, however, this section outlines a few basic "models" or approaches used by the grantees. Chapter 5 provides additional detail on the financial implications of the different approaches.

There are three basic delivery models used by the HOPE 3 grantees:

- 1) Acquisition/Rehab—in which the grantee acquires properties, rehabs them, and resells them to low-income purchasers.
- 2) Acquisition with sale before rehab—in which the program acquires properties but the rehab does not take place until after the buyer has taken title; and
- 3) Direct Purchase—where buyers acquire properties directly, with some financial assistance from the program. Such programs may or may not involve rehab.

Overwhelmingly, HOPE 3 grantees have opted for the first approach, with close to 80 percent of them (71 survey sites) indicating that the majority of their units fit the basic acquisition/rehab model. The second most common approach—acquisition with sale before rehab—was used as the primary delivery model by only 14 percent of the grantees (13 sites).

³ Program regulations initially called for all grantee acquisitions to be completed within the first program year, however this intermediate deadline was dropped in the final rule.

Exhibit 4-1

Planned Program Production

Distribution of Grantees by Total Program Units

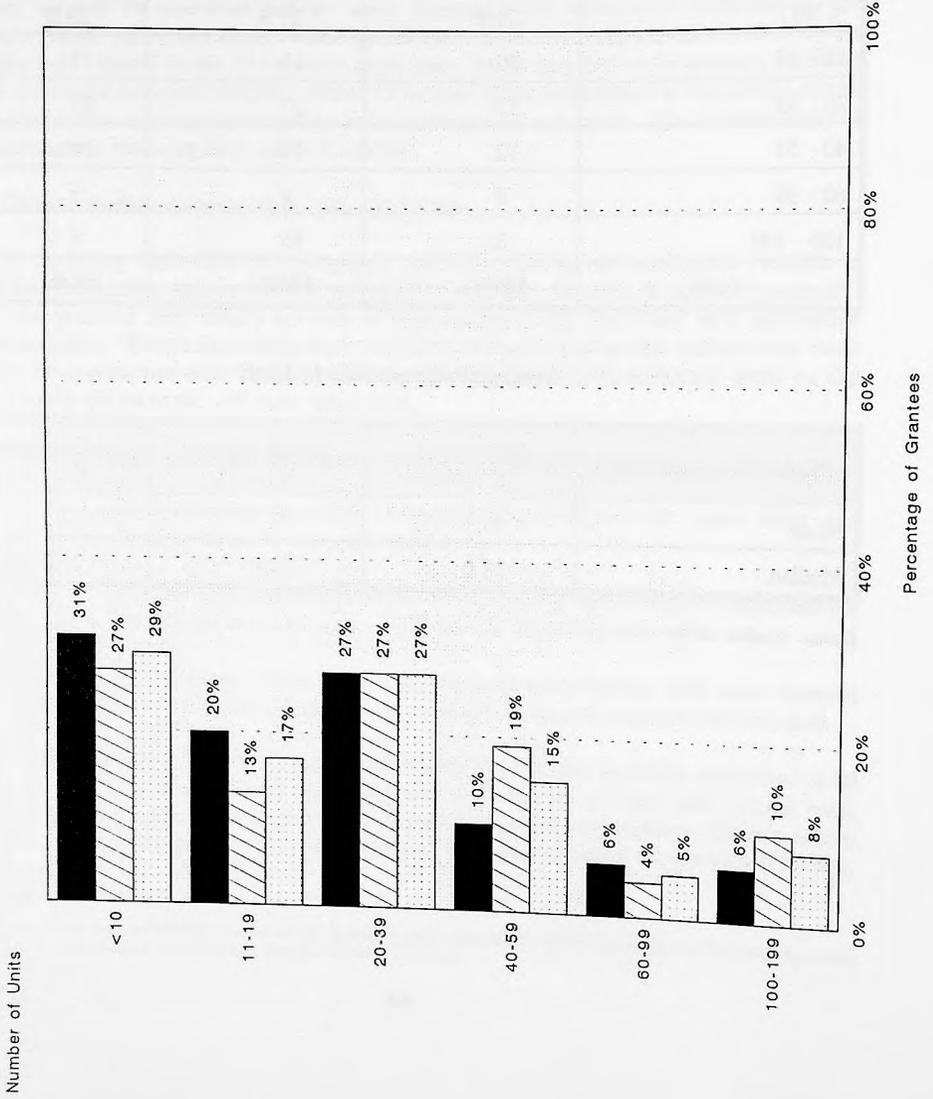
Total Program Units	Non Profit N = 49	Public Agency N = 52	All Grantees N = 101
< 10	31%	27%	29%
11 - 19	20	13	17
20 - 39	27	27	27
40 - 59	10	19	15
60 - 99	6	4	5
100 - 199	6	10	8
Total	100%	100%	100%

Average Program Size in Units

Total Program Units	Non-Profit N = 49	Public Agency N = 52	All Grantees N = 101
Mean	29.1	35.7	32.5
Median	18.0	20.0	20.0

Source: Grantee Survey

Figure 4-1
Distribution of Grantees by Program Size



Public agencies were more likely than non-profits to transfer the units prior to rehab. While this approach is reminiscent of the Urban Homesteading Program (in which properties were transferred for a nominal fee and rehab was separately financed), the distinctions are less clear under HOPE 3. For example, most sites using the sale-before-rehab model indicated that purchase and rehab are financed together, with only a few sites providing separate acquisition and rehab subsidies. Also, the sites varied in the extent to which homebuyers participate in rehab decisions (one of the cited advantages of this model). This ranged from almost complete discretion on the part of the buyer in some sites to other sites where the grantee strictly limited buyer options and maintained complete management control over rehab.

The third approach—direct purchase or "facilitated purchase"—was considerably less common, used as the principal approach by only 8 percent of the grantees (7 sites) overall. Interestingly, among the 26-site sample, only one grantee relied on this method alone; however, five grantees had direct purchase as one component in a multi-model program. Sites that opted for direct purchase often cited the relative efficiency of the approach, both in terms of the number of units that can be generated per grant dollar (assuming a fairly modest level of assistance) and in terms of the minimal staff time needed to process assistance requests. However, some of the sites that use the direct purchase model provide rehab loans in addition to downpayment assistance and some manage the rehab process as well.

As noted above, a substantial number of grantees use more than one model, segmenting their programs into several smaller components. Of the 26 intensive study sites, five used more than one approach, including three that were carrying out four separate program components simultaneously. Often these multi-model sites included an acquisition/rehab component and a direct purchase component, where the two are intended to serve different markets. In other cases, the different program components may use a similar approach but are administered by different organizations. Minneapolis provides an example of how multiple partners and multiple models can yield an array of HOPE 3 program variants. Here, the city agency grantee operates two distinct acquisition/rehab components (with participation by different non-profits), as well as a direct purchase component, and a sale-before-rehab component. The rationale for including a sale-before-rehab component was familiarity—the city had 15 years experience with this model under Urban Homesteading—and they also felt that the approach enhances marketability, since buyers like to be involved in rehab decisions. The acquisition-rehab components were added because of the flexibility they offer in selecting and rehabbing properties. Finally, the grantee referred to the direct purchase model as the "wave of the future".

A final program variation which should be noted is the use of lease-purchase arrangements (only applicable to acquisition/rehab models). Overall, just under a quarter of the 1992 grantees indicated that lease-purchase was used in their programs. Several grantee representatives we spoke with said either that lease-purchase was not needed for the population they served or expressed reservations about owning and maintaining the units as a landlord during the lease term. By contrast, other sites considered the leasing arrangement to be a critical feature of the program. For example, Homeward Bound in Phoenix, Arizona works with households who have graduated from the organization's transitional housing program.

Homeownership represents the final step to truly permanent housing for these formerly homeless families, and, over the 24 month-lease purchase period, the members of the program staff maintain regular contact with the household. Tampa Bay CDC is another grantee that considers the lease-purchase period essential, given credit problems that may need to be cleared up and the difficultly low-income buyers have in assembling downpayment money. Here the lease period is 12 months. In addition to the sites that formally incorporate lease-purchase into their programs, a number of sites had entered into lease-purchase arrangements as an exception for specific households when financing difficulties arose.

Exhibit 4-2 lists the 26 sites selected for intensive study and indicates the model or models being used in the site. The remainder of this chapter focuses on key aspects of program implementation: the partnership arrangements developed by the grantees, property acquisition, rehab, and various other activities such as marketing, homebuyer counseling, and economic development.

4.3 ORGANIZATIONAL ARRANGEMENTS FOR HOPE 3

The HOPE 3 program is being carried out by non-profit housing providers and public agencies working in conjunction with non-profits. This section focuses on the nature and functioning of these partnerships, including the division of labor between public agencies and their non-profit partners.

HOPE 3 regulations require public agency grantees to work with at least one non-profit partner in carrying out grant activities. However, 3 of the 50 public agency grantees who responded to the grantee survey reported that they are not actively working with a non-profit partner. As an example, one housing authority had intended to work with a non-profit whose role was to provide homebuyer counseling. However, during the implementation of the project, the grantee determined that the non-profit was unable to fulfill this role, and, instead, has contracted out the homebuyer training function. In the other cases, it appears that the non-profit plays only a passive or subsidiary role in the program.

Among the 47 public agency grantees working with at least one non-profit partner, the average number of organizations involved in the programs is 2.7. Exhibit 4-3 shows the distribution of the total number of partner organizations involved in operating the HOPE 3 program. Well over half (62 percent) conduct their projects with one additional non-profit partner. Nearly one quarter (24 percent) are working with two additional partners, and a handful are working with 3 or more partners.

Among non-profit grantees, the majority (69 percent) are implementing the program without a cooperating partner. However, 14 are working with additional partners. Among these 14, half are working with one additional partner, while the other half have 2 or more additional partners. The average number of organizations involved is 4.

Exhibit 4-2

26 Intensive Study Sites: Basic Program Models

Intensive Study Sites	Acquisition/ Rehab	Sale-before- rehab	Direct Purchase
Public Agencies			
City of Tucson, AZ	XX	X	X
Orange County, FL	X		
City of Tampa, FL	X		
City of Topeka, KS		X	
City of Minneapolis, MN	XX	X	X
City of Trenton, NJ	X		
New York City, NY	X		
City of Buffalo, NY		X	
City of Tulsa, OK		X	
City of Lubbock, TX		X	
City of Port Arthur, TX		X	
City of Austin, TX	X		
City of Yakima, WA	X		
Non-Profit Grantees			
Neighborhood Housing Services (Birmingham, AL)	X		
Human Action for Chandler (Chandler AZ)	X		X
Homeward Bound (Phoenix, AZ)	X		
Manna, Inc. (Washington, DC)	X		
Tampa Bay CDC (Clearwater, FL)	X		X
Mennonite Housing Rehab. Service (Wichita, KS)	X		
Western Maryland Interfaith Devel. Corp. (Frederick, MD)	X		
Operation Impact (St. Louis, MO)	X		
Bridgeton Housing Devel. Corp. (Bridgeton, NJ)	X		
Women's Development Center (Las Vegas, NV)			X
Homesteading and Urban Devel. Corp. (Cincinnati, OH)	X		
Columbus Housing Partnership (Columbus, OH)	X		
Tarrant County Housing Partnership (Fort Worth, TX)		XX	XX

Note: Sites with more than one X operate multiple versions of the same program model, usually with participation by different grantee partners.

Source: Site Visits

Exhibit 4-3

Public Agencies: Organizational Arrangements for HOPE 3

**Distribution of Grantees by Number of Partners
(Number of Grantees)**

Number of Partners	Non-Profit	Public Agency	All Grantees
Single Applicant	31	3	34
1 Partner	7	31	38
2 Partners	1	12	13
3 Partners	2	2	4
4+ Partners	4	2	6
Total	45	50	95

Source: Grantee Survey

**Mean Proportion of Activities Undertaken
by Lead Agency, Partners, and Others**

Activity	Lead	Partner(s)	Contractors	Percent Indicating This Activity (N=47)
Administration	79%	19%	2%	98%
Acquisition of Properties	59	37	3	91
Rehabilitation Management	31	29	40	98
Homeowner Training/Counseling	25	59	16	98
Economic Development	33	64	3	34
Marketing	46	47	7	96
Homeowner Selection	49	48	3	96

Source: Grantee Survey

4.3.1 Division of Labor Among Cooperating Partners

As a part of the grantee survey, we collected information regarding the division of labor among public agencies and their cooperating partners. While the vast majority of grantees indicated a functional division of labor, about 15 percent indicated that the different partners were carrying out the program in different geographic areas.

Exhibit 4-3 shows the allocation of responsibilities among public agency leads, their partners, and any outside contractors that may be involved in the program. Responsibilities are shown for each of the major program activity areas: administration, acquisition of properties, rehabilitation management, homeowner counseling, economic development, marketing, and homeowner selection. The final column of the exhibit shows the proportion of sites indicating that the activity is done. As shown, the activities with the largest proportion of work being completed by the non-profit partners are economic development (64 percent) and homeowner training/counseling (59 percent). By contrast, public agency leads tend to be more involved in the central acquisition and rehab activities, along with program administration. Contractors play the largest role in rehab activities (40 percent of rehab is handled by contractors); however, we believe that responses to this question understate both the grantees' role in rehab management or oversight (the intent of the question) and the contractors' roles in actually carrying out the rehab work. The only other activity in which contractors play more than a minor role is homeowner counseling.

4.3.2 Effectiveness of Organizational Structures

During visits to the 26 intensive study sites, we discussed organizational arrangements, the development of new relationships and linkages, and the effectiveness of these arrangements for administering the program.

Non-Profit Grantees

Only three of the non-profit intensive study sites worked with any cooperating partners⁴, although several used contractors to perform certain program activities. Among the three non-profits with formal partnering arrangements, the Tarrant County Housing Partnership is working with the City of Fort Worth (which is developing half of the program units) as well as with a non-profit that provides homeowner counseling. In this site, the City and the non-profit grantee perform similar activities but in different locations, with the non-profit focusing on the county and the City working only within the city limits. Nevertheless, the two work together to share information about property acquisition, rehab, and other activities.

⁴ A fourth had initially proposed a non-profit partner to do the bulk of the acquisition and rehab and to provide matching funds. However, after the grant was awarded, the partner declined to participate.

The second non-profit with formal partners is the Homesteading Urban and Redevelopment Corporation (HURC) in Cincinnati, Ohio. This organization was created by the City to operate the federal homesteading program; its staff are government employees and it is co-located with City agencies. Here, the non-profit grantee is working with five other non-profits, each responsible for rehab and marketing of a portion of the properties in the program. The partners meet on a biweekly basis to review the status of the program and discuss problems.

The third non-profit with a formal partner is Human Action for Chandler in Chandler, Arizona. Here the grantee uses the partner primarily to provide homebuyer counseling.

Even in non-profit sites where there are no formal partners, the local government may play an important support role and may be closely related to the non-profit. For example, the Bridgeton Housing Development Corporation in New Jersey was established by the City and the City donates staff to the organization. Operation Impact in St. Louis, Missouri, is co-located with that City's community development agency, and the City also shares staff with the organization. Finally, HURC in Cincinnati (mentioned above) is also a city-sponsored non-profit.

Public Agency Grantees

Among the 26 sites selected for intensive study, half are public agencies working in conjunction with a non-profit partner. In five of these 13 sites, the role of the non-profit is limited to providing homebuyer counseling and training. This arrangement appears to have worked well in all but one case, where the grantee has decided not to work with this non-profit again on its 1993 HOPE 3 grant.

In the remaining sites, the non-profit partners either share responsibilities with the lead grantee or actually carry out most of the grant work themselves. The three sites where the non-profit is the primary program implementer are the City of Tampa; Trenton, NJ; and the City of Austin. Here, the non-profits are involved in all program activities including acquisition, rehab, marketing, selecting buyers, and counseling. The public agencies in these cases provide grant management and administration only, although they may work closely with the non-profit. In Tampa, in particular, the relationship has worked well and collaboration is enhanced by the presence of a non-profit staff member on site at the city offices to facilitate property acquisition. The City of Austin is a special case in that the non-profit (which is technically responsible for most activities) does not have any of its own staff (it is a board of five members), and the work is currently being performed by City staff on loan to the non-profit.

In the five sites where public agency grantees and non-profits share responsibilities more equally, a variety of arrangements exist. For example, in Minneapolis, two non-profit partners (and several non-profit contractors) work with the lead grantee. One non-profit works on all phases of the program associated with 10 of the properties. The other non-profit works with the

City on a different group of properties. The arrangement is described as effective by all participants and their efforts are coordinated through biweekly meetings and co-location of non-profit staff at city offices. Other sites where the lead grantee and partner share the work of the program are the City of Yakima, WA, City of Tucson, AZ, New York City, and Buffalo, NY. Buffalo is unique among HOPE 3 grantees in that the non-profit partner was created by a local private developer solely for the purpose of implementing the HOPE 3 program. The non-profit is responsible for construction management and for homeowner training, marketing, and selection of buyers, while the city provides oversight and also supplies the units being used in the program.

Overall, most of the partnership arrangements appear to be working well. In those sites where there have been problems, these have tended to involve either new relationships (where partners had differing expectations about the work) or sites where overlapping responsibilities caused coordination problems. In fact, in one site, coordination problems under the FY 1992 grant proved to be so severe that the 1993 grant will be reorganized so that each partner has specialized functions.

4.3.3 Use of Contractors

In addition to formal cooperating partners, most of the grantees use contractors to perform some of the HOPE 3 activities. The most common use of contractors is for rehab activities and homebuyer counseling. This pattern is similar for non-profits and public agency grantees. We also asked grantees to describe the role of the contractors in their programs. More than half (54 percent) indicate that the contractors work closely with grantee staff, while 20 percent report that the contractors perform independent work, and 26 percent said that the arrangement was a combination of the two. Again, this pattern is similar for non-profits and public agencies, although slightly more non-profits report that the contractors work closely with grantee staff.

4.4 PROPERTY ACQUISITION

Over the first 18 months of the program, the HOPE 3 grantees have made steady progress in acquiring properties, although their efforts have been hampered by a lack of suitable properties at a number of sites. Overall, three-fourths of the grantees responding to our survey indicated that they had experienced problems with property acquisition and one-fourth had experienced *considerable* difficulty with acquisition. This section reviews the status of acquisition among first-year HOPE 3 grantees and examines acquisition sources, strategies, and issues.

4.4.1 Status of Property Acquisition

As of May 1994, the first year HOPE 3 grantees had acquired or "set up" a total of 1,682 units⁵. This is 46 percent of the total number of units they planned to produce at the time of grant agreement and 51 percent of the total number they now plan to acquire given reductions in program size at a number of sites. Ninety-six percent of the units acquired thus far are single-family properties.

As noted previously, the typical HOPE 3 grantee has acquired 56 percent of the total units it now expects to acquire. There is little difference in acquisition rates for non-profit grantees (55 percent) and public agency grantees (58 percent). HOPE 3 program regulations originally required grantees to acquire all of their program units within one year of grant agreement. However, this requirement was dropped, leaving a two-year requirement for acquisition and transfer of the properties. Based on current acquisition rates, it appears that many grantees will require extensions to complete their programs.

4.4.2 Property Sources

HOPE 3 regulations allow grantees to purchase properties from the following public sources:

- Federal Agencies—the Federal Housing Administration (FHA), the Veteran's Administration (VA), the Farmer's Home Administration (FmHA), the Resolution Trust Corporation, the Federal Deposit Insurance Corporation (FDIC), the Government Services Administration (GSA), and the Departments of Defense (DOD) and Transportation (DOT);
- State Agencies; and
- Local Government.

Originally, scattered-site public housing units could be used in HOPE 3. However, the 1992 Housing and Community Development Act provided that after 1992 public housing units could be used only in the HOPE 1 program.

To facilitate the purchase of federal properties by HOPE 3 grantees, HUD's Office of Community Planning and Development negotiated agreements with FHA, VA, and FmHA in late 1992.⁶ The agreements included procedures for notifying grantees of available units and

⁵ A property "set up" in the C/MI system may include those acquired by the grantee (the vast majority) as well as units purchased directly by a new homebuyer.

⁶ An agreement with RTC was not sought since RTC's Affordable Housing Program already contained many of the features HUD negotiated with other agencies.

also provided for price discounts for HOPE 3 grantees. As part of the agreement with FHA, a 15-day priority period was established whereby once a grantee obtained a HUD property list, the grantee had five days to indicate preliminary interest in one or more properties and an additional ten days to exercise a right of first refusal. However, this priority was revoked by FHA in November 1993, causing numerous problems for grantees which are described below.

Exhibit 4-4 shows the sources of properties that grantees currently expect to use for their HOPE 3 programs as compared to the sources proposed in their applications. The most common property sources are HUD/FHA and local governments. Based on current plans, approximately 52 percent of HOPE 3 properties will be acquired from HUD/FHA, while another 22 percent will come from local government stock. Most of the remaining properties will be obtained through the VA (9 percent), public housing authorities (8 percent), the RTC (6 percent), state governments (2 percent), and FmHA (2 percent).

In general, public agency grantees are taking advantage of a wider variety of property sources than the non-profit grantees. Approximately 83 percent of the properties to be obtained by non-profit agencies will come from just two sources: HUD/FHA (66 percent) and local government (17 percent). By comparison, public agency grantees expect to obtain only about two thirds of their properties from these sources, with most of the remainder to come from public housing agencies, the VA, and RTC.

As shown in the exhibit, grantees (particularly non-profits) appear to be increasing their reliance on HUD/FHA as a property source. Based on survey data, sixty-six percent of the HOPE 3 units to be developed by non-profit grantees will come from HUD/FHA, as compared to 56 percent proposed by the same grantees in their applications. Correspondingly, non-profits will make less use of VA, RTC, and local government properties. By contrast, changes for public agencies are small, with very modest increases in the percentage of HUD and local government units. It may be noted that the trend towards increased use of FHA units is somewhat at odds with the problems many sites reported in acquiring FHA properties since the priority change.

We also asked grantees to explain the reasons for any planned changes in the sources of units. These included:

- The sources the grantee originally proposed turned out not to be realistic. As an example, some agencies proposed using properties of one selling agency only to find out that the selling agency had very few available properties within the jurisdiction.

Exhibit 4-4

Property Acquisition Methods

**Breakdown of HOPE 3 Units by Source at Grant Agreement
and at Survey**

Source	Non-Profit		Public Agency		All Grantees	
	Grant Agreement N=1,430	Survey N=1,347	Grant Agreement N=2,025	Survey N=1,719	Grant Agreement N=3,455	Survey N=3,066
HUD Units	56%	66%	35%	40%	44%	52%
VA Units	12	7	10	10	11	9
RTC Units	7	5	11	6	9	6
FmHA Units	1	1	2	2	1	2
PHA/IHA Units	1	2	18	13	11	8
State Units	3	1	3	2	3	2
Local Units	20	17	21	26	21	22
Other Federal Units	0	1	0	1	0	<1
Total	100%	100%	100%	100%	100%	100%

Source: Grantee Survey

**Breakdown of HOPE 3 Units by Acquisition Type at Grant Agreement
and at Survey**

Acquisition Type	Non-Profit		Public Agency		All Grantees	
	Grant Agreement N=1,430	Survey N=1,347	Grant Agreement N=2,025	Survey N=1,719	Grant Agreement N=3,455	Survey N=3,066
Acquired	65%	72%	62%	66%	64%	69%
Donated	9	6	15	29	12	19
Direct Purchased	26	22	23	5	24	12
Total	100%	100%	100%	100%	100%	100%

Sources: Applications and Grantee Survey

- The grantee had difficulty working with a particular selling agency. Some 46 percent of grantees responding to the survey indicated that they had experienced problems with the policies or processing procedures of one or more selling agencies (see below).
- Local circumstances changed and the grantee had to modify its approach. For example, in a few jurisdictions an upswing in local real estate market activity caused asking prices of HUD-held units to rise above the HOPE 3 affordability range.

4.4.3 Acquisition Methods

HOPE 3 properties are obtained in three ways: the properties may be purchased by the grantee, the properties may be donated to the grantee, or the properties may be purchased directly by the low-income buyer with assistance from the grantee.

While most grantees will use only one method of acquisition, roughly 28 percent of the grantees surveyed indicated that they will use two or more methods of acquiring properties for the program. As an example, the Tampa Bay CDC will complete 33 units through acquisition, rehab and resale. In addition, the non-profit plans to assist 110 buyers to purchase properties directly. The Minneapolis Community Development Agency and its non-profit partners will purchase 40 properties—some of which will be sold before and some after rehabilitation. Five additional properties will be directly purchased by buyers who will finance acquisition and rehabilitation using HUD Section 203(k) loans.

Exhibit 4-4 suggests that current acquisition methods vary somewhat from what grantees proposed at application. While the percentage of properties to be purchased by grantees (by far the most common approach at 69 percent) increased only slightly, there have been more sizable shifts in the proportions of properties to be donated and purchased directly by homebuyers. Grantees originally expected that only 12 percent of all properties would be acquired through donation; our survey shows that grantees now expect roughly 19 percent to be donated. Meanwhile, the percentage of properties that will be purchased directly by homebuyers has dropped from 24 percent to 12 percent.

Changes in acquisition methods and the reasons for those changes were explored in detail during the site visits. Frequently, an increase in the number of donated properties was readily explained by the fact that the grantees, notably public agencies, jumped at the chance to obtain units that were not available when the applications were developed. Use of donated properties saved money that would otherwise have been spent on acquisition and could also save time involved in FHA or VA processing. In one site, for example, the grantee had planned to acquire 8 properties through HUD or VA and to obtain 7 donated properties which would need to be moved to new locations. However, another 6 donated properties became available after

the grant agreement was executed. These will now be included in the HOPE 3 program even though the grantee will need to purchase lots as well as move and rehabilitate the properties.

In other cases, a shift in property acquisition was explained by the fact that grantees could not make use of planned property sources. For example, two of the intensive study sites indicated that they have switched to the direct purchase model due to difficulties in acquiring properties after FHA rescinded the priority for HOPE 3 grantees. Note, however, that these changes on the part of site visit grantees are somewhat at odds with survey data which suggest a decrease in the overall proportion of units that will be sold through direct purchase.

4.4.4 Acquisition Strategies

A variety of factors enter into a grantee's decision to select particular properties for the HOPE 3 program. As the above discussion suggests, the method by which a property can be acquired and the property source may be factors. Other factors may include neighborhood location or conditions, characteristics of the unit (including its size and the level of rehabilitation required), and whether the property is vacant or occupied at the time of acquisition.

Our survey requested grantees to rank the most important factors in selecting properties for their program. Overall, we found that acquisition price and the level of rehab needed are the primary considerations. As Exhibit 4-5 shows, acquisition price was ranked as the most important selection factor by 42 percent of grantees, with little difference between non-profit and public agency grantees. Acquisition price was ranked as the second most important factor by 20 percent of the grantees. The factor ranked second in overall importance is the level of rehabilitation needed. While only 9 percent of the grantees indicated that it was the most important factor, 45 percent reported it to be the second most important factor in their decisionmaking. Finally, neighborhood location was reported as the most important factor in selecting properties by 28 percent of grantees with 11 indicating it to be the second most important factor.

The importance of various selection factors was also explored in the course of the site visits, with location and price/rehab cost again proving to be significant factors. Location as a factor may have grown in importance as the grantees gained experience with the program. In one site, for example, the grantee initially purchased some houses in less desirable neighborhoods and has since found that marketing these units is a problem. Several of the other grantees that named location as a primary selection factor did so because the program has a strong community development orientation. For, example, the Office of Housing Preservation and Development (HPD) in New York City attempts to identify streets in target neighborhoods where rehabilitation of a distressed property would reassure existing owners who are maintaining their properties and encourage less diligent owners to fix up their houses. For grantees that indicated that cost was the most important factor in selecting properties, this decision was typically based on a combination of the acquisition cost and the level of rehabilitation that would be required.

Exhibit 4-5

Property Selection Strategies

Factors	Percent of Non-Profit Agencies		Percent of Public Agencies		Percent of All Grantees	
	Ranked 1st	Ranked 2nd	Ranked 1st	Ranked 2nd	Ranked 1st	Ranked 2nd
Acquisition price	42%	22%	41%	18%	42%	20%
Level of necessary rehab	11	44	8	45	9	45
Neighborhood location	29	11	27	12	28	11
Size of properties	0	9	2	12	1	10
Acquisition Source	2	0	10	2	6	1
Other	9%	2%	2%	0%	5%	1%

Source: Grantee Survey

While grantees who participated in the survey were not specifically asked whether the fact that a unit was vacant was a factor in selection, it is clear from the site visits that a majority of grantees purchased only vacant units.⁷ Grantee staff often indicated that they would not consider renter-occupied units because they did not want the added work or cost involved in relocation. Overall, only 5 of the 26 grantees planned to acquire any occupied units for their HOPE 3 program. One of these (Homeward Bound), is selling its HOPE 3 units to families who are participating in its transitional housing program. Some families have selected the units in which they are currently residing and will remain in-place while the units are being rehabilitated. In the remaining sites, the grantees have been forced to acquire occupied units simply because there are few suitable, vacant properties in their jurisdictions.

Finally, a number of other selection factors were mentioned by grantees during the field visits. For example, the City of Buffalo noted that they wanted to identify large units in order to achieve their goal of housing larger families under HOPE 3. Another grantee indicated that they were only interested in properties constructed since 1979 in order to avoid possible costs associated with lead-based paint abatement.

It is important to note that some of the grantees felt that they had very little control over the selection process. In St. Louis, Operation Impact indicated that the choice of properties was made in conjunction with neighborhood groups. The shared objective was to identify "strategic properties"—for example, the only vacant property on a block where a number of units were being rehabilitated. Thus, there was a narrow range of properties from which to select. Another grantee described the process more as one of elimination than of selection, given the units that were available. Finally, one of the grantees, indicated that their selection of properties during the first program year was influenced by HUD's initial rule that property acquisition must be completed within 12 months of grant agreement. In their rush to acquire properties, staff indicated that they were not as selective as they might have been and are now trying to market properties that cost too much to rehabilitate and/or are located in very deteriorated neighborhoods.

4.4.5 Acquisition Costs

Exhibit 4-6 provides information on the grantees' estimates of acquisition costs, both at application and at the time of the grantee survey. Survey data reflect a "typical" or model unit as described by the grantee (excluding direct purchase units). Data are limited to 70 grantees which provided cost data — both at application and at survey — for a three-bedroom unit.

Based on the costs of a "typical" HOPE 3 unit reported in the survey, the average expected acquisition cost for a HOPE 3 property is \$26,789. This estimate is fairly close to the average acquisition cost (\$25,939) reported in the C/MI for the 92 units that have been completed and sold. However, the C/MI data reflect only a very few units and cannot be

⁷ In their applications, 82 percent of grantees indicated that they expected to use only vacant units for HOPE 3.

Exhibit 4-6

Typical Acquisition Costs at Grant Agreement and at Survey

Acquisition Costs	Non-Profit		Public Agency		All Grantees	
	Grant Agreement N=30	Survey N=30	Grant Agreement N=40	Survey N=40	Grant Agreement N=70	Survey N=70
Typical Cost at Grant Agreement For a 3-Bedroom Unit (N=70)	\$32,369		\$29,929		\$30,975	
Typical Cost at Survey For a 3-Bedroom Unit (N=70)	\$27,774		\$26,049		\$26,789	
Distribution of Per Unit Acquisition Cost for a Typical 3-Bedroom Unit						
< \$10,000	10%	17%	5%	13%	7%	14%
10,000-15,000	7	13	13	8	10	10
15,001-20,000	7	17	15	25	11	21
20,001-30,000	30	17	35	20	33	19
30,001-40,000	17	13	17	23	17	19
40,001-50,000	20	13	8	8	13	10
50,000 +	10	10	8	5	9	7
Total	100%	100%	100%	100%	100%	100%

Source: Applications and Grantee Survey

considered a reliable indicator of the program as a whole. Interestingly, the typical three-bedroom acquisition price reported in the survey is considerably lower than that estimated at the time of the application (\$30,975). This is somewhat at odds with anecdotal information from the site visits regarding higher than expected acquisition costs (see below).

Exhibit 4-6 also shows the distribution of expected prices for a typical three-bedroom unit. Overall, 24 percent of grantees reported in the survey that a typical three-bedroom property can be obtained for less than \$15,000. Among these were a total of 6 grantees who reported that a typical unit will be donated at no cost to the program. Approximately 40 percent of grantees expect to obtain three-bedroom properties for between \$15,000 and \$30,000, while another 29 percent reported that the typical property will be obtained for between \$30,000 and \$50,000. At the high end of the range, 7 percent of the grantees reported typical property costs of over \$50,000. The two grantees reporting the highest acquisition costs (over \$90,000) were both located in California.

Exhibit 4-7 presents data on acquisition costs by region. As shown, Region 9 (which includes California and the Southwestern states) shows the highest acquisition costs of all HUD regions.⁸ However, when rehabilitation and other property costs are taken into account, the highest overall production costs are found in the Northeastern states covered by HUD Regions 1 & 2. This trend is also apparent in the Census region groupings shown in the bottom panel of the exhibit. Here, significantly higher rehab costs in the Northeast lead to higher overall costs, despite the relatively modest expenditures in these states on property acquisition.

Overall, non-profit grantees expected to pay slightly more for properties than public agencies. The typical purchase price reported by non-profit agencies was \$27,774, while public agencies reported an average expected acquisition price of \$26,049. The difference may be explained by the fact that more public agencies have obtained donated and/or locally-held properties and that these properties are more likely to be acquired at little or no cost. Exhibit 4-8, which reports C/MI data on average acquisition costs for 92 completed properties by selling agency, illustrates this point. As shown, the average acquisition price for locally-held properties was \$10,982, compared to an average of \$27,210 for FHA properties and \$30,561 for VA properties.⁹ Caveats noted earlier about the representativeness of C/MI data apply.

As noted above, the grantees' current estimates of acquisition costs are on average somewhat below their estimates at application. However, many of the intensive study sites

⁸ Note that the figures in Exhibit 4-7 are based on 76 "model" three-bedroom properties, while the figures in Exhibit 4-6 are based on a subset of 70 three-bedroom properties with cost data both at application and at survey. Differences in average costs reflect these differences in sample size.

⁹ In the C/MI, grantees are expected to include the fair market value of any property donations. Based on our site visits, however, we know that at least some sites do not report full property values (or the value of any donations), but rather include only cash expenditures. As a result, the C/MI may understate the total resources needed to acquire and rehabilitate the units. Similarly, the data on "model" properties provided in the survey include some units whose acquisition costs are reported as zero.

Exhibit 4-7

Grantee Costs by Region

Average Grantee Costs to Produce and Transfer a 3-Bedroom Home by HUD Region
N=76

HUD Region	Sample Size	Average Cost to Acquire	Average Cost to Rehab	Average Other Costs	Average Total Grantee Cost
1	1	\$ 0	\$120,000	\$60,000	\$180,000
2	7	12,857	64,950	14,476	92,284
3	9	10,953	49,198	11,734	71,884
4	12	27,549	16,915	2,069	46,533
5	11	22,756	24,283	6,408	53,402
6	14	20,139	11,355	1,351	32,845
7	4	28,065	25,695	3,911	57,671
8	7	38,229	11,979	1,364	51,571
9	9	54,321	18,746	3,024	76,203
10	2	7,563	34,864	22,823	65,249
All	76	\$25,465	\$27,257	\$6,306	\$59,034

Source: Grantee Survey

Average Grantee Costs to Produce and Transfer a 3-Bedroom Home by Census Region
N=76

Census Region	Sample Size	Average Cost to Acquire	Average Cost to Rehab	Average Other Costs	Average Total Grantee Cost
Northeast	11	\$10,700	\$64,681	\$16,511	\$91,892
South	31	20,997	21303	4,163	46,463
Midwest	15	24,172	24,659	5,742	54,540
West	19	42,322	17,357	4,338	64,070
All	76	\$25,465	\$27,257	\$6,306	\$59,034

Source: Grantee Survey

Exhibit 4-8

HOPE 3 Purchase Prices by Selling Agency
(As reported by C/MI for 92 completed properties)

Selling Agency	Minimum Price Reported	Maximum Price Reported	Average Purchase Price
FHA units (N=68)	\$0	\$60,544	\$27,210
VA units (N=10)	\$12,000	\$43,200	\$30,561
State units (N=3)	\$0	\$0	\$0
Local units (N=7)	\$0	\$43,000	\$10,982
Other units (N=4)	\$1	\$57,899	\$38,404

Source: HOPE 3 C/MI

reported higher than expected costs. For example, one non-profit grantee faced a fairly common problem of underestimating at application what acquisition costs would be. (The application was prepared by a consultant who estimated an average of \$3,500 per unit in acquisition costs, while the reality is closer to \$12,000.) Market changes can also play a role. One public agency grantee estimated its acquisition costs at \$11,000 per unit. Since then, the real estate market has become very active and the grantee is now paying three to five times that amount. The same problem has arisen in another site, where the FHA property disposition list now includes many houses priced between \$80,000 and \$100,000, with buyers sometimes offering \$2,000 to \$5,000 over the asking price.

As pointed out by several grantees, the problem of high FHA acquisition prices reflects the competing interests of different divisions within HUD. On one hand, the property disposition branch of HUD seeks to maximize income from the sale of HUD-held property. On the other hand, the Office of Community Planning and Development, through the HOPE 3 program, seeks to develop affordable low-income homeownership housing. It is apparent that the HOPE 3 grantees view HOPE 3 as an affordable housing program and believe that property disposition goals should be secondary. In fact, a number of grantees would prefer that the program not be limited to particular property sources at all, so that they could buy units on the open market.

4.4.6 Acquisition Issues

As noted above, three-quarters of the HOPE 3 grantees that completed the survey indicated that they experienced problems in acquiring properties. Of the 26 grantees who participated in site visits, 12, or just under half, reported acquisition problems. These tended to fall into three categories: lack of suitable properties, difficulties working with specific selling agencies, and local or state laws that impeded the grantees' ability to implement the program. Each of these is discussed below. Primary sources of information are the grantee survey and the site visits.

Lack of Suitable Properties

Approximately 80 percent of FY 1992 HOPE 3 grantees counted on HUD to provide at least a portion of the properties to be used in the program and, in fact, an estimated 52 percent of all HOPE 3 properties are expected to come from HUD. As noted earlier, in November 1992, the Office of Community Planning and Development was able to negotiate discounts on FHA properties as well as an arrangement allowing HOPE 3 grantees to bid on FHA properties in advance of their being offered to the general public. This priority was short-lived, however. Exactly one year later, HUD's property disposition branch issued a ruling eliminating this priority status, and allowing prospective "owner-occupants" of any income to directly purchase

FHA properties for an exclusive period of 20 to 30 days. Only at the conclusion of this period would non-profit and government agencies, including HOPE 3 recipients, be able to purchase the properties that remained available.

The rule change appears to have had negative consequences for a number of HOPE 3 grantees, dramatically reducing the number of properties that are available through HUD. In addition, some grantees who are operating in very active real estate markets indicated that the price of FHA properties has increased since the rule change. Others suggested that the properties that were available after the 20-day window elapsed were in poor condition and required extensive rehabilitation. Given that only half of the properties have been acquired to date, and that HUD is an important property source for the program, the long-term effect of the loss of priority could be a further reduction in the number of units produced by FY 1992 grantees or shifts to other property sources.

It should be noted, however, that some grantees were experiencing problems obtaining suitable properties apart from the rule change. For example, one non-profit grantee ran into acquisition delays when the PHA-owned units it had planned for its program proved no longer eligible for the program.¹⁰ Suitable replacements proved difficult to find. In another site, the grantee is relying on locally owned properties,¹¹ but has been able to find only a few that are financially feasible.

Given the widespread difficulty reported by the grantees, HUD's Office of Community Planning and Development has made on-going efforts to improve the availability of FHA units for HOPE 3 and, in early 1994, began to negotiate revised policies with FHA. Several minor changes (including the ability of field offices to shorten the owner-occupant priority period and tighter controls over those claiming owner-occupant priority) were implemented by notice in June 1994.¹² A final rule on Single Family Property Disposition was published on September 22, 1994 which redefined "owner occupant" to include non-profits and government agencies. This will have the effect of allowing HOPE 3 grantees to bid alongside other owner-occupants for FHA-insured properties. If grantees win the bid, they will also receive a 10 percent discount off the winning price.

Difficulties with Selling Agencies

As shown in Exhibit 4-9, 47 percent of grantees experienced problems with the processing requirements or policies of one or more selling agencies. Fifty-one percent of non-profit grantees reported problems, compared to 43 percent of public agency grantees. Presented

¹⁰ This was the result of a technical error in their proposal whereby the PHA units had not been identified as such and therefore could not be grandfathered into the program.

¹¹ In reality, the grantee identifies properties on the open market which are then acquired by local government and resold to the grantee. This arrangement is necessary because there are few government-owned properties in the rural and semi-rural areas in which the grantee operates.

¹² See memorandum to all recipients from John Garrity, dated June 28, 1994.

Exhibit 4-9

Problems With Selling Agencies as Reported in Survey

Percent of Grantees Experiencing Problems with Selling Agencies		
Non-Profit N=45	Public Agencies N=49	All Grantees N=94
51 %	43 %	47 %
Grantees Reporting Problems by Selling Agency		
Selling Agency	Number of Grantees Obtaining Units From This Source	Percent Reporting Problems
HUD	74	46 %
VA	41	29
RTC	19	11
FmHA	5	40
PHA/IHA	6	17
Local	46	11 %

Source: Grantee Survey

below is a brief discussion of the problems that were encountered by grantees in using the primary property sources for HOPE 3: FHA, VA, and local government.

Seventy-four agencies responding to the survey indicated that they are using HUD/FHA properties for their local program. Of this number, close to one-half indicated that they had experienced problems with FHA. The rule change discussed above has represented a major source of grantee dissatisfaction with FHA. Other reported problems include: FHA units were priced too high; HUD did not provide property listings; HUD was slow to put properties on the list and units were vandalized; and HUD settlement time limits were too restrictive.

Forty-one of the agencies acquired or will acquire VA properties. Of this group, 29 percent reported problems with VA policies or processing requirements. A number of the problems mentioned are similar to those reported for HUD/FHA, including high-priced units and the unavailability of current property lists. The 30-day closing period was also cited as too short by some grantees. During the site visits, some grantees described very successful experiences in working with local VA offices, while other grantees reported that they could not get local VA offices interested in their programs. One grantee, for example, complained that (despite repeated attempts) they could not get the local VA office to participate at all. In another site, the grantee said that the local VA office was unwilling to deal with them until, ultimately, the local HUD representative interceded. Now this grantee prefers VA to FHA because they are shown available properties at the same time as owner-occupants and the prices are generally lower.

Another significant source of properties was local governments. Most grantees were satisfied with the use of local government as a source of properties and indicated a preference for using local government properties over federal properties. The City of Port Arthur, Texas, for example, noted that despite their good working relationships with the local HUD office, they prefer to use city-owned properties simply because it involves less paperwork. Overall, of the 46 grantees using local government properties, only 11 percent indicated they had experienced problems with this source. This result suggests that circumstances may have changed since the Urban Homesteading Program and Local Property Demonstration were in operation. At that time, it was found that local property sources generally presented more acquisition hurdles than HUD/FHA.

State or Local Laws That Impeded Implementation of the Program

In a few instances, state or local laws impeded implementation of the HOPE 3 program. Grantees in New Jersey, for example, ran into delays resulting from the state's historic preservation and environmental review process. In two other sites, grantees faced local legal interpretations which made their programs virtually impossible to implement as planned. In the first, (Orange County, Florida) the Department of Housing and Community Development was told that state law prohibits a public agency from selling property without public bidding. However, after prolonged negotiation, and authorization by the County Board of Commissioners, DHCD was allowed to purchase units for resale to HOPE 3 buyers. A similar problem arose

in Port Arthur, Texas, where, based on a local ordinance, staff were required to hold a public referendum prior to selling a property valued at more than \$25,000. To get around this ordinance, the HOPE 3 staff altered their original plans for purchase, rehab, and sale of properties and instead opted to transfer ownership of the properties prior to rehab, when the value was still below the \$25,000 cap.

4.4.7 Neighborhood Targeting

Unlike its predecessor, the Urban Homesteading program, the HOPE 3 program does not include a neighborhood targeting requirement. Nevertheless, there is a continuing interest in the extent to which grantees use current housing programs as part of a neighborhood improvement strategy. This section explores the extent to which HOPE 3 programs have been targeted to specific neighborhoods and the reasons why grantees chose to operate a dispersed or a targeted program.

In response to the survey, 28 percent of grantees indicated that they were targeting their programs to one or more neighborhoods (see Exhibit 4-10). The average number of neighborhoods targeted was 3.5. Non-profit grantees are more likely to target their programs to one or a few neighborhoods (36 percent) than public agencies (22 percent), and neighborhood-based non-profits are the most likely to target (70 percent).

However, based on our site visits, the concept of targeting appears to mean different things to different grantees, and suggests that the survey may overstate the extent of targeting within the program. Of the 26 intensive study sites, 7 said their programs were neighborhood-targeted. However, some were targeting areas that would not be commonly defined as "neighborhoods", while others were targeting a relatively small number of units to a large number of areas. In the former group is the Housing Preservation and Development Department (HPD) of New York City, which is targeting 55 HOPE 3 units to three sizeable areas, including the Bedford Stuyvesant section of Brooklyn, and the Ozone Park, Jamaica, and Rockaway sections of Queens. Two other grantees indicated that they were targeting counties or cities within multi-county areas. The remainder of the grantees with "targeted" programs were producing a small number of units in a relatively large number of neighborhoods: Operation Impact in St. Louis (21 units targeted to 12 neighborhoods), Neighborhood Services in Birmingham (21 units in 10 neighborhoods), the Office of Housing and Neighborhood Conservation in Yakima, Washington (15 units in 5 neighborhoods), and the City of Trenton (40 units in 5 neighborhoods). Ironically, the grantee that has placed over 100 units in a relatively small set of community development neighborhoods (City of Tampa) does not describe its program as targeted because it is open to properties city wide.

Based on the site visits, only three of the 26 grantees operate neighborhood targeted or neighborhood-concentrated programs in the traditional sense. These include the City of Tampa, Manna, Inc., in Washington, D.C., and the City of Port Arthur, Texas. However, a number of the programs that identified themselves as targeted, do select properties strategically and view

Exhibit 4-10

Neighborhood Targeting

Neighborhood targeted?	Non-Profit N=45	Public Agency N=50	All Grantees N=95
Targeted	36%	22%	28%
Not Targeted	64	78	72
Total	100%	100%	100%
If targeted, Average number of neighborhoods included	3.5	3.5	3.5

Source: Grantee Survey

their programs as serving community development goals. Given this, targeting, as interpreted by the grantees, appears to reflect an general orientation towards using HOPE 3 to promote neighborhood stabilization, as opposed to actual concentration of units in a small geographic area.

Why did some grantees choose to target their program? Three of the grantees who indicated that they targeted multiple neighborhoods (St. Louis, City of Yakima, and Trenton) noted that they were already involved in stabilization or revitalization activities in these areas. For example, the 5-neighborhood area targeted by Yakima is within a CDBG target area. The 12 neighborhoods selected by Operation Impact (St. Louis) were all "concentrated service areas" that had been identified by the non-profit as general targets for stabilization and preservation activities. Manna, which is targeting two Washington D.C. neighborhoods, indicated that these were areas where it had previously initiated homeownership activities.

An example of a program which is targeted to a small geographic area is the HOPE 3 program in Port Arthur, Texas. Here the grantee has targeted the Lakeview/Delmar area, a racially diverse, blue-collar community with a homeownership rate of 76 percent. The reasons for this selection, according to city staff, were that they wanted to have an impact on the neighborhood and to impress on private lenders the importance of investing in a neighborhood. Lakeview/Delmar had experienced problems in recent years but was viewed by program staff as a community that "could be stabilized with a little effort."

The grantee survey included a few questions about the areas identified as target neighborhoods. On average, such areas had modest homeownership rates (45 percent). According to grantee data, 64 percent of households have incomes at or below 80 percent of median, 72 percent are minority, and 39 percent female-headed. Finally, grantees described 23 percent of the targeted neighborhoods as "blighted."

While some grantees saw great value in targeting, in order to encourage revitalization or stabilization of a community, it is important to note that the majority saw no advantage in targeting HOPE 3 to specific areas. Based on discussions held during the site visits, there are three primary reasons why grantees chose not to target.

First, a number of grantees suggested that in identifying particular neighborhoods they would be limiting the choice of properties that would be available for the program. For example, one city grantee initially planned to target the program to four neighborhoods. They later learned that the targeted areas did not coincide with the locations of available FHA properties. Grantees in half a dozen other sites also indicated that neighborhood targeting would have impeded their acquisition efforts.

Second, local politics may dictate a city-wide program. As an example, in a city described as racially segregated by program staff, city officials believed that targeting particular neighborhoods would mean excluding one or more racial or ethnic groups from the program.

Finally, a number of grantees noted that a dispersed or city-wide program can be an important vehicle for deconcentrating low-income and minority families throughout their jurisdictions. The City of Tampa provides an excellent example of a highly concentrated program (with a strong community development orientation) that is now beginning to move on to other, higher priced neighborhoods. The grantee views this as a new but equally valid objective, because this phase of the program can enable families to move from the East Tampa community development target areas into other parts of the City.

In summary, the HOPE 3 program is being used by grantees to achieve two very different community development goals. In some communities, the program is building on previous efforts to revitalize and strengthen urban neighborhoods. Units are selected strategically for their impact, even though there may be little effort to concentrate improvements in one or a few limited areas. In other sites, HOPE 3 presents an opportunity to address the goals of desegregation and deconcentration of poverty while providing homeownership to low-income families.

4.5 REHABILITATION

HOPE 3 regulations lay out a basic framework for rehabilitation under the program. The regulations specify that all properties must be free of health and safety defects at the time of transfer to a new owner. However, up to two years after transfer are allowed before they must meet code or HUD Housing Quality Standards (HQS). The requirements also state that rehabilitation must include improvements necessary to meet applicable Federal requirements, such as lead-based paint testing and abatement requirements and accessibility requirements for persons with disabilities. In addition, the level of amenities included in the rehabilitation may not make the property unaffordable to low-income HOPE 3 buyers and cannot include luxury items defined as "better than the customary or average for similar properties" in the area. Although initially HOPE 3 rules placed a limit on total rehab costs of \$33,500, this cap was subsequently lifted. Nevertheless, total acquisition and rehab costs are limited to 80 percent of the local FHA mortgage limit for the area.

Within these regulations, grantees are free to design rehabilitation strategies that best suit local conditions and their experience and expertise. For example, grantees could determine the timing of rehab activities, the entity responsible for rehab, as well as the types of work items to be completed. Grantees may incorporate sweat equity or volunteer labor into their rehab strategy, or they may use donated or discounted materials and supplies. In this section, we describe several aspects of rehabilitation including timing, costs, specific types of rehab activities completed, and the entities responsible for rehab across sites.

It is important to point out that when we administered the grantee survey in January, 1994, many of the grantees had just gotten started on the rehab component of the program. During our site visits, we observed that most sites had completed rehab on a relatively small

proportion of their total planned units. As a result, conclusions are preliminary and will need to be updated after subsequent site visits.

4.5.1 Timing of Rehab

As discussed previously, a majority of the grantees adopted a model in which properties are acquired and rehabbed by the grantee prior to transfer to homebuyers. In the second most common model, adopted by 14 percent of all grantees, rehab is completed after transfer of the property to buyers. Finally, 8 percent of all grantees implemented a model in which the majority of the properties are sold directly to buyers. These properties may or may not receive any rehab.

As shown in Exhibit 4-11, the timing of rehab is fairly similar for public and non-profit grantees. However, roughly twice as many public agency grantees complete rehab after transferring properties to buyers (19 percent compared with 9 percent for non profits). Those grantees that completed rehab after transfer did so to allow the buyer a greater level of decisionmaking in the rehab process. According to one grantee, not only do buyers get the flexibility to chose things like color of paint and carpet, they also become educated about their home and the rehab process, and gain valuable experience working with contractors, which will help them maintain their homes in the future. On the other hand, because the properties are marketed to buyers prior to rehab, the grantee must acquire properties that are likely to be attractive to buyers based on their pre-rehab condition.

Since marketing properties to buyers prior to rehab requires that the prospective buyer be able to imagine the house after rehab, the approach may work best with properties needing minimal work. For example, in the City of Minneapolis, where both models are used, the properties requiring modest rehab are targeted to the rehab-after-sale program while the less attractive properties are used in the acquisition/rehab program. Use of the acquisition/rehab model allows this grantee the flexibility to acquire properties with higher rehab needs, while the rehab-after-sale model is believed to be more appealing to potential buyers who are able to participate in decisions about the house.

Finally, in a few cases, the decision to transfer units prior to rehab resulted from reasons other than an explicit grantee strategy. In Port Arthur, for example, the transfer of homes to buyers is accomplished prior to rehab to satisfy local restrictions on the transfer of property, but the grantee retains virtually complete control over the rehab process.

4.5.2 Cost of Rehabilitation

The grantee survey and site visits provided information on the expected cost of rehabilitation activities undertaken by grantees. Exhibit 4-12 presents average expected rehabilitation expenditures for a typical or "model" unit as reported in the grantee survey. As shown, the average rehab cost for a typical unit was \$27,216 across all grantees. Average rehab

Exhibit 4-11

Timing of Rehabilitation

Rehab Timing	Non-Profit N=44	Public Agency N=47	All Grantees N=91
Before Transfer	79%	77%	78%
After Transfer	9	19	14
Direct Purchase	11	4	8
Total	100%	100%	100%

Source: Grantee Survey

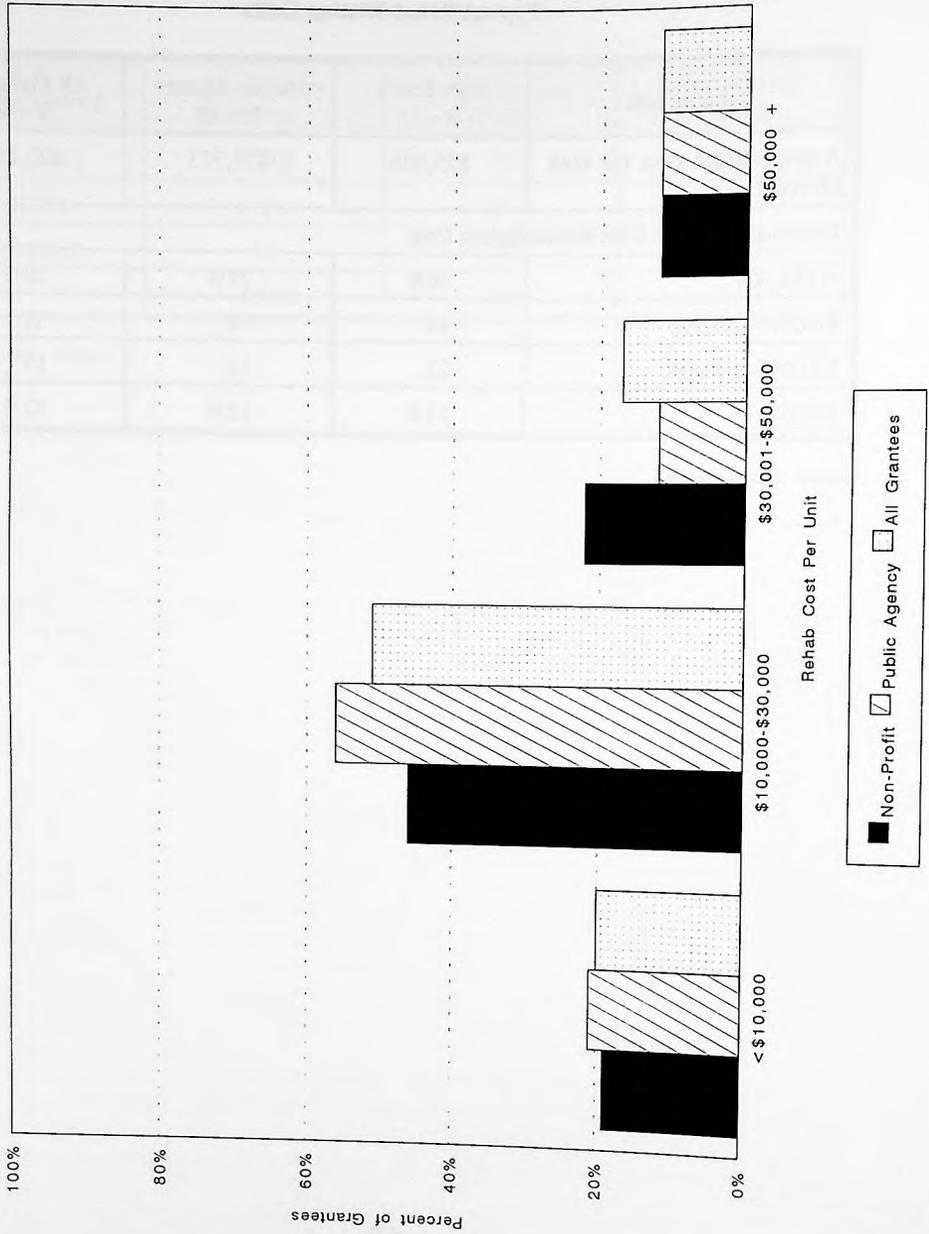
Exhibit 4-12

Typical Rehabilitation Costs

Rehab Costs	Non-Profit N=41	Public Agency N=43	All Grantees N=84
Average Rehab Cost Per Unit (Survey)	\$25,636	\$28,723	\$27,216
Distribution of Per Unit Rehabilitation Cost			
<\$10,000	19%	21%	20%
\$10,000-\$30,000	46	56	51
\$30,001-\$50,000	22	12	17
\$50,000 +	12%	12%	12%

Source: Grantee Survey

Figure 4-12
Distribution of Per Unit Rehabilitation Costs



costs were slightly higher for public agencies than for non-profits (\$28,723 compared with \$25,636), even though a larger number of non-profits reported typical rehab costs above \$30,000 per unit. The typical per unit rehab cost for approximately one quarter of all grantees falls above the original HOPE 3 cap of \$33,500.

The distribution of typical rehab costs allows us to assess the level of rehab undertaken by grantees. For example, 20 percent of all grantees engage in minor rehab at a cost of less than \$10,000 per unit. On the other hand, half (51 percent) undertake moderate rehab costing between \$10,000 and \$30,000 per unit, and 29 percent engage in extensive rehab in a typical unit at a cost of more than \$30,000. These patterns are consistent for public agencies and non-profits.

In some sites the choice of level of rehab to be undertaken is a result of the condition of properties available for acquisition, and in others it is part of the grantee's overall goals in operating the program. In several sites, for example, the grantees either had to cut back on planned levels of rehab (due to higher than expected acquisition costs) or they found that the properties they had acquired needed more work than expected. Other factors that affect the level of rehab undertaken are the age of the properties and whether or not they have been vacant for a long period of time. Among the 26 intensive study sites, typical properties ranged in age from 8 to 100 years. Not surprisingly, the older properties require more extensive, and more costly, rehab. Most properties have been vacant for at least a few months prior to being acquired by the grantee, but some have been vacant for as long as 3 or 4 years. Some have also been vandalized, a factor that also affects the level of rehab needed. Among vandalized properties, doors and windows are often broken, copper wiring is sometimes removed, and built-in wood china closets were taken from several properties in one site. Some sites avoid properties that have been vandalized.

While the age and pre-rehab condition of the properties are key, in many sites, the level of rehab chosen is also a function of the organization's philosophy and their goals for the HOPE 3 program. Several grantees have made neighborhood stabilization and community improvement a priority, and, as a result, seek out properties in need of extensive rehab to stabilize neighborhoods and to preserve the housing stock. An example is the New York City Department of Housing Preservation and Development. This organization seeks the most distressed properties on a block for the HOPE 3 program, and conducts gut rehab work to reassure other property owners and to encourage property maintenance. An even more common rationale for undertaking extensive rehab, however, is to ensure long term affordability to HOPE 3 purchasers by completing sufficient rehab to ensure that no major maintenance will be required for up to 15 years. To achieve this goal, these grantees routinely replace rather than repair heating systems, install maintenance-free exterior siding rather than paint exteriors, replace windows and doors, add insulation, and perform electrical, plumbing, and roofing work. These improvements, while often exceeding local codes, are believed to play an important role in the buyers' long term ability to maintain their homes.

4.5.3 Anticipated Rehab Costs Compared with Actual Costs

An important question is whether or not grantees were able to accurately predict rehab costs at the application and fund-raising stage. To assess this, we compared expected per unit rehab costs from the grantee survey with similar estimates provided as part of the HOPE 3 applications. Overall, we found that only 16 percent of all grantees' current estimates are within 10 percent of the application estimates. Roughly the same number of grantees (45 percent) underestimated typical rehab costs on the application as overestimated them (40 percent). Non-profits were more likely to underestimate rehab costs at application, and public agencies were more likely to overestimate costs.

For those who reported costs at survey that were higher than at application, the average difference between the two was \$13,625. The maximum difference was \$95,915, found for a grantee which projected rehab costs of \$20,635 per unit in the application, but reported \$116,550 in rehab costs for the typical unit at the time of the survey. For grantees whose survey-reported rehab costs were less than at application, the average difference was \$10,107. It should be noted that the largest differences for this group were in five sites where rehab is completed after transfer of property to buyers and the change is attributable to the way in which the costs were reported rather than an actual drop in costs.

We also examined actual rehab costs reported in the C/MI for 92 properties that had been set up, transferred, and completed. The average actual rehab cost for these properties (\$18,154) was considerably lower than the costs for a typical unit reported in the survey. However, we emphasize that the data in the C/MI system are not representative at this time, and essentially serve as place holders for more complete data which will be available at the time of the final report of this study. Using C/MI data, we also examined the average rehab costs for different property sources. Of the 92 completed properties, 68 were FHA and had the highest average rehab cost of \$21,033. Ten properties were VA properties, with lower rehab costs, averaging \$9,711. Seven properties were from local sources, with average rehab costs of \$12,713.

Finally, we asked grantees to describe the type of rehab activities that tend to increase costs the most. While specific items varied somewhat from site to site, some commonly mentioned items include roofing, replacement of heating systems, plumbing work, electrical work, and installation of siding. One site is performing complete asbestos abatement on its properties and this is an item that has increased rehab costs as well as the time needed to complete rehab. In some cases the costs of materials, especially lumber, has proven higher than anticipated in the application and this has contributed to higher rehab costs.

4.5.4 Who Performs Rehab Work?

Overall, 97 percent of all grantees report that contractors are responsible for all or part of the rehab work. Nearly one third of all grantees (26 percent) report that some of the rehab work will be done by homeowners who may contribute sweat equity towards the downpayment

on the property. Seventeen percent of all grantees report that some of the rehab work is done by volunteers, and nine percent report that some rehab is done by in-house employees. This information is displayed in Exhibit 4-13.

Work write-ups are generally performed by in-house staff of the lead grantee or cooperating partner. Variations on this include one site in which an architect completes the work write-ups under a contractual arrangement and another where the rehab contractors are responsible for identifying all needed repairs as a part of their bids for the work. Several grantees use automated computer software to do the work writeups.

In five of the intensive study sites, sweat equity work is required for homebuyers. In these sites, homebuyers contribute an average of 118 hours of sweat equity, ranging from a low of 80 hours to a high of 350 hours. Homebuyers are usually responsible for painting, demolition cleanup, and other activities typically performed by lower skilled workers. In most cases, the sweat equity is used in lieu of a downpayment and is valued at \$10 per hour. In one site, the sweat equity requirement must be fulfilled before transfer to a buyer can be completed. In another site, a buyer can fulfill the sweat equity requirement by working on other buyers' homes. Grantees who are not using sweat equity offered several reasons why they chose not to include this in their program designs. Many believe that it is difficult to monitor compliance with sweat equity requirements, but, more importantly, several grantees expressed concern about the quality of work performed in sweat equity as well as the impact sweat equity may have on the length of time needed to complete rehab activities.

Based on the grantee survey, the mean length of time to complete rehab activities was 3.3 months with a range of between 1 month and 9 months. There was virtually no difference between non-profit and public agency grantees. Among the 26 intensive study sites, rehab activities ranged from as long as 6 months, in a project that included sweat equity, to as little as 3 weeks in a site doing minimal rehab on houses that are less than 10 years old. For most of the 26 sites, however, rehab took between 2 and 3 months to complete. The length of time to complete rehab appears to be affected most by who is responsible for conducting the work, with sites using sweat equity reporting longer completion times than those where contractors are responsible for all of the work.

4.5.6 Nature of Rehab Work

Exhibit 4-14 presents information on the types of rehab work being undertaken on HOPE 3 units. The figures represent the percentage of properties program-wide needing a given work item. Overall, grantees report that few of their planned units (only 6 percent) will require no or minimal rehabilitation. For the typical grantee, more than 80 percent of all units are expected to require at least interior and exterior cosmetic improvements. This was confirmed during our site visits when we toured many of the properties being rehabilitated. All of the properties we observed had received interior painting, new carpeting (some had hardwood floors refinished), and in many cases new kitchen cabinets. On the exterior, most received painting or installation of maintenance-free exteriors.

Exhibit 4-13

Who Does Rehab Work?

Rehab Workers	Non-Profit Grantees N=45	Public Agency Grantees N=51	All Grantees N=96
In House Employees	13%	6%	9%
Contractors	93	100	97
Homeowners	31	22	26
Volunteers	12%	22%	17%

Source: Grantee Survey

Exhibit 4-14

**Percentage of Units Requiring Different
Types of Rehabilitation Work**

Type of Work	Non-Profit N=42	Public Agencies N=48	All Grantees N=90
No or minimal rehab needed	11 %	1 %	6 %
Reconfiguration of Rooms	13	13	13
Replacement of major systems	67	65	66
Repair of major systems	38	44	41
Interior Cosmetic improvements	69	93	82
Exterior Cosmetic Improvements	66	95	82
Energy Efficiency Improvements	73	71	72
Accessibility Features	6	6	6
Lead Paint Removal	24 %	25 %	25 %

Source: Grantee Survey

Another commonly reported need was replacement of at least one major system. Overall, grantees expect to replace one or more major system in 66 percent of their units. Many of the grantees we visited reported routinely replacing heating systems, roofs, and sometimes electrical systems. The rationale for this is that by replacing major systems, the homebuyer will avoid significant maintenance expenses for several years. These types of repairs are also consistent with goals of preserving local housing stock and neighborhood revitalization. Repair (as opposed to replacement) of one or more major systems was involved in 41 percent of the units.

Another commonly reported activity is energy efficiency improvements (72 percent of all units). These types of improvements usually include addition of storm windows, installation of insulation, and replacement of heating systems. Some grantees are including information about energy efficiency in their homebuyer counseling components.

Relatively few (13 percent) of all units are expected to have rooms reconfigured as part of the rehab process. In one intensive study site rooms were reconfigured if necessary to satisfy code requirements (e.g., a stairway was too narrow so it was closed off). In the another, a porch in one unit was fully enclosed as part of the rehab.

Only 6 percent of units are expected to receive work related to accessibility features. Several grantees indicated during site visits that they have done some work in this area, but only in cases where buyers have requested specific modifications to properties. Most cases in which accessibility features have been addressed are sites in which properties are transferred to the buyer prior to rehabilitation being completed. These practices are consistent with HOPE 3 regulations which require that grantees incorporate property modifications for those properties where persons with disabilities are selected for homeownership. Finally, work related to lead-based paint requirements was expected to be needed in about 25 percent of the units.

Referring to Exhibit 4-14 we note several differences between the types of work commonly completed for non-profit and public agency grantees. For example, the typical non-profit grantee anticipates that a significantly smaller percentage of its units will receive interior cosmetic improvements, (69 percent compared with 93 percent) and exterior cosmetic improvements (66 percent compared with 95 percent) than public agency grantees. Also a significantly lower proportion of public agency units will require no or little work.¹³ This latter finding may be associated with the fact that fewer public agency units use the direct purchase model which often involves no rehab at all.

4.5.7 Appropriateness of Rehab Work

For the 26 intensive study sites, we obtained additional information about rehab activities, and were able to tour several of the properties undergoing rehab. Of these sites, 7 indicated that

¹³ Tests based on difference in proportions at the 95 percent confidence level.

their general rehab strategy is to provide basic "up-to-code" rehab, while 19 routinely conduct rehab that exceeds code and is intended to ensure that buyers will have low maintenance and repair needs.

As part of the field work, we looked for instances in which repairs appeared obviously above the level envisioned by the HOPE 3 program. We found no examples of excessively luxurious work items. Likewise, we asked about instances in which properties might have failed inspections. In one site, a unit failed initial inspections as a result of the quality of the sweat equity work, but this situation was remedied quickly. In another site, rehab performed by volunteer workers was viewed as lower quality than professional contractor's work, but no units had failed inspection. In another, the grantee has received problem calls from buyers; however, since the work is guaranteed for one year by the contractors, all items must be finished to the buyer's satisfaction.

As noted previously, in many cases grantees routinely make repairs that are above the minimum code requirements. Examples of these types of repairs include replacement of exterior siding or stucco, installation of new kitchen and bathroom fixtures and kitchen cabinets, replacement of heating systems and complete repair of plumbing and electrical systems. Central air conditioning is an amenity commonly provided by grantees. One grantee also provides security systems, which are regarded as a necessity. Other grantees use durable materials not required by code such as ceramic tile rather than linoleum for kitchen and bathroom floors and the use of high grade insulation. In another site, heat pumps are routinely replaced both to increase long-term affordability and because the program includes a lease purchase arrangement, and the grantee is interested in getting the property improved to a level that will preclude additional repairs during the lease period.

Amenities such as dishwashers, garbage disposals, and washers/dryers have raised concerns in some sites. One non-profit grantee routinely installs dishwashers and washers/dryers. These improvements add to the cost of the rehab effort, but the rationale for making them is to extend the life of the property and to bring the unit up to private market quality. Another site adopted the policy of replacing nonfunctioning dishwashers when the property was acquired. Auditors from the Inspector General's Office suggested that the grantee change this policy and remove nonfunctioning dishwashers. Two other grantees would like to include dishwashers as standard items but are limited because of costs.

4.5.8 Lead Paint Removal

Based on the survey, 25 percent of all units for the typical grantee will receive treatment for lead-based paint. During site visits we discussed the strategies used in dealing with lead-based paint, and observed, overall, that grantees are confused about their obligations for dealing with this hazard and, as a result, have adopted varying approaches. For example, in some sites, we found that no efforts are made to test or remove lead-based paint because the grantee does

not believe it to be a problem. In another site, lead-based paint testing is only done when a buyer has a child under seven years of age. One public agency grantee uses local guidelines which require "lead safe" versus "lead free" environments in properties rehabilitated by the city.

Given this confusion, several grantees are incorporating this topic into their grantee training activities. One grantee sent two staff members to a lead-based paint testing training session, and another sent staff to a seminar in Atlanta on this topic. A third requested assistance from the National Center for Lead Safe Housing in developing an appropriate strategy for testing for and dealing with lead-based paint.

4.6 OTHER PROGRAM ACTIVITIES

In addition to basic acquisition and rehab activities, grantees must market the units to new homebuyers, develop an approach for selecting and qualifying buyers, and provide buyers with homeownership counseling or training as required under the program. In addition, some grantees provide economic development assistance such as job training or placement services. This section describes grantees' approaches to each of these activities.

4.6.1 Outreach and Homeowner Selection

The principal activities of outreach and homeowner selection include:

- Informing the targeted population of the program through marketing and other types of outreach;
- Accepting applications;
- Processing initial applications; and
- Inviting qualified applicants to select units and receive homebuyer credit counseling.

The ability of grantees to match qualified households with available units is dependent on successful outcomes in each of these areas. The following section explores the experiences of grantees in completing outreach and selection activities.

A household is eligible to participate in the HOPE 3 program if its income does not exceed 80 percent of the median for the area (with adjustments for smaller and larger families) and they are first-time homebuyers. The HOPE 3 regulations also establish a preference for public housing residents and participants in self-sufficiency programs. In addition to these requirements, it is up to each grantee to identify creditworthy households able to effectively assume the responsibilities of homeownership.

The primary sources of information about outreach and homeowner selection are the site visits to 26 sites selected for intensive study. Not surprisingly, among these grantees there are variations in the level of outreach as well as the outreach methods used. Often the level of outreach appears to vary based on who is doing the outreach and the resources devoted to marketing. For example, in Minneapolis, the Community Development Agency has two experienced contractors marketing in different areas of the City. The contractors' responsibilities are quite comprehensive and include everything from showing the units (using a real estate agent) to providing guidance and support for the buyers through all phases of the purchase process. In another site, however, the HOPE 3 coordinator is responsible for marketing activities and indicated that he does much of the work himself and often on his own time. Here, outreach is limited to activities such as handing out flyers advertising the program, newspaper advertisements, and library postings.

The outreach methods most commonly used by grantees include media advertisements and outreach through Public Housing Authorities or other public agencies. More than 70 percent of grantees indicated that they used these two methods. Sixty-five percent of the grantees indicated that they are conducting outreach through neighborhood organizations, while about one-third are using realtors, and one-fourth are holding special "events," such as homebuyer seminars or neighborhood meetings. Other outreach methods that were mentioned by grantees include: the development and distribution of flyers or brochures, outreach through churches; and advertising by word of mouth. One unusual outreach method, developed by Operation Impact of St. Louis, is an interactive multimedia video. This video, which operates on a portable Macintosh computer, has three modules. One describes the HOPE 3 program, a second helps buyers to figure out how much they can afford, and a third describes available homes.

Given the program's requirement to give priority to public housing residents and family self-sufficiency participants, extensive outreach to this population would be expected. As noted earlier, more than 70 percent of the site visit grantees indicated that they conducted outreach to public housing residents. However, the level of outreach varies considerably. Among the 26 intensive study sites, 16 were identified as providing substantial outreach to PHA/self-sufficiency clients. Among this group is HURC of Cincinnati, which, early in the program, asked the local housing authority to identify all public housing residents with incomes of more than \$14,000 per year. A brief brochure which describes the program and includes a preliminary application was sent to these families as well as to families who were identified by the non-profit partners. To date, 4 of 10 units sold by HURC have been purchased by families who were formerly residents of public housing. Human Action for Chandler (Arizona) is another grantee which made substantial efforts to reach public housing residents but met with somewhat less success in actually recruiting them. Although 25 public housing resident households applied, most dropped out due to credit and other problems, and only one public housing resident qualified from this initial group.

Among the grantees that have made less substantial efforts to reach out to public housing residents, a common view is that this effort would be unproductive. For example, staff of one public agency grantee indicated that public housing residents/family self-sufficiency participants are typically not ready for homeownership; as a result, program staff do not want to advertise to these families since they believe their chances of being able to participate in the program are small. Other grantees said that they had done little outreach to public housing residents so far, but intended to do more in the future.

In addition to variation in outreach methods used, there is also variation among grantees as to when homebuyers are selected and the criteria used to select them. Most of the grantees acquire properties first and then market properties to buyers on an individual basis. In four sites, however, grantees identify eligible homebuyers first. One such site is Homeward Bound in Phoenix AZ, where the grantee's HOPE 3 lease-purchase program is targeted to Homeward Bound clients who have graduated from their transitional housing program. Once an interested and qualified client is identified, the client selects a unit from the non-profit's HUD-leased inventory, or from the list of FHA foreclosed units, and the property is acquired by Homeward Bound. The City of Topeka is another site that selects the homebuyer before acquiring the unit. Here, outreach occurs through informational meetings which are announced in the local newspapers and run jointly by the City and neighborhood improvement associations. City staff also network with local real estate offices to identify families who are interested in purchasing but unable to locate financing. Applications are processed on a first-come, first-serve basis, and eligible applicants are told to enroll in a counseling program. Graduates then search for housing, and the city acquires the selected property and resells it to the homeowner.

With regard to selection criteria, all grantees require homebuyers to meet the program's income and first-time homebuyer requirements as well as to have a credit record that is acceptable to the lender. Beyond these criteria, most grantees appear to operate their programs on a first-come, first-serve basis. Some grantees, however, use additional criteria such as job stability (e.g., one year on the same job) or the applicant's willingness and ability to do sweat equity. One city grantee gives priority to heads of household who are disabled, and a few grantees indicated they gave priority to working households or those with some savings.

The demand for HOPE 3 units reported by the 26 site visit grantees suggests that their marketing and homeowner selection methods have been effective to date. As of May 1994, 12 grantees reported that demand for HOPE 3 units was more than adequate while another 12 indicated that demand was adequate. Only two grantees indicated that demand for units had been insufficient. In the first, an early outreach effort elicited names of over 400 potential buyers. However, after carefully screening these buyers—which took approximately four months—the staff found that only 2 percent were both qualified for the program and still interested in purchasing. This grantee has renewed its outreach efforts through newspaper advertisements, major local employers, and church groups, and is also considering using of real estate brokers. It should also be noted that some of this grantee's HOPE 3 units are located in less desirable neighborhoods, which has contributed to the marketing problem.

The other grantee which has run into marketing problems is a site which has both an acquisition/rehab component and a direct purchase component. Although the acquisition/rehab component is proceeding smoothly, the direct purchase component (which provides buyers with a low interest, deferred payment loan of approximately \$2,000) is underutilized. The lack of interest in this program may be linked to the fact that buyers are already able to acquire HUD and VA properties without any financial assistance. Also, lower income buyers can receive similar assistance through a county-funded program for properties purchased on the open market, which, it appears, are more desirable than the federally-owned properties. In order to boost participation, the grantee will be renewing their marketing efforts and, as part of this activity, will begin to advertise the fact that rehab loans are available in addition to downpayment assistance.

4.6.2 Homeownership Counseling

HOPE 3 regulations require grantees to include homeownership counseling to buyers in the HOPE 3 program. This section describes the homebuyer training component implemented by the grantees, including the intensity of counseling and the content of training sessions.

The intensity of homeowner counseling varies considerably from site to site. Across all survey respondents, an average of 27.6 hours of counseling is offered to purchasers, with slightly more training provided by non-profits (29 hours) than by public agencies (26 hours). Exhibit 4-15 shows the distribution of counseling hours provided. As indicated, 37 percent of all grantees provide between 5 and 10 hours of counseling to homebuyers, 27 percent provide between 11 and 20 hours, 25 percent provide between 21 and 100 hours of counseling, and a few provide more than 100 hours of training.

The largest number of counseling hours per buyer reported in the survey is 500, provided by the Denver Habitat for Humanity. This is followed by the City of Yakima (at 310 hours), one of the intensive study sites. In Yakima, buyers attend 10 hours of workshops on home purchase requirements, budgeting, home maintenance, and legal documents related to the purchase. In addition, the program counts the 300 hours of sweat equity work the buyers are required to contribute as counseling and training. The smallest number of counseling hours reported in the survey was 2 hours (one site), followed by five sites which provided 4 hours of counseling per buyer. Tampa Bay CDC, for example, provides four hours of pre-purchase counseling through a contractor, Community Services Foundation. The counseling is the standard pre-purchase counseling provided to other CDC clients, including those in the FNMA Community Homebuyers program. The City of Tulsa plans to offer four hours of individual counseling at Credit Counseling Centers, Inc.; this counseling will also consist of their standard pre-purchase counseling for first time homebuyers.

The topics covered in the homebuyer counseling are summarized in Exhibit 4-16. Across all grantees, the most frequently included topics are personal finances/household budgeting/consumer credit, individual credit analysis, rights and responsibilities of homeowners,

Exhibit 4-15

Number of Hours of Counseling
Provided Per Buyer

Counseling Provided	NonProfit N=43	Public Agency N=46	All Grantees N=89
Average Number of Hours of Counseling Per Homebuyer	29.3	26.0	27.6
Distribution of Hours of Counseling Per Buyer			
4 Hours or Fewer	7%	9%	8%
5 to 10 Hours	30	43	37
11 to 20 Hours	40	15	27
21 to 100 Hours	21	28	25
More Than 100 Hours	2%	4%	3%

Source: Grantee Survey

Exhibit 4-16

Topics Included in Homebuyer Training/Counseling

Counseling Topics	Non-Profits N=45	Public Agencies N=51	All Grantees N=96
Program Rules/Orientation	82%	82%	82%
Rights and Responsibilities	93	94	94
Personal Finances/Household Budgeting/Consumer Credit	98	96	97
Individual Credit Analysis/Mortgage Application	98	92	95
Household Management /Housekeeping/Nutrition/Home Economics	49	55	52
Home Maintenance and Repair	93	94	94
Construction Skills	27	22	24
Gardening/Decorating	18	14	16
Delinquency Counseling	49	63	56
Social/Support Services (e.g., Drug or Alcohol Counseling)	20	25	23
Energy Conservation	53%	69%	61%

Source: Grantee Survey

and home maintenance and repair. More public agencies than non-profits (63 percent compared with 49 percent) include delinquency counseling in their counseling curriculum. On the other hand, slightly more non-profits than public agencies (98 percent compared with 92 percent) include individual credit analysis in their counseling.

More detail about homeowner counseling is available for the 26 intensive study sites. For example, in 17 of the intensive study sites, counseling is provided both before and after home purchase, while in the remainder counseling is provided only prior to purchase. In most cases in which both pre- and post-purchase counseling is offered, the pre-purchase counseling focuses on mortgage application process, credit counseling, budgeting, and the steps involved in purchasing a home. Post-purchase counseling tends to focus on home maintenance and repair.

Most grantees believe that homebuyer counseling is an important component of the program, given that the target buyer is a first-time buyer with little experience with and knowledge of the mortgage application process, credit considerations, and the obligations associated with purchasing a home. One grantee noted that not only are the HOPE 3 buyers first time buyers, they are often first-generation buyers, without any direct experience with homeownership. As a result, this grantee thinks that an important purpose of the counseling is to acquaint the buyers with the "homeowner mindset" and the reality of taking on the responsibility of a mortgage.¹⁴

The format of the counseling may include group sessions, individual counseling, or a combination of both. Group sessions are used exclusively in 10 of the intensive study sites. In three of these sites, the sessions consist of standard first time buyer orientation provided by local banks. Many other sites use FNMA training as a model for the group sessions.

In 14 of the intensive study sites, a combination of group sessions and individual counseling is available to buyers. One example is the New York City Housing Preservation Department in which buyers attend monthly, two-hour homebuyer club meetings in which topics such as mortgage application steps, household budgeting, and rehab process are discussed. These group sessions are supplemented with individual meetings with program staff to determine mortgage limit, as well as to discuss the buyer's credit situation and other issues unique to each buyer. In the City of Tucson, pre-purchase group counseling includes credit counseling, closing cost information, and the closing process. Individual counseling occurs after purchase when program staff contact buyers 60, 90, and 120 days after purchase to discuss home maintenance and budgeting and to monitor the buyers' comfort with the financial responsibilities of homeownership. The Habitat for Humanity component of the City of Minneapolis' program is unique in that the sponsor assigns each household a "mentor family" to answer questions, assist with completing forms, and offer other support to the buyer throughout the purchase process.

¹⁴ This particular grantee noted that a buyer in another, non-HOPE 3 program they operate, purchased a home and called the mortgage holder to report a maintenance problem. The buyer, who had always rented, had not fully understood the ramifications of homeownership.

In some sites, the staff responsible for marketing also play a role in counseling purchasers. For example, in Minneapolis, the program has contracted with two organizations to market the program to potential buyers. The marketers not only assist potential buyers to locate homes, they also provide individual, ongoing guidance throughout the process. These individuals assist buyers with completing loan applications, deciphering credit reports, and developing a corrective action plan in cases where buyers have credit problems.

Finally, two of the sites provide individual counseling exclusively. In Columbus, the Ohio State Cooperative Extension Service provides individual counseling to buyers during 11 hours of home visits. The counselors develop an individualized list of topics based on the buyers' concerns and experience, including budgeting, consumer skills, home decoration, and mortgage application. In Tarrant County, individual counseling is provided by a non-profit partner, Housing Opportunities, Inc. The counseling is based on the FNMA Guide to Homeownership and is standard counseling provided by Housing Opportunities to other low and moderate income buyers. The decision to provide individual counseling exclusively was described both as an effective way to tailor assistance to the needs of the buyer and as a way to deal with a potentially uneven flow of buyers into the program.

4.6.3 HOPE 3 Economic Development Activities

Economic development activities are intended to enhance HOPE 3 client earning capacities by providing some or all of the following services:

- Job counseling
- Skill enhancement and training
- Education
- GED testing

Economic development activities may also include child care (during training sessions), tuition assistance, and help in applying for educational and training programs. In comparison with homeownership counseling, which is mandatory under most programs, economic development services are optional.

In most programs, economic development activities do not commence until a client has acquired his/her home. Consequently, few programs have actually started providing economic development assistance. However, in programs involving lease-purchase, economic development counseling may begin earlier, since a household moves into the designated unit prior to actual purchase.

The economic development component of the HOPE 3 program thus far has not been a major focus for HOPE 3 grantees, although many grantees initially planned for economic development services. For example, at the time of application, approximately one-quarter of the 103 agencies receiving implementation grants planned on providing economic development assistance. A slightly higher percentage of public agency grantees anticipated providing economic development assistance than did the non-profits (27 percent compared with 21 percent). The activity planned by the highest percentage of agencies was job training (68 percent), following by job search assistance (64 percent), and job placement (52 percent).

According to the survey of implementation grantees (conducted approximately eighteen months later), 21 out of 96 grantees planned to conduct economic development activities. This represents a slightly lower percentage of grantees planning economic development activities than was indicated at the initial application stage. However, planned activities reported in the survey were similar. Job training was the most frequently listed service, followed by job search assistance.

Among the 26 intensive study sites, six had initially planned for an economic development program, and five are still going forward with these plans.¹⁵ The five are: the City of Tucson, Homeward Bound (Phoenix), City of Trenton, Tarrant County Housing Partnership (Texas), and Operation Impact (St. Louis). Planned activities are as follows:

- City of Tucson - The Tucson Urban League, one of the City's non-profit partners plans to provide economic development assistance for its clients only (15 of a total of 47 households). Economic development activities will be the same as those already provided to Urban League clients and are intended to strengthen clients' income situations so that they will be better able to meet their housing expense obligations. A family specialist (case manager) will follow the progress of the Urban League's HOPE 3 families and keep them informed of special workshops.
- Homeward Bound - HOPE 3 clients have already been in the Homeward Bound program for almost two years, and they are required to have had at least one year of stable employment prior to being accepted to the HOPE 3 program. The focus of economic development counseling (or job counseling) is to enhance earnings. It is not mandatory. Homeward Bound's training is intended to help a client identify and pursue job training, and guide clients into employment sectors experiencing growth. Although Homeward Bound provides referrals for training courses, funds for the actual training courses are not provided. In addition, job retention information is provided covering topics such as conflict negotiations, office politics, and multiculturalism. Services are provided to HOPE 3 clients by the regular employment services staff member at Homeward Bound.

¹⁵ One grantee decided to forego economic development activities and reallocated funds to acquisition and rehabilitation activities.

- City of Trenton - Similar to the City of Tucson's program, only one of the participating non-profits (Volunteers of America - VOA) will provide economic development services to its 20 HOPE 3 clients. Again, assistance is provided on a voluntary basis. This component is budgeted at \$250,000, all from HOPE 3 grant funds. The program will assist clients by enabling them to return to school as well as helping them to obtain better paying jobs. For example, VOA will pay \$1,500 for continuing education (to cover GED classes or other classes), and it will pay for child care. VOA's main goal is to enhance HOPE 3 participants' abilities to maintain stable employment.
- Tarrant County Housing Partnership - Economic development activities are to be provided by the City of Fort Worth through a program called the HOPE Education Assistance Program (HEAP). The economic development activities to be provided will consist of GED training and testing, technical or vocational training, associate degrees or completion of BA degrees. Tuition for a maximum of nine semester hours during the fall and spring, and six hours during the summer, will be available, as will money for school fees, books and supplies, and the cost of a certificate or license. Participants can receive these services for up to two years.

In addition, limited child care assistance is available to HEAP participants, by helping families make arrangements for child care and by paying for some child care expenses while family members are in training. Before using HOPE 3 funds, the program will also assist participants to take advantage of other available financial assistance, such as Pell grants. All homebuyers and their spouses in the Urban Homeownership component of the HOPE 3 program (operated by the City of Fort Worth) are eligible to receive these services. Tarrant County Housing Partnership (the non-profit lead grantee) does not anticipate referring its clients to HEAP unless a buyer has a need for further training.

- Operation Impact - Economic development activities will be undertaken by the St. Louis Agency on Training and Employment (SLATE), once homes have been transferred. SLATE is the department of city government charged with the administration of job training programs authorized under JTPA. SLATE will execute a formal service agreement with Operation Impact to cover vocational assessment and career development planning and ongoing vocational counseling services for program participants. Tuition support, basic skills remediation, and job placement assistance will be included. A SLATE-based case manager will assess the situation of each HOPE 3 homebuyer and set a plan for each based on skills and needs, which could include GED assistance, job training, or job placement assistance. SLATE's involvement with each family will average about nine months. Following the provision of services by SLATE, Operation Impact is expected to conduct follow-up every six months.

Of these five grantees, only one (Homeward Bound) had already started providing services at the time of the site visits in May, because job counseling was an ongoing service of the program in which Homeward Bound's HOPE 3 clients had already been participating. The remaining four agencies are waiting until families have purchased and moved into their homes before initiating this component of their programs.

CHAPTER 5

FUNDING AND UNIT AFFORDABILITY

This chapter focuses on the amounts and sources of funding used to produce the HOPE 3 units and to make them affordable to lower income buyers. We begin with a discussion of overall program budgets, followed by a description of matching and other funds used in the program. The final sections of the chapter focus on the mechanisms used to help purchasers finance the HOPE 3 units and to keep them affordable over time.

5.1 PROGRAM BUDGETS AND COSTS

HOPE 3 activities are typically supported by a number of different funding sources. At the time of their initial applications, grantees submitted an overall program budget showing the allocation of funds to various activities (i.e., acquisition, rehab, homeowner counseling) as well as the sources of funding to be used. Four categories of funding were to be identified: HOPE 3 grant funds, cash match, in-kind match, and other funds. By statute, FY 1992 and FY 1993 grantees were required to provide a non-federal match of at least one dollar for every three dollars of HOPE 3 funds. In addition to cash contributions, grantees could use in-kind match, such as donations of property, contributions of labor or materials, or the present value of benefits provided to homeowners. If matching funds and contributions were still insufficient to complete the program, other sources of funds had to be identified. Oftentimes these funds represented additional grants from other programs — such as CDBG — to be used in the project; in other cases interim loans and even end loans and resale proceeds were identified as "other" funds.

Exhibit 5-1 presents data drawn from the budgets of the 101 grantees that are continuing in the program. These data were taken from program documents at the time of grant agreement and updated for the 96 grantees that responded to the grantee survey in early 1994. Since grant agreement, roughly half of the grantees have modified their budgets — some simply to reallocate line items, but others to reflect major changes in the nature of their programs and the sources of funds used. Note also that the figures in Exhibit 5-1 are expressed on a per unit basis, therefore differences from grant agreement may reflect changes in the number of units to be produced as well as changes in amount of funds committed to the program. As discussed in Chapter 4, nearly a quarter of the grantees have made a downward adjustment in their unit production estimates since grant approval.

As shown in the exhibit, average per unit budgets are \$58,086 — up 16.1 percent from the time of grant agreement.¹ Average non-profit costs (\$51,216 per unit) are 23.7 percent

¹ Unless otherwise indicated, all figures are program averages, based on total dollars divided by total units.

Exhibit 5-1

Average Per Unit Program Budgets at Grant Agreement and at Survey

Uses of Funds	Grant Agreement			Survey		
	Non-Profit N=1,483	Public Agency N=2,168	Total N=3,651	Non-Profit N=1,427	Public Agency N=1,857	Total N=3,284
1. Acquisition	\$16,824	\$13,696	\$14,967	\$17,229	\$21,059	\$19,395
2. Closing Costs	594	419	490	1,536	344	862
3. Financial Assistance						
A. Interest Reduction	1692	2,597	2,229	1,666	2,993	2,417
B. Down Payment Asst.	1,609	1,190	1,360	1,448	1,600	1,534
C. Closing Costs	915	564	706	1,048	938	986
D. Other	2,328	2,890	2,662	1,691	3,396	2,655
4. Rehabilitation	15,444	19,803	18,031	16,600	21,756	19,515
5. Architect/Engineer	562	1,299	1,000	525	1,503	1,079
6. Relocation	49	79	67	52	89	73
7. Temp. Relocation	57	61	59	44	64	55
8. Legal Fees	272	301	289	283	352	322
9. Replacement Reserve	420	422	421	297	454	386
10. Homebuyer Training	2,074	1,141	1,520	2,039	1,373	1,663
11. Grantee Training	113	57	80	106	70	85
12. Economic Development	396	611	523	390	692	561
13. Other Activities	148	156	153	258	557	427
14. Other Match						
A. Waived Fees, etc.	522	578	555	508	512	511
B. Infrastructure	20	72	51	20	42	32
C. Debt Forgiveness	0	110	66	0	129	73
D. Donated Labor	229	243	237	203	284	248
E. Other	143	145	144	203	169	184
15. Activities Funded	1,145	1,158	1,153	1,350	1,355	1,353
Sub-Total	45,555	47,592	46,765	47,496	59,733	54,416
Administrative Costs	3,509	3,068	3,247	3,719	3,632	3,670
Total Costs	\$49,064	\$50,660	\$50,012	\$51,216	\$63,365	\$58,086

Sources: Applications and Grantee Survey

lower than those of public agencies (\$63,365). Overall, public agency costs have increased dramatically — up 25.1 percent since grant agreement, while non-profit cost increases have been modest at 4.4 percent. As noted above, reductions in units are an important factor in increased per unit program costs. This is particularly true for public agencies, which account for roughly 80 percent of the net reduction in units.

In terms of expenditure categories, the line items with the largest percentage increases included acquisition, closing costs, and "other costs." However, per unit costs in some of these categories are small. Overall, the largest dollar contributors to increased per unit costs were acquisition, which accounted for 55 percent of the net increase in costs, and rehabilitation, which accounted for another 18 percent. A few categories of expenditures showed a drop in per unit funding. These include relocation costs, replacement reserves, infrastructure, and waived taxes and fees.

Exhibit 5-2 provides additional data on changes in program budgets. Overall, 51 percent of the grantees showed no change in their per unit budgets since grant agreement. Some 35 percent showed an increase in per unit costs, and 14 percent showed a decrease. Public agencies were more likely than non-profits to show a change in per unit budgets and, when such changes were indicated, to show an increase as opposed to a decrease in cost.

As part of the survey and site visits, grantees were asked to explain any major changes in budget amounts. In many cases, these were shifts among line items, to reflect, for example, higher than expected acquisition costs or to cover a category of costs that had been overlooked in the original budget. In some cases, changes were accomplished without affecting the overall budget. However, budget changes more frequently reflected the addition of new sources of funds. Grantees also found themselves needing to replace matching funds that never materialized (e.g., fewer than expected donated properties were used). This often resulted in the substitution of cash match for in-kind or vice versa.

Exhibit 5-3 shows the breakdown of per unit costs by source, based on the revised budgets. Overall, HOPE 3 funds accounted for about 44 percent of the total for the typical HOPE 3 unit, cash match for 10 percent, in-kind match for 10 percent, and other sources for 36 percent. Non-profits derived a slightly higher proportion of funds from HOPE 3 than public agencies; this difference is made up in other funds, which are a slightly higher share for public agencies.

Eligible HOPE 3 costs include both property-related costs and program-wide costs. Exhibit 5-4 organizes the program budgets into property related costs (acquisition, rehab, and other) and costs for program-wide activities (such as counseling or administration). These data indicate that around 70 percent of the grantees' budgets reflect direct, property related expenses. The remainder is split between various program-level activities and the provision of financial assistance to homebuyers.

Exhibit 5-2

**Changes in Per Unit Program Cost Since Grant Agreement
(Percent of Grantees)**

Type of Change	Non-Profit	Public Agency	All Grantees
Increase	27%	42%	35%
No Change	55	48	51
Decrease	18	10	14
Total	100%	100%	100%

Sources: Applications and Grantee Survey

Exhibit 5-3

Per Unit Program Budgets by Source

N = 3,284 Units

Source	Non Profit		Public Agency		All Grantees	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
HOPE 3	\$23,686	46%	\$26,927	43%	\$25,519	44%
Cash	5,695	11	6,295	10	6,035	10
In Kind	4,559	9	6,696	11	5,767	10
Other	17,272	34	23,446	37	20,763	36
Total	\$51,216	100%	\$63,365	100%	\$58,086	100%

Sources: Applications and Grantee Survey

Exhibit 5-4

Average Per Unit Budgets by Type of Cost

	Non Profit N=1,427	Public Agency N=1,875	All Grantees N=3,284
<u>Property Level Costs</u>			
Acquisition ¹	\$ 18,765	\$ 21,403	\$ 20,257
Rehabilitation ²	17,551	23,754	21,058
Other Property Related ³	<u>96</u>	<u>153</u>	<u>128</u>
Total Property Related	\$ 36,412	\$ 45,310	\$ 41,443
 <u>Program-Level Costs</u>			
Counseling ⁴	\$ 2,039	\$ 1,373	\$ 1,663
Grantee Training ⁵	106	70	85
Economic Development ⁶	390	692	561
Administrative & Legal ⁷	4,299	4,438	4,378
Other Activities ⁸	<u>1,608</u>	<u>1,912</u>	<u>1,780</u>
Total Program Level Costs	\$ 8,442	\$ 8,485	\$ 8,467
 <u>Homebuyer Assistance Costs⁹</u>	 \$ 6,361	 \$ 9,568	 \$ 8,176
 TOTAL	 <u>\$ 51,216</u>	 <u>\$ 63,365</u>	 <u>\$ 58,086</u>

¹ HOPE 3 Budget: Line Items 1 (acquisition) + 2 (closing costs)

² HOPE 3 Budget: Line Items 4 (rehab) + 5 (A&E) + 14b (infrastructure) + 14d (donated labor) + 14e (other in-kind)

³ HOPE 3 Budget Line Items 6 (permanent relocation) + 7 (temporary relocation)

⁴ HOPE 3 Budget Line Item 10 (homebuyer counseling)

⁵ HOPE 3 Budget Line Item 11 (applicant training)

⁶ HOPE 3 Budget Line Item 12 (economic development)

⁷ HOPE 3 Budget Line Item 8 (legal) + 9 (replacement reserve) + administration

⁸ HOPE 3 Budget Line Items 13 (other activities requiring HUD approval) + 15 (Activities funded from other contributions)

⁹ HOPE 3 Budget Line Item 3 (financial assistance) + 14a (foregone taxes) + 14c (debt forgiveness)

In considering overall HOPE 3 budgets, it is important to keep in mind a number of limitations about sources. First, the budget updates collected as a part of the grantee survey are self-reported, and, based on our experience at the 26 intensive study sites, probably understate the extent of change in grantee budgets. Although HUD monitors expenditures of HOPE 3 funds, the Department does not require updates to the overall budget or any documentation of total program costs unless they exceed thresholds. Thus, data to be collected as a part of this study (for the 26 sites) will provide the only source of data on total program costs.

By the same token, HUD cannot track completion rates in terms of total dollars expended. Since activities can be funded from a variety of sources, HOPE 3 expenditures alone are not an accurate measure of progress.² As a part of this study, we collected information on expenditures by source from the grantees as of early 1994. Exhibit 5-5 presents these data, both for all survey respondents and for the 26 intensive study sites. (Averages presented in this exhibit reflect the mean ratio of expenditures to budget across the grantees.) As shown, the average HOPE 3 grantee had expended 33 percent of its HOPE 3 funds as of the end of the first program year; by contrast the typical site had drawn down 22 percent of its cash match, 27 percent of in-kind expenditures, and 18 percent of its other funds. Overall, the average grantee had spent 31 percent of its total program budget.

Data for the subset of intensive study sites show larger budgets and expenditures on average, as well as higher expenditure ratios. This reflects both the fact that the study sample tends to include grantees with larger programs³ and the fact that three additional months of program experience are included (through March 1994). Among these sites, the average grantee had spent 40 percent of its HOPE 3 funds, and about 34 percent of its total budget. For the final report of this study, we will update budgets and expenditures for the 26 sites to reflect approximately two and a half years of program experience.

Some comments about the quality of the budget data are in order:

- The budgets prepared by the grantees appeared to use differing approaches about how to account for funds. Although most sites prepared what might be termed a "pro-forma" including in the "other" column interim loan funds (or sales proceeds) sufficient to complete the entire program, other sites included only those sources needed to produce a phase of work. This approach would understate total costs relative to other grantees.

² For example, many sites use their HOPE 3 money for acquisition, relying on other sources for rehab costs. Such a site may have drawn down virtually all of its HOPE funds, but may actually be only in the early stages of program implementation. Conversely, a site might choose to fund acquisition from other sources, using HOPE funds for rehab or other costs that occur later in the process. In this case, all properties could in fact be acquired, but no set ups would be needed until the grantee was ready to draw down HOPE funds.

³ Grantees in the intensive study sample were selected with probability proportional to size where size was measured as total program units.

Exhibit 5-5

Average Grantee Expenditures

All Grantees
(As of January 1994)

Source	Mean Amount Budgeted	Mean Amount Expended	Average Percentage Expended ¹
HOPE 3	\$ 844,445	\$ 287,525	33 %
Cash Match	196,910	49,784	22
In-Kind Match	194,968	37,664	27
Other Funds	672,364	99,228	18
Total Funds	\$ 1,908,740	\$ 485,032	31 %

Source: Grantee Survey

26 Intensive Sites
(As of March 1994)

Source	Mean Amount Budgeted	Mean Amount Expended	Average Percentage Expended ¹
HOPE 3	\$ 1,227,316	\$ 615,191	40 %
Cash Match	224,656	88,369	28
In-Kind Match	306,597	110,495	35
Other Funds	1,142,356	293,158	24
Total Funds	\$ 2,900,926	\$ 1,093,107	34 %

Source: Site Visits

¹ Average of site ratios.

This difference also has some impact on the projected size (in units) of the different programs and the "efficiency" criteria which HUD used in selecting grantees. While most grantees included in their unit count only those units which would be produced with an initial use of HOPE 3 funds, some based their unit production estimates on the use of sales proceeds as well — i.e., proceeds from the first units were used to finance the development of the subsequent units. The difference here is that the first group will still have sales proceeds to devote to future units, while the latter may not.

- Based on a review of the 26 budgets, we found that even as updated by the grantees, budgets were not always accurate. This was in part due to the constantly shifting nature of some grantees' programs, but also due to simple errors. For example, a reduction in the number of units to be produced might not have been accompanied by a reduction in match contributions that are clearly related to units (e.g. fee waivers or value of interest rate reductions). Many grantees also continued to include items under in-kind match (see below) that were clearly no longer part of their programs (e.g., donated properties from a source that had failed to materialize).

Overall, then, program budgets provide only a general guide to the overall costs of the HOPE 3 programs. The C/MI system is intended to capture property-related costs on an individual unit basis; however as described in Appendix A, inconsistent grantee reporting practices tend to undercut the accuracy of this source as well.

5.2 SOURCES OF MATCHING AND OTHER FUNDS

5.2.1 Matching Funds

HOPE 3 program rules require that grantees raise \$1 of non-federal matching funds for every \$3 of their HOPE 3 grant for FY 1992 and FY 1993 grantees (future grantees will have a \$1 to \$4 match.) Federal CDBG funds may be used only for administrative costs, and only for up to 7 percent of the value of the HOPE 3 grant. (Total HOPE 3 and match funds for administrative costs cannot exceed 15 percent of the HOPE 3 grant amount, and any administrative costs above 15 percent must be counted as "other" funds, as must all other federal funds except for the 7 percent administrative allowance.)

Exhibit 5-6 shows the average amount of expected matching funds based on the updated budgets collected as part of the grantee survey.⁴ As shown, the average amount of match expected by the grantees was \$11,802 per unit, including cash contributions of \$6,035 and in-kind contributions of \$5,767. Public agency budgets reflect higher expected per unit match

⁴ The intensive study sites updated their match information and expected units during the site visits, which were conducted in April and May 1994.

Exhibit 5-6

Matching Funds (Per Unit) by Grantee Type

Type of Matching Funds	Non-profit N=1,427	Public Agency N=1,857	Total N=3,284
Cash Match	\$5,695	\$6,294	\$6,035
In-Kind Match	4,559	6,696	5,767
TOTAL MATCH	\$10,254	\$12,990	\$11,802

Sources: Applications and Grantee Survey

(\$12,990) as compared to non-profits (\$10,254). This difference is consistent with the overall higher per unit budgets of the public agencies (\$63,365) relative to the non-profits (\$51,216). For both types of grantees, however, matching funds were about 20 percent of the total budget.

As noted previously, HOPE 3 grants averaged \$25,519 per unit. Thus, the average budgeted match is about \$1 for every \$2.16 of HOPE 3 money — well above the program requirement of \$1 in match for every \$3 of HOPE 3 funds. Public agencies showed slightly higher leveraging ratios than non-profits, raising \$1 of match for every \$2.02 of HOPE 3 funds, as compared to \$1 for every \$2.31 for non-profits. Public agencies also expected a higher fraction of match to be in the form of in-kind (rather than cash) contributions. Cash accounted for just under half (48 percent) of the public agencies' match, as opposed to 56 percent for non-profits.

Exhibit 5-7 shows the uses of matching funds, organized into property-related costs, various program-related costs, and the costs of providing financial assistance to homebuyers. As shown, matching funds averaged \$6,062 per unit for property-related costs (acquisition, rehabilitation, and related costs), \$1,751 per unit for program-level costs (including administration), and \$3,989 per unit for homebuyer assistance. Property-related expenses accounted for a higher fraction of matching funds for public agencies (54 percent) as compared with non-profits (46 percent), while financial assistance to homebuyers accounted for a higher fraction of match for non-profits (37 percent) than for public agencies (32 percent). Other program costs accounted for a similar fraction of matching funds among the two types of grantees.

In order to get a better understanding of the process of raising matching funds, grantees in the 26 intensive study sites were asked to provide details on their match — including changes relative to grant agreement, source of match (public or private), whether the match came from a new source of funds or one that they had used before, and whether the match was firmly committed or not.⁵

Among these 26 grantees, about half reported changes in their expected matching funds relative to grant agreement.⁶ Exhibit 5-8 shows that the average amount of expected match per unit rose from \$9,197 per unit (or \$507,253 per grantee) to \$10,750 per unit (or \$531,275 per grantee). Public agencies started out with higher expectations for match (\$10,684 per unit versus \$7,576 for non-profits), and, by the time of the site visits, the public agencies' expected match rose by about 29 percent, to an average of \$13,797 per unit. Expected match for the non-profits rose by only 2 percent to \$7,716 per unit. The large increase in matching funds for

⁵ Note that the amount of overall match per unit among the 13 intensive study public agencies (\$13,797) is similar to total for the full universe of public agency grantees (\$12,990). However, the average per-unit match among the 13 non-profits in the sample (\$7,716) is significantly lower than the overall average for non-profits (\$10,254).

⁶ At the time of the survey, only one fourth of grantees reported changes in their expected match. Thus, it is likely that our on-site presence and careful review of documents improved the quality of information provided.

Exhibit 5-7

Matching Funds (Per Unit) by Type of Cost

Activity Category	Non-Profit N=1,427		Public Agency N=1,857		Total N=3,284	
	Per Unit	Percent	Per Unit	Percent	Per Unit	Percent
Property Level Costs ¹	\$4,754	46%	\$7,071	54%	\$6,062	51%
Program Level Costs ²	1,676	16	1,805	14	1,751	15
Homebuyer Assistance Costs ³	3,824	37	4,114	32	3,989	34
TOTAL MATCHING FUNDS	\$10,254	100%	\$12,990	100%	\$11,802	100%

Sources: Applications and Grantee Survey

¹ HOPE 3 Budget Line Items 1,2,4,5,6,7,14b,14d, and 14e.

² HOPE 3 Budget Line Items 8,9,10,11,12,13,15, and administration.

³ HOPE 3 Budget Line Items 3, 14a, and 14c.

Exhibit 5-8

Anticipated Matching Funds at Grant Agreement and Interview

(26 Intensive Study Sites)

	Non-Profit Grantees		Public Agency Grantees		All Grantees	
	Grant Agreement	Survey	Grant Agreement	Survey	Grant Agreement	Survey
Total Matching Funds	\$5,197,215	\$4,969,297	\$7,991,354	\$8,843,854	\$13,188,596	\$13,813,151
Match Per Grantee	\$399,789	\$382,254	\$614,720	\$680,296	\$507,253	\$531,275
Match Per Unit	\$7,567	\$7,716	\$10,684	\$13,797	\$9,197	\$10,750

Source: Site Visits

public agency grantees is the result both of an increase in the total amount of funds to be provided (which rose by 11 percent) and a decrease in the number of units expected to be produced (which dropped by 14 percent). The slight increase in per-unit match for non-profits results from a small drop in expected funds (dropped by 4 percent), which was slightly more than offset by a decrease in expected units (dropped by 6 percent).

The change in expected funds for public agencies was concentrated in a few sites and funding sources. For example: one grantee had a decrease in expected donations of properties; another grantee lost an expected tax abatement; and one grantee lost an elderly grant. However, these losses of match sources were more than offset by new sources of match including the addition of cash for acquisition in one site and additional donated properties in another. Large reductions in expected program size occurred in two sites.

Several non-profits also experienced decreases in matching funds, including the loss of expected donated properties, and the loss of a cash grant that was targeted for acquisition. These losses were only partially offset by new match sources for property acquisition and interest reduction from a bank. Only one non-profit grantee had a substantial decrease in expected program size.

Exhibit 5-9 provides additional details on the sources and uses of matching funds among the 26 intensive study sites. As shown, more of the match funds (58 percent) were expected to be in the form of in-kind contributions as opposed to cash.⁷ On average, \$6,204 per unit was identified as in-kind contributions and \$4,546 was identified as cash match. Expectations regarding the proportion to come from cash versus in-kind were similar for public agencies and non-profits among the intensive study sites. The largest sources of cash match were state and local housing finance agencies and city agencies. In-kind match generally took the form of donated properties, tax abatements, and donated labor and services. The value of interest reduction on BMIR loans was sometimes reported as cash match and sometimes as in-kind match.⁸

One of the goals of requiring grantees to raise matching funds was to try to tap into new sources of funding for housing activities. Based on our site visits, we categorized about 63 percent of the match funds (\$6,781 per unit) raised by the sites as "new" sources, meaning that the grantee had not used this source of funding previously.⁹ About 32 percent of the funds were categorized as coming from previously used sources, and about 5 percent could not be classified during the visits. The extent to which new sources are being accessed as a result of HOPE 3 matching requirements varies across grantees, and, in some cases, reflects new revenue

⁷ Note that for the 101 site universe slightly more match will come from cash than from in-kind contributions.

⁸ Across all grantees, the amount of funds budgeted for interest reduction was 17 percent of the total match. However, this may understate the value of such contributions because some grantees reported the value of BMIR loans as "other" and some did not count this as a source at all.

⁹ Note, however, that for grantees with no prior housing rehab experience all sources are new by definition.

Exhibit 5-9

Characteristics of Matching Funds
(26 Intensive Study Sites)

By Type

Match	Non-Profit Grantees		Public Agency Grantees		All Grantees	
	Per Unit	Percent	Per Unit	Percent	Per Unit	Percent
Cash Match	\$3,115	40%	\$5,983	43%	\$4,546	42%
In-Kind Match	4,601	60%	7,814	57%	6,204	58%
TOTAL MATCH	\$7,716	100%	\$13,797	100%	\$10,750	100%

By Source

Match	Non-Profit Grantees		Public Agency Grantees		All Grantees	
	Per Unit	Percent	Per Unit	Percent	Per Unit	Percent
New Source	\$4,949	64%	\$8,632	63%	\$6,786	63%
Old Source	2,129	28%	4,810	35%	3,467	32%
Unknown	637	8%	355	3%	497	5%
TOTAL MATCH	\$7,716	100%	\$13,797	100%	\$10,750	100%

Sources: Site Visits

Exhibit 5-9
(continued)
Characteristics of Matching Funds
 (26 Intensive Study Sites)

Public vs. Private

Match	Non-Profit Grantees		Public Agency Grantees		All Grantees	
	Per Unit	Percent	Per Unit	Percent	Per Unit	Percent
Public Source	\$5,309	69%	\$11,730	85%	\$8,512	79%
Private Source	2,369	31%	1,707	12%	2,037	19%
Unknown	38	0%	360	3%	199	2%
TOTAL MATCH	\$7,716	100%	\$13,797	100%	\$10,750	100%

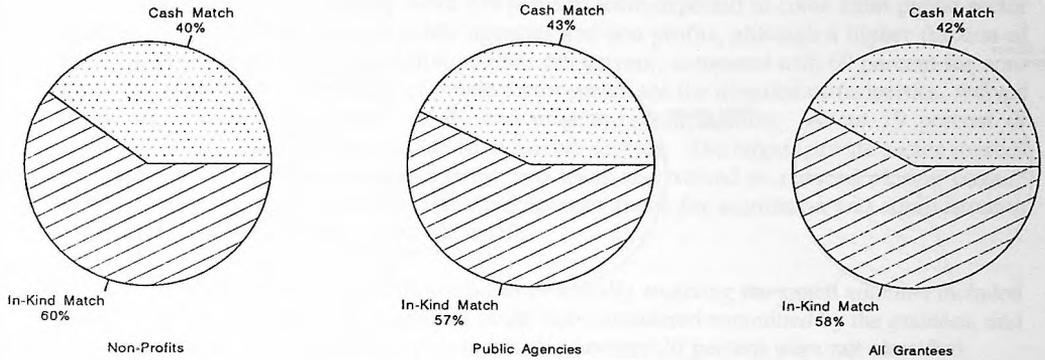
Committed vs. Not Committed

Match	Non-Profit Grantees		Public Agency Grantees		All Grantees	
	Per Unit	Percent	Per Unit	Percent	Per Unit	Percent
Committed	\$7,165	93%	\$9,815	71%	\$8,480	79%
Not Committed	194	3%	0	0%	98	1%
Unknown	357	5%	3,982	29%	2,166	20%
TOTAL MATCH	\$7,716	100%	\$13,797	100%	\$10,750	100%

Sources: Site Visits

Figure 5-9
 Characteristics of Matching Funds

Cash vs. In-Kind Match



New vs. Old Source

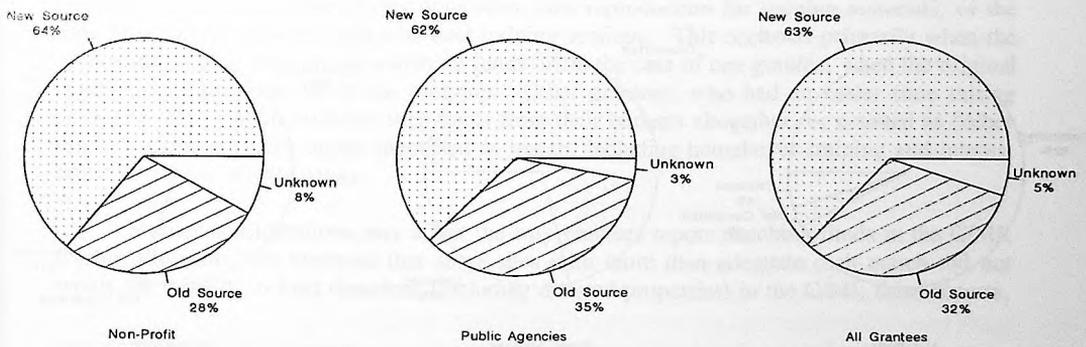
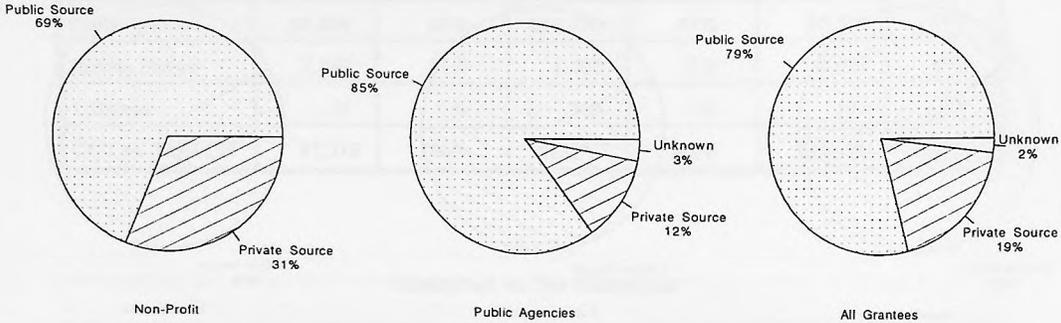
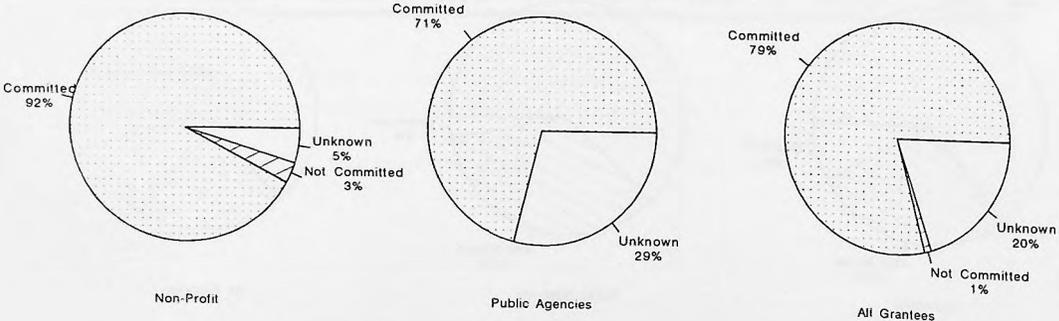


Figure 5-9 Characteristics of Matching Funds Continued

Public vs. Private Source



Committed vs. Not Committed



specifically earmarked for match. For example, the City of Tampa relied for part of its matching funds on revenues from a state transfer tax that was recently instituted specifically to help provide a source of non-federal match for programs such as HOME and HOPE 3. Tampa also used Urban Development Action Grants (UDAG) repayments as a major source of match. While the transfer tax funds had been earmarked for housing programs, the sponsor told us that the HOPE 3 program had been in competition with the police department for use of the UDAG money. Thus, in this site, HOPE 3 appeared both to leverage new sources of funds and to leverage funding that would not otherwise have been used for housing purposes.

The majority of matching funds (79 percent) were expected to come from public sector sources. This was true for both public agencies and non-profits, although a higher fraction of public agency match came from public sources (85 percent, compared with 69 percent for non-profits). The largest components of public sector match are the donation of properties, waived taxes, and cash for acquisition, rehab, and program administration. About 19 percent of matching funds were expected to come from private sources. The largest private sector sources are banks providing below market interest rate loans and waived or reduced closing costs.¹⁰ In the case of non-profit grantees, additional sponsor funds for acquisition and administration are another large component of private match.

Overall, grantees were fairly confident of actually receiving the match amounts included in their budgets. Seventy-nine percent of funds were considered committed by the grantees, and only one percent was identified as uncommitted. Another 20 percent were not classified.

It should be noted that developing complete and comparable data about matching funds across grantees is difficult because of inconsistencies in the way grantees understand and report sources and amounts of match. Although most grantees reported that they did not have trouble raising the required match funds (only 15 percent of surveyed grantees reported having difficulty in raising match), they often counted different items as match depending on the difficulty they had in meeting the program targets. For example, some grantees counted as match a wide array of minor items such as use of city dumpsters, free reproduction for training materials, or the time of volunteer professionals who lead training sessions. This occurred primarily when the grantee had a hard time raising matching funds or, in the case of one grantee, when the original match source dropped out of the program. Other grantees, who had an easier time raising sufficient match, often excluded such items from their budgets altogether, or counted as "other funds," items more commonly identified as match, including homebuyer training and interest reductions from private banks.

Similar considerations may affect the way grantees report matching funds in the C/MI. During site visits, we observed that some sites with more than adequate cash match did not report the value of in-kind donations (including donated properties) in the C/MI; these reports,

¹⁰ Private lenders provided slightly BMIR rates (and other concessions such as reduced closing costs) in 12 of the 26 sites. It appears that in the majority of these sites, these concessions were not negotiated specifically for HOPE 3, but rather were part of a pre-existing community lending initiative.

then, reflect only cash expenditures. Other sites were diligent about recording in-kind sources in their C/MI reports; here the data reflect both cash expenditures and the value of items that the grantee would otherwise have to purchase.

The C/MI provides property-level information on matching funds both at set up and at completion. However, several features of the C/MI system that may have been intended to simplify reporting hamper its use as an analytic tool. First, the C/MI records property-related costs only: there is no C/MI data on use of matching funds for program-related activities. Second, the C/MI reports include different items at different stages. In particular, at set up, grantees are required to submit to the C/MI information on planned *HOPE 3 and matching funds* (but not other funds) for three categories of property related expenses: acquisition, rehabilitation, and all other property costs (*including* homebuyer financial assistance and other property uses). At completion, grantees are required to submit to the C/MI reports on actual *HOPE 3, matching funds, and other* property costs by four categories: acquisition, rehabilitation, grantee transfer costs, and all other property costs (but this time *excluding* homebuyer financial assistance). These differences make it difficult to compare expected costs at set up with preliminary budgets, or total costs at completion with total costs at set up. The C/MI is, nevertheless, the only source of actual cost information available on HOPE 3 properties. Thus, below we present analyses of costs using the C/MI, subject to the caveats noted above.

Exhibit 5-10 shows expected matching funds at set up for each of the 1,682 properties set up in the C/MI as of May 1994. The exhibit shows that, on average, grantees expected to use \$11,330 of match per property. This is similar to the sum of property expenses and homebuyer assistance reported in the budgets presented in Exhibit 5-7 above (\$10,051). (However, these numbers may not be directly comparable because of different categorization of expenses in different systems; in addition, the properties set up thus far may not be representative of all properties reflected in grantee budgets.)

Among the properties set up in the C/MI, non-profit grantees planned to use more match money for property-related expenses compared with public agency grantees — an average of \$12,646 per unit for non-profit grantees, compared with \$10,309 for public agency grantees. (This is in contrast to the budgets and the information obtained in the site visits, both of which indicated lower match per unit among non-profit grantees. However, as noted above, the properties set up thus far may reflect a different mix of properties from the overall program).

Exhibit 5-11 shows actual reported costs by source for each of the 92 properties for which completion forms were submitted to the C/MI. The exhibit also shows expected costs at set up for these same 92 properties. We cannot compare *total* match at set up with total match at completion because, as described above, property costs at set-up include homebuyer assistance, while these costs are excluded at completion. However, we can compare *acquisition* and *rehabilitation* costs. The exhibit shows that grantees spent about as much match as planned at set up for acquisition: but spent less than planned for rehabilitation. At set up, grantees expected to use \$6,751 of match for acquisition and \$7,061 for rehabilitation. At completion,

Exhibit 5-10

Property Costs at Set Up
(C/MI Data as of May 1994)

	Non-Profit Grantee (N=735)			Public Agency Grantee (N=947)			Total (N=1682)		
	HOPE 3	Match	Total	HOPE 3	Match	Total	HOPE 3	Match	Total
Acquisition	\$15,461	\$4,602	\$20,063	\$14,283	\$3,680	\$17,963	\$14,797	\$4,083	\$18,880
Rehabilitation	9,562	5,411	14,973	10,357	3,851	14,208	10,010	4,533	14,543
All Other Costs	3,537	2,633	6,170	3,920	2,778	6,698	3,753	2,714	6,467
TOTAL	\$28,546	\$12,646	\$41,192	\$28,560	\$10,309	\$38,869	\$28,560	\$11,330	\$39,890

Source: HOPE 3 C/MI

Exhibit 5-11

Expected and Actual Property Costs for Completed Properties

(C/MI Data as of May 1994)

	HOPE 3	Match	Other	Total
At Setup (N=92)				
Acquisition	\$17,250	\$6,751	NA	\$24,001
Rehabilitation	7,397	7,061	NA	14,457
All Other Costs	4,939	2,941	NA	7,880
TOTAL	\$29,544	\$16,752	NA	\$46,296
At Completion (N=92)				
Acquisition	\$16,568	\$6,288	\$3,083	\$25,939
Rehabilitation	6,844	2,692	8,618	18,154
All Other Property Costs	500	1,569	813	2,882
Grantee Transfer Costs	401	229	134	764
TOTAL	\$24,313	\$10,778	\$12,648	\$47,739

Source: HOPE 3 C/MI

however, grantees reported spending an average of \$6,288 of match funds for acquisition and only \$2,692 for rehab. (Note that the 92 properties currently in the system represent only a small fraction of expected program output and are not representative of the program as a whole; for example, the 92 completed properties use more match funds, both for acquisition and for rehabilitation compared to the 1,682 properties in the system at set up.)

5.2.2 Sources of Other Funds

The "other funds" category in program budgets was meant to account for all program costs not covered by HOPE 3 or matching funds.¹¹ As shown in Exhibit 5-12, grantees budgeted on average \$20,763 in other funds per unit (\$23,445 for public agencies and \$17,272 for non-profits). Overall, other funds account for about 36 percent of total per unit costs (37 percent for public agency grantees and 34 percent for non-profits). The largest use of other funds was for rehabilitation, averaging \$9,065 per unit.

As with matching funds, in order to get a better understanding of how grantees characterized various costs, the 26 intensive study sites were asked to provide information on the sources and uses of these "other" funds. We also tried to get a full accounting of other funds so that total development costs could be compared across grantees.

Grantees included various items in their other funds category including: grantee development funds; extra CDBG money either for direct property expenses or for administrative costs above the 7 percent cap; the dollar values of construction loans; permanent homebuyer financing; homebuyer downpayments and other contributions; and, in some sites, sales proceeds, which are put back into the program. As noted previously, when grantees had sufficient matching funds, they sometimes counted match-eligible items as "other" funds.

The amount of "other" funds included in the intensive study sites' budgets at the time of the site visit was significantly higher than at grant agreement. Average expected funds rose from \$15,855 per unit to \$23,114 per unit. Although initial expectations for public agencies (\$19,308) were much higher than those of non-profits (\$12,090), by the time of the site visit, the expected amount of other funds rose even further for public agencies (to \$33,226 per unit). For the non-profits, by contrast, the expected amount of other funds stayed nearly constant at \$13,049 per unit. As with match funds, these changes result both from increases in funds and from decreases in the expected number of units to be produced. However, as compared with the changes in match, most of the increases reported in "other funds" *are not* new monies, but rather result from accounting adjustments to reflect funds that grantees had not originally reported — primarily construction and permanent financing loans that were left out of the original budgets.

¹¹ Our estimates of "other funds" per unit are based on updated grantee reports of both funds and units from the grantee survey. For the intensive study sites, estimates were updated again during the site visits.

Exhibit 5-12

**Sources and Amounts of Other Funds
Per Unit Program Budgets by Source**

All Grantees

Source	Non Profit		Public Agency		All Grantees	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
HOPE 3	\$23,686	46%	\$26,927	43%	\$25,519	44%
Cash	5,695	11	6,295	10	6,035	10
In Kind	4,559	9	6,696	11	5,767	10
Other	17,272	34	23,446	37	20,763	36
Total	\$51,216	100%	\$63,365	100%	\$58,086	100%

Sources: Applications and Grantee Survey

**Other Funds Per Unit For 26 Intensive Study Sites
(At Grant Agreement and at Site Visit)**

Fund Type	Non-profit Grantees		Public Agency Grantees		All Grantees	
	Grant Agreement	Site Visit	Grant Agreement	Site Visit	Grant Agreement	Site Visits
Permanent Funds	\$2,554	\$2,963	\$2,332	\$4,235	\$2,438	\$3,597
Loan Funds	9,536	10,086	16,976	28,991	13,417	19,517
TOTAL	\$12,090	\$13,049	\$19,308	\$33,226	\$15,885	\$23,114

Source: Site Visits

In order to better understand the nature of these funds, we divided all reported "other" funds into two categories: 1) funds that reflect permanent donations to the project (such as extra sponsor contributions and donated services) and 2) construction loans, lines of credit, and permanent financing for homebuyers. As shown in the bottom panel of Exhibit 5-12, the estimate of permanent funds for the intensive study sites rose relative to grant agreement. Initial expectations from public agency and non-profit grantees were similar. However, by the time of the site visit, the expected amount of permanent other funds being added rose substantially for the public agencies (to \$4,235 per unit) and only slightly for the non-profit grantees (to \$2,963).

The amount of loans counted as "other" funds also rose substantially relative to grant agreement, from \$13,417 per unit to \$19,517 per unit. This increase was also concentrated in the public agencies, where the average amount rose from \$16,976 per unit to \$28,991 per unit. The difference results from an increase of \$8.6 million in homebuyer loans counted in one site, offset only partially by a loss of \$4.0 million in rehabilitation loans in this same site. In another site, \$500,000 in rehabilitation loans were added to the budget, and in another, \$561,000 in permanent financing was added to the budget. Estimates for the non-profit grantees remained fairly constant at about \$10,000 per unit.

HUD does not require grantees to include amounts for "other" funds in their property set ups on the C/MI. The C/MI does, however, report on "other" funds at completion. Among the 92 complete properties, on average \$12,648 in other funds were used in each unit — \$3,083 for acquisition, \$8,618 for rehabilitation, and \$947 for all other property costs. Use of "other" funds for rehabilitation was in line with the original budgets (\$9,065 per unit), but use of this source for acquisition was lower than planned (\$6,925). (However, all C/MI data are subject to the caveats listed above.)

5.2.3 Impact of FHA Cost Limits on Property Expenditures

The HOPE 3 program limits the total amount of HOPE 3 and match funds that can be spent on a property to 80 percent of the local FHA mortgage limit. Any additional costs above the 80 percent limit must be from "other" sources as described in the previous section. Eighty percent of the FHA cost limit for the 101 continuing grantees, ranges from under \$75,000 (in 22 sites) to over \$100,000 (in 18 sites). The average cost limit is \$87,352.¹²

As part of the grantee survey, grantees were asked to provide cost and funding information for a typical property. Based on these model properties, it appears that the program cost limit is not constraining. Total acquisition and rehabilitation costs exceeded 80 percent of the local FHA limit in only 5 of the model properties (i.e., for 5 grantees). This is an upper bound on the potential number of grantees who might be constrained by the limit, because some

¹² Note: we use the FHA limit applicable to the location of the grantee. In some cases where grantees operate in more than one place, this limit may not be accurate for particular properties.

of these costs may be funded through other sources. For example, in at least one of these five cases, most property costs are for rehabilitation, which is funded through construction loans that are repaid from sales proceeds. These costs would be categorized as "other" and would not be subject to the 80 percent limit. Overall, among the model properties total acquisition and rehabilitation costs averaged only 62 percent of the applicable FHA cap. The average difference between total costs and the cap was \$32,890, and the median difference was \$32,496.

The C/MI does not accept set ups for properties where HOPE 3 and match costs for acquisition and rehabilitation exceed the local limit, thus we cannot assess with certainty whether the cost cap appears to be constraining.¹³ However, here too it appears that the 80 percent limit is not a constraint, because in most cases budgeted HOPE 3 and match costs were well below the limit. Only 35 (2 percent) of the properties set up as of May 1994 had HOPE 3 and match costs within 10 percent of their local cap (including 7 properties where the total HOPE 3 and match funds budget for acquisition and rehab exactly equalled 80 percent of the FHA limit). Total HOPE 3 and matching funds budgeted for acquisition and rehabilitation among the properties that have been set up averaged \$53,363 below the applicable limit, with a median of \$54,880 below the cap.¹⁴

Similarly, among completed properties, the total of reported HOPE 3 and match spending on acquisition and rehabilitation was well below the limit. Only 2 properties were within 10 percent of their allowed limit. Across all complete properties, total reported HOPE 3 and match spending on acquisition and rehabilitation averaged \$49,912 below the relevant limit, with a median \$47,815.

5.3 UNIT FINANCING AND AFFORDABILITY METHODS

The previous sections have discussed the sources and amounts of funding used to produce the HOPE 3 units and carry out other program activities. This section focus on the approaches the grantees use to make the units affordable for lower income households.

5.3.1 Planned Affordability Methods

Exhibit 5-13 provides information from the grantee surveys on the methods proposed by grantees for assuring the affordability of the HOPE 3 units. As indicated, the most common affordability strategies proposed were the provision of closing cost assistance (86 percent), downpayment assistance (79 percent), and mortgages with below market interest rates (61 percent). Nearly half (48 percent) of the grantees planned to sell units at prices below their fair

¹³ In fact, in only one of the properties thus far set up is the value of HOPE 3 and match dollars budgeted for acquisition and rehabilitation greater than 80 percent of the FHA cost limit.

¹⁴ Includes the 1,579 set ups where the sum of acquisition and rehabilitation costs is greater than zero.

Exhibit 5-13
Planned Affordability Strategies

Affordability Mechanisms¹

Strategies	Non-profit Grantees (N=45)		Public Agency Grantees (N=51)		All Grantees (N=96)	
	Number	Percent	Number	Percent	Number	Percent
Closing Cost Assistance	38	84%	45	88%	83	86%
Downpayment Assistance	34	76%	42	82%	76	79%
Below Market Interest Rate	25	56%	34	67%	59	61%
Reduction in Sales Price	22	49%	24	47%	46	48%
Deferred Loan Payment	18	40%	19	37%	37	39%
Sweat Equity	12	27%	9	18%	21	22%
Other Grants	6	13%	12	24%	18	19%

Source: Grantee Survey

Planned Loan Sources²

Loan Sources	Non-profit (N=45)		Public Agency (N=51)		Total (N=96)	
	Number	Percent	Number	Percent	Number	Percent
Conventional	28	62%	33	65%	61	64%
Hope 3 Direct Loan	19	42%	29	57%	48	50%
FHA, VA, FmHA Mortgage	14	31%	13	25%	27	28%
SHFA	12	27%	8	16%	20	21%
Local Government Loan	8	18%	8	16%	16	17%

Source: Grantee Survey

¹Multiple responses permitted.

²Multiple responses permitted.

market values, thus providing a writedown of the purchase price; and 39 percent planned to offer deferred payment loans to help buyers bridge the gap between the first mortgage and the purchase price. Less common strategies included the use of sweat equity (22 percent of grantees), cash grants (19 percent), and tax abatements (18 percent). It should be noted that most grantees indicated that two or three methods were being used simultaneously. Many grantees also marked multiple methods where different approaches could be used with different buyers.

In general, the affordability strategies identified by public agencies and non-profits were similar. However non-profits were slightly more likely to propose sweat equity, while public agencies were more likely to propose grants and below market interest rates.

Exhibit 5-13 also shows the sources of mortgage funding expected to be used by homebuyers. As shown, most grantees (64 percent) expected homebuyers to use conventional loans, but half expected to provide direct loans through the HOPE 3 grant. FHA, VA, and FmHA loans were considered a possible source of loans by 28 percent of grantees; about a fifth (21 percent) expected homebuyers to use state housing finance agency (SHFA) loans; and 17 percent expected buyers to use local government loans.¹⁵ Grantees reported that many private banks were offering HOPE 3 applicants slightly below market interest rate loans with reduced downpayments and closing costs. Based on observations at the 26 intensive study sites, the majority of such loans were provided as part of a larger community lending initiative, often spurred on by Community Reinvestment Act requirements. Thus, many of the HOPE 3 sites benefitted from the broader trend towards community lending, in addition to those sites that were able to *negotiate* favorable terms specifically for HOPE 3 .

In the survey, grantees were asked to provide an example of the full costs of developing a typical property, plus a detailed breakdown of homebuyer financing. The majority of respondents (80 of 94 who provided examples) provided information for a three bedroom unit. Exhibit 5-14 shows the financing for these model three bedroom units.

As shown in the exhibit, grantees typically expected to spend more on these "typical" properties than they would recoup from sales. The average grantee expected to spend \$57,735 for acquisition, rehab, and other property costs, and to sell the properties for \$48,915. Across all grantees, 76 percent expected to sell properties for less than they needed to spend on them; 24 percent, however, were able to set sales prices above their cost to complete. As noted above, many grantees also sold the units below their fair market values: the average sales price of the properties was \$48,915, as compared to an average fair market value (based on appraisal) of \$52,977.

Total costs to the homebuyer averaged \$53,289 per unit. This includes acquisition costs of \$48,020, separate rehabilitation costs of \$3,308, and closing costs of \$1,961. A total of fourteen grantees expected homebuyer rehabilitation to occur after purchase, averaging \$18,662

¹⁵ Most grantees listed more than one source.

Exhibit 5-14

Sample Costs for Three-Bedroom Units

Cost Type	Non-Profit (N=36)	Public Agency (N=44)	Total (N=80)
Grantee Costs to Acquire	\$25,926	\$24,193	\$24,973
Rehab Costs	25,780	26,446	26,147
All Other Costs	6,024	7,098	6,615
TOTAL GRANTEE COSTS	\$57,730	\$57,737	\$57,735
SALES PRICE OF HOME	\$50,975	\$47,191	\$48,915
MARKET VALUE AT TRANSFER	\$54,326	\$51,847	\$52,977
Homebuyer Acquisition Costs	\$50,854	\$45,647	\$48,020
Homebuyer Rehab Costs	1,792	4,576	3,308
Homebuyer Closing Costs	2,178	1,779	1,961
TOTAL HOMEBUYER COSTS	\$54,824	\$52,005	\$53,289
SOURCE OF HOMEBUYER FINANCING			
Downpayment			
Homebuyer Cash	\$995	\$848	\$915
Downpayment Assistance	\$1,611	\$1,498	\$1,549
Closing Costs			
Homebuyer Cash	\$381	\$418	\$401
Closing Cost Assistance	1,201	1,317	1,264
Amortizing Loans	45,369	40,106	42,504
Deferred Loans	3,874	7,129	5,646
Grants	1,403	69	1,019
TOTAL HOMEBUYER FINANCING	\$54,834	\$51,385	\$53,298

Source: Grantee Survey

per rehabilitated property, or \$3,308 across all properties. Closing costs averaged 4 percent of purchase price.

The bottom portion of the exhibit shows how homebuyers were expected to finance the units. Downpayments averaged \$2,464, or 5 percent of the purchase price. However, most buyers received some form of downpayment and/or closing cost assistance. Homebuyers were expected to pay on average \$915 of their own money towards the downpayment. Similarly, homebuyers were expected to pay \$401 of the total closing costs (\$1,665) from their own money. The remainder of the property costs were covered from amortizing loans (averaging \$42,504 per homebuyer) and deferred payment loans (averaging \$5,646 per homebuyer).

Grantee and total homebuyer costs were similar across grantee types in these model properties. Public agencies expected to sell the properties at a lower cost, but to require more homebuyer rehabilitation after sale, so that total homebuyer costs were similar. In terms of homebuyer financing, non-profits expected to offer more grant money on average (\$1,403 compared to \$69) and smaller deferred payment loans (\$3,874 compared to \$7,129).

Exhibit 5-15 summarizes the sources of subsidy for these model properties. As shown, nearly half (49 percent) were to be sold at prices below their fair market values. Among those properties to be sold at below fair market values the discount averaged \$10,881 or 19 percent. Thirty-nine percent of the model properties included deferred payment loans, averaging \$14,388 per loan. Over half the grantees planned to offer downpayment assistance, averaging \$2,080, and closing cost assistance, averaging \$2,720. Eight grantees offered cash grants averaging \$10,062. Another important source of assistance is a below market interest rate loan. As shown in the exhibit, the average interest rate expected for the sample properties was 6.54 percent (median 7 percent). The expected interest rate was below 8 percent for 86 percent of the model properties.

5.3.2 Actual Experience to Date

The C/MI allows us to track the use of certain affordability strategies for units transferred to date. In particular, the system reports on the sales price of the units, fair market value, value of any grants received, and the amount of any deferred payment loans (DPLs). The system reports only one number for total monthly payments for principal, interest, taxes, and insurance, and does not provide any information on interest rates. Thus, we cannot assess the extent to which below market interest rates are used, or whether property tax abatements are offered.

Exhibit 5-16 provides details on average financing terms for the 211 (non-lease purchase) units transferred as of May 4, 1994. The exhibit shows that total homebuyer financing averaged \$50,932 per unit. (This is consistent with the model properties discussed above, where homebuyer financing averaged \$53,298.) Among C/MI properties, 29 percent of homebuyer financing came from HOPE 3 funds, 21 percent came from other public sources, and half of all homebuyer financing came from private funds. The vast majority of homebuyer financing (83

Exhibit 5-15
Affordability Strategies Used
for Sample Three-Bedroom properties
(N=80)

	Number	Percent	Average Value (All Units)	Average Value (When Used)
Reduction in Sales Price (as a percent of sales price)	39	49%	\$4,062 (8%)	\$10,881 (19%)
Closing Cost Assistance	45	56	1,264	2,080
Downpayment Assistance	48	60	1,549	2,720
Other Grants	8	10	1,019	10,062
Deferred Loan Payment	31	39	\$5,646	\$14,388
Interest Rate				
0%	2	3		
>0-<6%	17	22		
6%-<7%	14	18		
7%-<8%	35	44		
8%+	11	14%		
Mean		6.54%		
Median		7.00%		

Source: Grantee Survey

Exhibit 5-16
Average Homebuyer Financing Information
 (C/MI Data as of May 1994)
 N=211

HOPE 3 Funds	
Grant	\$1,078
DPL	\$4,633
Direct loan	\$9,034
Subtotal	\$14,745
Other Public Funds	
Grant	\$369
DPL	\$21
Direct loan	\$9,484
Subtotal	\$10,495
Private Funds	
Homebuyer Cash	\$1,411
Homebuyer Sweat Equity	\$6
Private Grant	\$337
Private Loan	\$23,938
Subtotal	\$25,692
Total Financing	\$50,932

Source: HOPE 3 C/MI

percent) was in the form of direct loans (\$9,034 in HOPE 3 loans; \$9,484 in loans from other public sources; and \$23,938 in private loans). Deferred payment loans (DPLs) accounted for 9 percent of financing (\$4,633 in HOPE 3 DPLs and \$21 in DPLs from other public sources). Grants from all sources accounted for four percent of financing, and homebuyer contributions (cash and sweat equity) accounted for three percent of total financing.

Exhibit 5-17 shows the specific affordability strategies used in the 211 properties transferred. The exhibit shows that nearly half (47 percent) of these properties were sold to homebuyers at a price below fair market value. The average savings to the homebuyer among properties sold below fair market value was 20 percent. (Again, these numbers are similar to the model properties, where 49 percent were expected to be sold below fair market value, with an average savings of 19 percent.)

Grants were provided for 44 percent of the C/MI properties, averaging \$4,048 per grant for those properties where grants were provided. (It is difficult to compare this number directly with the model properties, because the model requested separate details on closing costs, down payment assistance, and other costs, while the C/MI separates grants by source — i.e., HOPE 3, other public funds, and private funds — rather than by use.) Forty two percent of homebuyers received deferred loans averaging \$11,034 per loan. (These numbers are similar to the model properties where 39 percent were expected to include deferred loans averaging \$14,388 per loan.) Finally, for C/MI properties, the most common sources of financing for HOPE 3 buyers were from conventional banks (39 percent), FHA, VA and FmHA loans (36 percent), and HOPE 3 loans (27 percent).¹⁶

5.3.3 Use of Lease Purchase and Sweat Equity

In the grantee survey, 23 grantees (10 public agency and 13 non-profits) reported that they expected to offer homes under a lease-purchase arrangement. However, based on information obtained during the site visits, it appears that lease-purchase arrangements are generally not the primary program model in most programs, but may be offered as an option in selected cases. Of the 229 units transferred to homebuyers as of the C/MI date, only 18 used a lease purchase arrangement, and these were concentrated in three sites.

In the survey, 21 grantees (9 public agency and 12 non-profit) said they expected to require some input of sweat equity by homebuyers. Again, based on the site visits, sweat equity appears to play an important role in several programs where it is required. In others, however, it may be offered in more limited circumstances. Of the 229 units transferred to homebuyers as of May 1994, only one reported the use of sweat equity, valued at \$1,350.

¹⁶ Multiple sources of financing were often used.

Exhibit 5-17
Affordability Strategies Used For Transferred Properties
 (C/MI Data as of May 1994)
 N=211

Affordability Mechanisms

Strategies	Number	Percent	Average Value Overall	Average Value When Used
Reduction in Sales Price (As a Percent of Sales Price)	100	47%	\$5,207 (9%)	\$11,046 (20%)
Sweat Equity	1	0	\$6	\$1,350
Grants	93	44	\$1,784	\$4,048
Deferred Payment Loan	89	42%	\$4,654	\$11,034

Source: HOPE 3 C/MI

Homebuyer Financing Sources

Sources	Used In Transferred Properties	
Hope 3 Direct Loan	56	27%
FHA, VA, FmHA Mortgage	75	36
SHFA	22	10
Conventional Loan	82	39
Other (RTC, Local Government)	14	7%

Source: HOPE 3 C/MI

5.3.4 Use of Promissory Notes

The HOPE 3 program limits the potential for windfall profits for homebuyers who sell their homes within 20 years. At the time of the original purchase, homebuyers sign a promissory note for the value of any discounts on the purchase price, downpayment assistance, grants, and interest-free loans, if the sum of all these forms of assistance is at least \$4,000. Homeowners who sell their properties in the first six years are entitled only to a return of their equity. In years 7 through 20, sellers must return a portion of the promissory note upon sale. The amount owed declines equally each year.

In the model properties described above, 49 of 74 (66 percent) responding grantees reported that they would use promissory notes, averaging \$17,964 per note. Based on our review of the survey results with the sample of 26 intensive study sites, it is apparent that there was some confusion on the part of grantees about the promissory note requirements. For example, at least 7 grantees initially included the homebuyer's mortgage as part of the promissory note. Our discussions with these grantees during the site visit confirmed that in most cases this was due to a misunderstanding of the note requirements. However, in one site that provided all of the homebuyer purchase and rehabilitation financing through below market interest rate (BMIR) city loans and deferred payment loans, the entire purchase price as well as rehabilitation costs were correctly counted as part of the promissory note.

In 23 of 74 responding sites, total subsidies were less than or equal to \$4,000 per unit, and a promissory note was therefore not required.¹⁷ Ten of these sites nevertheless reported requiring a promissory note. In three of these 10 sites, the promissory note equalled the total estimated subsidies, in 2 sites the note was for less than the calculated subsidy, and in 5 sites it was for more than the calculated subsidy. Among the 51 sites that provided subsidies totalling at least \$4,000, 39 required a promissory note and 12 did not. Among the 39 that required a promissory note, 10 required notes that equalled the subsidy, 7 required smaller notes, and 22 required larger notes.

Based on the homebuyer financing information from the C/MI it appears that grantees continue to have different understandings of the promissory note requirements. Among the 211 transferred properties, 136 provided subsidies totalling over \$4,000.¹⁸ Promissory notes, averaging \$15,000, were required on only 108 of these properties.¹⁹ The promissory note was for less than the value of the subsidy in 16 properties, equalled the subsidy in 31 and was higher than the subsidy in 61 properties. By contrast, calculated subsidies totaled \$4,000 or less in 75

¹⁷ Total subsidies were counted as the sum of the reduction in sales price relative to fair market value, plus closing cost assistance, plus downpayment assistance, plus other grants, plus deferred payment loans.

¹⁸ Subsidies were calculated as the sum of the reduction in price relative to fair market value plus all grants plus deferred payment loans.

¹⁹ Over half of the 28 properties with subsidies over \$4,000 and no promissory note are located in one site. The grantee provided DPLs of \$7,500 for each homebuyer but only 2 of 17 transfer forms listed a promissory note.

of the transferred properties, but fourteen of these 75 properties included promissory notes, averaging \$12,614.

5.4 AFFORDABILITY OUTCOMES AND CHARACTERISTICS OF BUYERS

Based on C/MI data, the HOPE 3 program appears to be meeting its goal of providing low and moderate income households with the opportunity to buy affordable homes. As shown in Exhibit 5-18, household income of the first 211 homebuyers averaged \$19,740 per year (or \$1,645 per month), with a median of \$18,996. The average market value of the first 211 units transferred was \$53,477, with over half (54 percent) of all homes valued at between \$40,000 and \$60,000. The average sales price was \$48,292. Monthly homebuyer payments for principal, interest, taxes, and insurance (PITI) averaged \$383 per month with a median of \$365. All homebuyers paid between 20 and 30 percent of income for PITI, as required by program rules. The mean payment was 23.5 percent of income, and the median was 22.8 percent.

Most homebuyers (65 percent) had incomes in the range of 50 to 80 percent of the local area median. The remaining 35 percent had incomes lower than 50 percent of median. Exhibit 5-18 compares the affordability characteristics for these two groups of homebuyers. As shown, in addition to having higher incomes, households in the upper income range bought more expensive homes (and paid more for them) compared with households in the lower income range. Households with incomes in the 50 to 80 percent of median range paid on average \$50,807 for homes worth on average \$56,834. Those with incomes below 50 percent of the local median paid on average \$43,737 for homes worth on average \$47,391.

Although sales prices and monthly payments were higher for the upper income group, all HOPE 3 homebuyers paid a similar portion of income for PITI. Households with incomes in the 50 to 80 percent of median range paid on average 23.3 percent of income for PITI. The very low income homebuyers paid on average 24.1 percent of income for PITI.

5.4.2 Program Beneficiaries

The HOPE 3 program requires that purchasers of units be low income (that is, have incomes below 80 percent of median for their household size) and that they be first time homebuyers. The program also requires preference for residents of public housing and graduates of self sufficiency programs.

Among the 26 intensive study sites, 23 provided information on the "target buyers" identified by their programs. The vast majority expected homebuyers to have incomes between 50 to 80 percent of local area median. Only one grantee expected homebuyers to have incomes between 30 to 50 percent of area median. Several of the grantees reported that initially they had hoped to target lower income homebuyers, but because of higher than expected costs they now anticipated recruiting slightly higher income buyers. However, one site reported that in order

Exhibit 5-18
Affordability Characteristics by Homebuyer Income
(C/MI Data as of May 1994)

	Very Low Income Buyers (Income <50% of Area Median)	Lower Income Buyers (Income 50-80% of Area Median)	All Buyers
Homebuyers	N=75	N=136	N=211
Annual Income			
\$5,000- <\$10,000	9%	0%	3%
\$10,000- <\$15,000	39%	6%	18%
\$15,000- <\$20,000	45%	32%	37%
\$20,000- <\$25,000	5%	32%	23%
\$25,000- <\$30,000	1%	18%	12%
\$30,000- <\$40,000	0%	11%	7%
Mean Annual Income	\$15,296	\$22,190	\$19,740
Median Annual Income	\$15,252	\$21,360	\$18,996
Sales Price			
\$20,000- <\$40,000	35%	27%	30%
\$40,000- <\$60,000	55%	49%	51%
\$60,000- <\$80,000	11%	18%	16%
\$80,000- <\$100,000	0%	5%	3%
Mean Sales Price	\$43,737	\$50,807	\$48,292
Median Sales Price	\$43,526	\$47,750	\$46,000
Fair Market Value			
\$20,000- <\$40,000	31%	23%	26%
\$40,000- <\$60,000	57%	51%	54%
\$60,000- <\$80,000	8%	11%	10%
\$80,000- <\$100,000	0%	3%	2%
\$100,000- <\$125,000	4%	12%	9%
Mean Fair Market Value	\$47,391	\$56,834	\$53,477
Median Fair Market Value	\$45,100	\$50,000	\$47,825
Monthly PITI			
\$100- <\$200	9%	0%	3%
\$200- <\$300	37%	10%	19%
\$300- <\$400	40%	38%	38%
\$400- <\$500	13%	29%	24%
\$500- <\$600	0%	15%	9%
\$600+	0%	9%	6%
Mean Monthly PITI	\$304	\$426	\$383
Median Monthly PITI	\$306	\$403	\$365
Monthly PITI as % of Monthly Income			
20%	16%	17%	17%
>20%-22%	21%	26%	24%
>22%-24%	16%	20%	18%
>24%-26%	11%	15%	13%
>26%-28%	16%	14%	15%
>28%-<30%	19%	7%	11%
30%	1%	1%	1%
Mean Monthly PITI Percent	24.1%	23.3%	23.5%
Median Monthly PITI Percent	23.6%	22.6%	22.8%

to meet the minimum PITI to income ratio of 20 percent, they actually had to target households with lower incomes than initially planned because of the very low property values in that city.

The C/MI provides information on actual HOPE 3 homebuyers including monthly income, race of head of household, household type, and household size. As of May 1994, the C/MI contained information on 211 households that had purchased properties. Below we describe the characteristics of these households. It is important to remember, however, that these numbers reflect the buyers to date and are not necessarily reflective of all of the buyers who will ultimately benefit from the program.

- As described above, the majority of purchasers (65 percent) had incomes that were between 50-80 percent of the area median. The remaining 35 percent had incomes that were below 50 percent of the area median.
- The majority of units sold were 3 bedroom units (63 percent). Twenty-one percent were 2 bedroom units, and 12 percent were 4 bedroom units.
- The largest group of purchasers were African American, representing 46 percent of program buyers. Whites represented 38 percent of buyers, and Hispanics represented 15 percent.
- Nearly half of all households (48 percent) who bought HOPE 3 units were single parent families; 37 percent were two-parent families; 2 percent were elderly; and the remaining 12 percent were listed as other.
- Most homebuyers were in families with two (22 percent), three (21 percent), or four (23 percent) people. Single person households represented 16 percent of homebuyers.²⁰

5.5 DEPTH OF SUBSIDIES AND PROGRAM OBJECTIVES

Although all of the HOPE 3 programs must adhere to a consistent set of affordability goals (based on buyer incomes and PITI ratios), the mechanisms and approaches that the grantees use to achieve these goals are varied. Much depends on the market in which the program operates. However, the program's objectives (for instance, whether they have community development as well as affordability goals) also have an impact on the approach selected. This section focuses on the general types of strategies adopted by the grantees, based on the 26 sites included in the intensive study sample.

²⁰ Note: this is slightly inconsistent with the household composition data, where only 14 percent were elderly or other, the only categories that could include single person households.

Exhibit 5-19 shows several dimensions that characterize the programs of the intensive study sites. Grantees are listed in order of total subsidy amount, as described below. Overall the 26 intensive study sites administer 37 different program components. As discussed in Chapter 4, the vast majority of grantees (21) have a single program design; however 2 sites (Tampa Bay CDC and Human Action for Chandler) administer two different program components each, and 3 sites (Tarrant County Housing Partnership, Minneapolis CDA, and the City of Tucson) each run four separate program components involving different program designs and different partners. The exhibit breaks out the separate program components for each site.

The most common model among the 37 different programs is for the grantee to acquire the property, rehabilitate it, and then sell it to a qualified homebuyer. This model is identified as "acquisition/rehab" in column 2 of Exhibit 5-19. Overall, 21 of the 37 program components follow this approach. The next most common model — identified as "rehab after sale" — reverses the sequence: first the property is transferred to the new homebuyer, and then it is rehabilitated (9 programs). In all but one case, however, the program retains control over the rehabilitation work with only limited input by the homebuyer. As such, the approach is indistinguishable in effect from the basic acquisition/rehab model.

A final variant is the direct purchase model, wherein the homebuyer selects and purchases the unit, with only financial assistance from the program (i.e., the grantee never takes possession). Seven direct purchase program components are offered by the grantees. In three of these programs, however, the direct purchase appears to be something of a technicality, since the grantee provides rehab loans and in some cases rehab is managed by the grantee. In the other four program components, the HOPE 3 program is mainly a facilitator in a direct purchase, providing counseling and downpayment and closing cost assistance only. Column 2 distinguishes between direct purchase with grantee rehab and those direct purchase programs where the grantee is not involved in rehab.

The third through fifth columns of the exhibit indicate whether the grantee selects properties using specific criteria as opposed to selecting properties based on availability and/or cost. Five grantees said they select properties with the goal of stabilizing a particular neighborhood or selected strategic properties to stabilize specific blocks in a neighborhood. Another five grantees choose properties that require minimal rehabilitation, and seven grantees said that homebuyers select their own properties (in 9 programs). The latter group includes most of the direct and facilitated purchase programs.

The sixth through 12th columns of the exhibit describe the subsidies involved in the property. The sixth column shows whether the grantee expects to invest more in the property than its after-rehab fair market value. This is a subsidy or writedown that stays in the property, although it does not accrue directly to the homebuyer. (It is not included as part of the promissory note.) This strategy is often adopted in programs that have a goal of neighborhood improvement (NYC, Manna, and Operation Impact) and also often results in higher levels of overall grantee subsidies (see below).

Grantee Development Models and Subsidy Approaches

Grantee/Program	Development Model	Acquisition Strategy			Subsidy Mechanisms/Levels						(11) Homebuyer Subsidies	(12) Total Subsidies	
		(3) Target Nbrhd or Block Improve	(4) Low Rehab Needed		(5) Buyer Selects	(6) Sell Below Cost	(7) Sell Below FMV	(8) High Cash/ DPL	(9) Low Cash/ DPL	(10) Grantee Costs Minus FMV			
			(1) (1)	(2) (2)									(3) (3)
HOMeward BOUND, PHOENIX AZ*	Acq/rehab			X					X		NA	NA	NA
CITY OF TUCSON 4*	Acq/rehab										NA	NA	NA
CITY OF BUFFALO	Rehab after sale										NA	NA	NA
TAMPA BAY CDC 1*	Acq/rehab								X		(\$3,000)	\$1,650	(\$1,350)
TAMPA BAY CDC 2	Direct Purchase			X					X		\$0	\$2,336	\$2,336
HUMAN ACTION FOR CHANDLER AZ 2 (CHRB)	Direct Purchase			X					X		\$0	\$2,700	\$2,700
TARRANT CITY HSG PARTNERSHIP: 4 (Ft Worth)	Rehab after sale								X		(\$3,925)	\$6,140	\$2,215
CITY OF TULSA	Rehab after sale			X					X		\$0	\$3,600	\$3,600
TARRANT CITY HSG PARTNERSHIP: 2 (TCHP)	Direct Purchase			X					X		\$0	\$4,000	\$4,000
TARRANT CITY HSG PARTNERSHIP: 3 (Ft Worth)	Direct Purchase			X					X		\$0	\$4,000	\$4,000
CITY OF PORT ARTHUR, TX	Rehab after sale	X							X		\$10,000	\$11,000	\$1,000
MENNONITE HOUSING REHABILITATION SERVICE	Acq/rehab								X		(\$2,210)	\$12,497	\$10,287
NHS OF BIRMINGHAM	Acq/rehab			X					X		\$458	\$10,285	\$10,743
TARRANT CITY HSG PARTNERSHIP 1 (TCHP)	Rehab after sale			X					X		(\$2,000)	\$13,900	\$11,900
COLUMBUS HOUSING PARTNERSHIP	Acq/rehab			X					X		\$0	\$12,941	\$12,941
ORANGE CITY FLA DEPT. OF HOUSING AND DEV.	Acq/rehab								X		(\$4,928)	\$17,672	\$12,744
CITY OF LUBBOCK	Rehab after sale								X		(\$2,500)	\$16,500	\$14,000
BRIDGETON HOUSING DEVELOPMENT CORP.	Acq/rehab			X					X		(\$10,699)	\$25,000	\$14,301
WOMEN'S DEVELOPMENT CENTER, LAS VEGAS	Direct Purchase w/ rehab			X					X		\$0	\$14,743	\$14,743
CITY OF AUSTIN	Acq/rehab								X		\$11,800	\$3,008	\$14,808
CITY OF TUCSON 1 (Urban League)	Rehab after sale								X		\$0	\$15,000	\$15,000
CITY OF TOPEKA	Rehab after sale			X					X		(\$1,250)	\$14,000	\$15,250
CITY OF TAMPA	Acq/rehab								X		(\$3,700)	\$19,200	\$15,500
CITY OF TUCSON 2 (Primavera)	Acq/rehab								X		\$13,452	\$2,314	\$15,766
WESTERN MARYLAND INTERFAITH HOUSING DEV.	Acq/rehab								X		\$16,000	\$1,500	\$17,500
MINNEAPOLIS 3 (CDA)	Direct Purchase w/ rehab								X		\$0	\$11,455	\$11,455
CITY OF YAKIMA	Acq/rehab			X					X		(\$2,502)	\$20,617	\$18,115
MINNEAPOLIS 4 (CDA - Habitat)	Acq/rehab								X		\$0	\$20,000	\$20,000
HUMAN ACTION FOR CHANDLER, AZ 1 (HAC)	Acq/rehab			X					X		\$6,562	\$15,200	\$21,762
HOMESTEADING & URBAN REDEVELOPMENT, CINCINNATI	Acq/rehab								X		\$22,000	\$0	\$22,000
CITY OF TUCSON 3	Direct Purchase w/ rehab								X		\$0	\$35,200	\$35,200
MINNEAPOLIS 1 (CDA - HOV)	Acq/rehab			X					X		\$25,000	\$10,500	\$35,500
MINNEAPOLIS 2 (CDA - URH)	Rehab after sale								X		\$30,893	\$15,730	\$46,623
OPERATION IMPACT, ST LOUIS	Acq/rehab			X					X		\$48,902	\$1,500	\$50,402
CITY OF TRENTON	Acq/rehab								X		\$52,000	\$1,500	\$53,500
MANNA INC. WASHINGTON DC	Acq/rehab			X					X		\$28,800	\$25,000	\$53,800
N.Y.C. DEPT. OF HOUSING PRES. AND DEVELOP.	Acq/rehab			X					X		\$25,000	\$60,000	\$85,000

Grantee Cost Exceeding FMV = Grantee Cost – FMV

Homebuyer Subsidies = (FMV – Sales Price) + Grants + DPLs

Total Subsidies = (Grantee Cost – FMV) + (FMV – Sales Price) + Grants + DPLs

Subsidies do not include value of reduced interest, nor the value of waived fees. DPLs are counted as subsidy whether or not forgiven.
 * Programs using lease purchase.

While not all grantees invest more in the properties than they are worth (and in fact some grantees are able to produce the units for less than their fair market values), virtually all of the grantees provide some form of direct subsidy to homebuyers. These homebuyer subsidies may include sale of the unit at a price that is below its fair market value (shown in column 7) and/or financial assistance in the form of cash grants and deferred payment loans. Columns 8 and 9 show these latter forms of assistance, indicating whether the total direct subsidy is high (over \$10,000) or low (under \$10,000).²¹ The final 3 columns of the exhibit present the dollar values of unit subsidies. These include the difference between grantee cost and the units' fair market value (Column 10), the direct subsidies to buyers (column 11), and net total subsidies (column 12). The programs are listed in order of total subsidy amount.

As suggested earlier, the programs that include neighborhood or block improvement as a goal are (with one exception) among the sites with the highest overall subsidy levels. In contrast, some of the direct purchase programs (those involving no rehab) typically offer among the lowest subsidies overall. Direct purchase programs (with rehab) involve more substantial subsidies, ranging from about \$15,000 in Las Vegas to \$35,000 in Minneapolis. The site with the lowest overall subsidy was Tampa Bay CDC, where the grantee is able to make a small profit on most units and also provides very modest levels of assistance. The site with the highest overall subsidy level is New York City, where the grantee invests \$25,000 more than the fair market value to complete the unit, sells the unit for some \$55,000 less than the fair market value, and also provides \$5,000 in additional assistance to the buyer.

²¹ Note that the figures presented here are conservative estimates, because they do not include the value of waived taxes, or the value of reduced subsidies when BMIR loans are offered.

CHAPTER 6

PROGRAM MANAGEMENT AND CAPACITY BUILDING

This chapter focuses on how local HOPE 3 programs are being staffed and managed. We begin with a review of staffing patterns and technical assistance needs, based largely on the data collected for the 26 intensive study sites. The final sections of the chapter examine staffing and training issues from the perspective of how the HOPE 3 program may contribute to increased housing capacity on the part of non-profit organizations. The information presented here is preliminary and will be updated in the Final Report of the study.

6.1 LOCAL PROGRAM ADMINISTRATION

6.1.1 Staffing Patterns

Based on data collected through the grantee survey, the HOPE 3 grantees spent an average of 3.1 Full Time Equivalents (FTE)¹ to carry out the first year of HOPE 3 grant activities. As shown in Exhibit 6-1, although the total amount of staff time devoted to the program was, on average, the same for both non-profits and public agencies, the allocation of staff time differs between the two groups. While public agency grantees tended to split staff time evenly between agency staff and the staff of their non-profit partners, very little of the staff time reported for non-profit grantees was derived from public agency staff. This is due to the fact that the majority of non-profit grantees had no cooperating partners (see Chapter 4), and when they did, these partners were often other non-profit entities.

When the number of individual staff persons working on HOPE 3 is examined, other differences emerge. Across all sites during the first year of the program, an average of 8.5 different individuals worked on HOPE 3 program activities in order to generate the 3.1 FTE discussed above. However, public agency grantees use on average a third more individuals to generate the same number of FTEs as their non-profit grantee counterparts. Likewise, for public agency grantees, the public agency lead organizations required almost twice as many individuals as their non-profit partners to generate the same number of FTEs.

In general, our field observations showed that each participating agency or partner had one or perhaps two individuals (for example, the program coordinator or principal counselor) who accounted for the bulk of the staff time for their organization, with the rest of the organization's FTE made up of much smaller portions of the time of a variety of other staff (accounting, legal, environmental, etc.). The greater number of staff used by public agencies

¹ A Full Time Equivalent (FTE) is equal to a full-time staff member working 40 hours per week or 2,080 hours per year.

Exhibit 6-1

First Year Staffing Patterns for HOPE 3

Staff Time for HOPE 3	Non-Profit Grantees (N=42)	Public Agency Grantees (N=46)	All Grantees (N=88)
Mean FTEs Spent on HOPE 3 During First Year			
Non-Profit Staff	2.9	1.5	2.2
Public Agency Staff	0.2	1.5	0.9
Total Staff	3.1	3.1	3.1
Average Number of Staff Working on HOPE 3 During First Year			
Non-Profit Staff	6.0	3.5	4.7
Public Agency Staff	1.2	6.1	3.7
Total Staff	7.2	9.7	8.5

Source: Grantee Survey

may well reflect the utilization of more administrative personnel who are sometimes located in other departments, and who perform the same functions for a variety of programs. One might speculate that for non-profit grantees, this pattern is not evident because such organizations often have limited number of administrative staff to draw on, thus requiring them to concentrate work among a few program staff. Several of the non-profit grantees among the intensive study sites told us that HOPE 3 was one of the few programs they had worked on that provided *any* funds for program administration.

6.1.2 Staff per Unit Acquired

In order to examine the efficiency of the programs, we looked at the number of C/MI set ups for each site in relation to the reported FTE spent on the program over the first program year.² Overall, non-profit grantees have shown a slightly higher rate of set ups per FTE than their public agency counterparts. Through May 1994, the typical non-profit grantee was able to acquire 2.71 HOPE 3 units per FTE as compared to 2.15 for public agency grantees. Acquisitions by non-profit grantees ranged from 0.25 units per FTE to 10.67 units per FTE, while acquisitions by public agency grantees ranged from 0.20 units per FTE to 5.4 units per FTE.

6.1.3 New Hires

Based on data collected for the 26 intensive study sites, the additional staff capacity hired by the local programs to operate HOPE 3 appears to be fairly modest. Five grantees, or about one-fifth of the intensive sites, had not hired any new staff for HOPE 3 as of the end of 1993. Ten more program sites had hired one new staff person. Among the remaining 11 sites, the number of new hires ranged from two to eight. Overall, although 80 percent of the intensive study sites had hired at least one new staff member, most of the staff currently working on HOPE 3 are existing personnel reassigned from other duties or shared with other functions.

While hiring additional staff is clearly one way in which HOPE 3 funding can contribute to increased capacity among participating agencies, it appears that not every grantee has chosen to capitalize on this opportunity. For example, one public agency grantee's proposal had called for the non-profit partner agency to hire several new staff to operate HOPE 3; this would have provided the non-profit with its own staff for the first time. Instead, the city has decided to allocate time of employees from its community development office to the non-profit to run HOPE 3. Although this approach was initially more efficient in creating a complement of HOPE 3 staff with housing program experience, the opportunity for the non-profit to hire and train its own staff, and acquire a more permanent organizational capacity, has been deferred.

² Note that set up data are through May 1994, while FTE figures cover approximately calendar year 1993.

Likewise, one non-profit grantee had only very limited staff capacity prior to HOPE 3 (a part-time director, secretary, and bookkeeper), but has chosen to satisfy its HOPE 3 personnel needs through contractors, rather than hiring permanent staff. The executive director of the organization reports that he plans to use volunteers and participants in the future to run the program.

6.1.4 Adequacy of Staff Size and Skills

Given the modest levels of additional staff hired by most HOPE 3 programs, it is worth examining whether these staffing complements are adequate. Although staffing levels appear to be sufficient at most of the sites, discussions with program staff at the 26 intensive study sites revealed that the current number of staff allocated to HOPE 3 was felt to be inadequate by over one-third of the grantees. This problem was equally common for non-profit and public agency grantees.

Also interesting is the fact that the problem of inadequate staff levels as reported by the grantees was not necessarily reflected in low production (set up) numbers. Among the 26 intensive study sites, two of the four most productive HOPE 3 programs so far in terms of the number of properties acquired were also among the sites where local program representatives expressed the view that current staffing levels were not sufficient. One of these grantees indicated that although one new staff person was hired (boosting the lead organization's HOPE 3 staff to 2 FTEs and total FTE among all partners to 5), they felt that at least another person was needed to deal with administration and the large amount of paperwork associated with HOPE 3. Staff at the other site mentioned several times that they did not really know what to expect from HOPE 3, and that, as a new program, it presented many questions and challenges. The lead agency has only one staff member responsible for acquisition and oversight of rehabilitation, and this is not considered to be sufficient given the workload involved. Part of the problem is that the individuals who wrote the HOPE 3 application are no longer involved with the program. The current staff think that those who wrote the grant may not have fully appreciated the amount of work necessary to get the effort off the ground and find themselves continually discovering additional tasks that are required for the program's operation.

In addition to the overall level of staffing, *turnover* in staff might also be expected to cause at least temporary problems for a HOPE 3 site. Based on the experience of the 26 intensive study sites, however, this particular complication was relatively rare. Only two intensive study sites indicated that HOPE 3 staff turnover had a negative effect in their program. In one case, the public agency grantee reported that the sudden turnover in housing staff at their non-profit partner had contributed to their decision to replace that entity with another non-profit for their FY 1993 HOPE 3 application.

Finally, although staff size was an issue at some sites, the grantees tended to be satisfied with the *skills* or mix of skills represented on their staff. Existing staff typically possessed prior

experience in running similar housing programs and/or in working as private contractors. Newly hired staff most commonly have prior experience in construction or banking.

6.2 LOCAL MANAGEMENT PERFORMANCE AND TECHNICAL ASSISTANCE NEEDS

6.2.1 Adherence to Schedule, Budget, and Program Design

As discussed in Chapter 4, at the end of the first program year, more than two thirds of the grantees reported being behind schedule in their HOPE 3 activities, with the median length of delay reported to be six months. Non-profit grantees as a group reported a somewhat higher frequency and extent of slippage in their schedules. However, as described in Chapter 4 the typical non-profit and public agency sites had completed similar proportions of their planned units.

In addition to schedule changes, a large number of grantees reported changes in their budgets. As described in Chapter 5, changes in per unit budgets (reflecting both unit and cost changes) were observed for 49 percent of the sites. In the survey, a little more than 40 percent of the grantees reported alterations to their HOPE 3 budgets.³ Among public agency grantees, the frequency of budget changes was higher, with more than half the grantees in this group reporting modifications to their budgets.

In addition to collecting information on budget and schedule changes, the grantee survey asked respondents to describe changes (and provide updated information) on a wide range of different program features. Exhibit 6-2 summarizes responses to these questions on program change. As shown, schedule and budget were the most frequently changed program elements (at 68 and 43 percent, respectively), followed by changes in the sources of units to be used in the program (31 percent) and changes—typically reductions—in the number of units to be produced (27 percent). Overall, only 6 of the HOPE 3 sites had reported no changes or difficulties in any of these areas. Perhaps more importantly, close to a third of the sites reported changes or difficulties in four or more of these areas.

Clearly, then, the first program year has been one of change (and learning) for many of the HOPE 3 grantees. Such change may result both from inadequacies in the original plans and from the need to adapt to new circumstances that arose as the grant work got underway.

6.2.2 Meeting Program Requirements

Our examination of program operations in the 26 intensive study sites suggests a number of areas where HOPE 3 grantees may be having problems in fully meeting program

³ We did not make any attempt to determine whether the grantees reporting budget modifications in the survey have initiated requests to HUD to formally amend their program budgets.

Exhibit 6-2

Changes in Program Designs of HOPE 3 Grantees

Program Elements	Percent of Grantees Reporting Changes in Program Elements		
	Non-Profits N=44	Public Agencies N=51	All Grantees N=95
Behind Schedule	73 %	63 %	68 %
Change in Budget	32 %	53 %	43 %
Change in Sources of Units	38 %	24 %	31 %
Change in Number of Units to be Produced	24 %	30 %	27 %
Change in Plans for Obtaining Match	22 %	26 %	24 %
Other Significant Change in Strategy	22 %	20 %	21 %
Difficulty Obtaining Match	13 %	16 %	15 %
Change in Targeting Approach or Target Area	16 %	14 %	15 %
Change in Allocation of Responsibilities Among Partners and Contractors	21 %	13 %	15 %
Change in Training/Counseling Strategy	13 %	16 %	15 %
Change in Affordability Approach	7 %	12 %	9 %

Source: Grantee Survey

requirements. One area that has already been mentioned is lead-based paint abatement. A number of sites indicated that the federal lead-based paint requirements are unclear and that they were unable to obtain useful technical assistance from their local HUD office.

Probably the most common problem across the intensive study sites was the failure to submit properly completed C/MI reports in a timely fashion. A few sites had not submitted any transfer or completion forms despite having acquired, rehabilitated, and sold HOPE 3 units. In some cases, grantee staff explained that they had not submitted the forms because they did not understand what data needed to be included; in one case the grantee was delaying the submission of the forms to wait for a budget amendment to be approved so that the program could accurately reflect the expenditures that it had incurred on its units.

There were also numerous instances of local HOPE 3 programs making prospective changes in their planned budgets, unit goals, schedule, program income plan, and/or targeting and affordability strategies without formally amending their program designs. In some instances, grantees informed HUD of changes through their Annual Performance Report submission, but in other instances there may have been no formal communication with HUD on these topics. Part of this may be attributable to the fact that some grantees appear to be unclear about what modifications require formal amendments, and what the process and/or formats are for requesting such modifications.⁴

6.2.3 Need for Technical Assistance

By and large, most HOPE 3 implementation sites are making a serious effort to fulfill their HOPE 3 responsibilities, but are sometimes hampered by a lack of understanding of specific requirements or the best ways in which such requirements can be satisfied.

In general, the intensive study sites were very positive about the assistance that they had received from the HOPE 3 headquarters staff when they sought interpretations of program guidelines or were grappling with implementation problems. However, their assessment of the technical assistance available through the local HUD offices was much more mixed. Although some sites expressed the view that they had an excellent working relationship with their local HUD office and HOPE 3 coordinator, other sites felt that their local HUD staff were not an accessible source of help. The sites that were dissatisfied with the support from their local HUD staff characterized the communications from such staff as bureaucratic. Rather than showing the problem-solving orientation generally associated with the HOPE 3 headquarters staff, the local HUD staff were seen as interpreting the program regulations in the most conservative manner, such that some sites felt that any inquiry to the local HUD office about possible alternative approaches to a HOPE 3 program requirement would only result in a negative response. This perception discouraged communications between such sites and their local HUD offices.

⁴ Grantees are required to report budget modifications that exceed \$20,000 or 20 percent for a given line item.

Based on the first round site visits, we identified some of the areas in which HOPE 3 grantees may be most in need of technical assistance. While by no means exhaustive, this list addresses many of the programmatic areas where the experience of the intensive study sites suggests that performance and compliance might be improved. These areas are:

- C/MI reporting (see Appendix A for a discussion of common C/MI reporting problems);
- Procedures for amending budgets or program designs;
- Outreach strategies (particularly to PHA residents and self-sufficiency graduates);
- Identification of alternative sources of housing units;
- Lead-based paint abatement requirements and approved techniques;
- Provisions governing use, accounting, and reporting of sales proceeds;
- Strategies for continued monitoring of homebuyer compliance with use and resale restrictions; and
- Acceptable forms of documentation and reporting for match and in-kind contributions.

6.3 CAPACITY BUILDING IN NON-PROFIT ORGANIZATIONS

An important objective of the HOPE 3 program is to build the capacity of non-profit organizations to provide housing services. For many participating non-profits, especially those with the least housing experience, it appears that participation in the program enabled them to increase the scale and range of their housing activities. Using program funds, participating non-profits increased their capacity through formal training and technical assistance to strengthen the skills of existing staff, through the addition of staff members with needed skills and experience, through the development of new working relationships with other agencies and technical assistance providers, and through the "hands-on" experience of planning and implementing housing programs. These increases in capacity are reflected in the demonstrated interest of non-profits that report capacity-building benefits in continuing to participate in the program.

6.3.1 Scale and Range of Organizational Activities

As noted in Chapter 3, most non-profit participants in the HOPE 3 program had modest levels of previous housing production experience. Since capacity building impacts are more likely among organizations in which existing capacity is modest, this creates the potential for important capacity building effects if grantees and their partnerships successfully complete programs that "stretch" their organizations.

Non-profit lead agencies and primary non-profit partners of public agencies reported a very similar mix of organizational activities. Almost all non-profit lead agencies and three quarters of non-profit partners cited housing development as a primary activity, and about two thirds of the organizations in each group provide housing counseling (Exhibit 6-3). However,

Exhibit 6-3

**Planned HOPE 3 Units Relative to
Recent Previous Homeownership Experience
(Non-Profit Grantees)**

Number of Homeownership Units Developed During 2 Years Prior to HOPE 3	Average Number HOPE 3 Units Planned	Average Ratio of Planned HOPE 3 Units to Homeownership Units Developed in Prior 2 Years
0 (N=16)	18.1	NA
1-30 (N=13)	30.4	5.8
Over 30 (N=14)	47.0	0.8

Source: Grantee Survey

both groups had limited development experience, particularly the non-profit partners of public agencies; the latter were more likely than non-profit lead agencies to have had no direct experience as housing developers prior to HOPE 3, and had substantially less experience developing ownership units, in particular.

More indicative of organizational capacity at the onset of the HOPE 3 program is the number of housing units developed in the two years prior to the program, which is more likely to reflect the capabilities of current staff. Among non-profit lead agencies, median total production (rental and ownership units) during the preceding two years was 20 units; median production of ownership units was 6. The typical non-profit partner of a public agency had not completed any housing units in the two years before their HOPE 3 program began.

Data on planned HOPE 3 production show that inexperienced non-profit grantees planned smaller HOPE 3 programs than more experienced groups, but these modest programs constituted a considerable increase in the organizations' scale of activity. As shown in Exhibit 6-3, grantees that had developed no homeownership units in the two years prior to the program planned to produce an average of 18 units in their HOPE 3 programs; groups that had produced more than 30 units in the past two years planned an average of 47 units—or more than 2 1/2 times as many. However, for these more experienced groups, the HOPE 3 program did not, by itself, represent an increase in their housing production. In contrast, for less experienced groups, participation in the program had the potential to increase their rate of production considerably. In particular, non-profit grantees that had produced 30 or fewer units in the past two years planned to increase their rate of production almost six-fold under the HOPE 3 program. Although their production rate will be lower than expected because many programs are behind schedule, the effect of the program on the production of inexperienced grantees will still be substantial if they hold to their current plans.

Data collected through the grantee survey suggest that non-profit lead agencies in the HOPE 3 program are gaining different types of organizational experience than non-profits that are partners of public agencies. As noted in Chapter 3, over two thirds of non-profit grantees have no partners, retaining responsibility for all program functions except rehabilitation work (which is contracted out by three quarters of all grantees). Thus, these organizations are gaining hands-on housing development and program administration experience. For some, such as Tampa Bay CDC in Florida and Operation Impact in St. Louis, this program oversight experience has had modest organizational impact, since HOPE 3 entails a continuation of activities in which the group had been engaged previously. For others, such as Western Maryland Interfaith Housing Development Corporation, HOPE 3 represents one of the group's first projects and hence provided an opportunity to acquire important new expertise.

When they do have partners, non-profit lead agencies typically retain a greater share of the activity for themselves than do public agency grantees. (see Exhibit 6-4). However, they tend to have their partners (most of which are also non-profit agencies) perform the same types of activities that public lead agencies assign to their non-profit partners: marketing, homeowner

Exhibit 6-4

Division of Responsibilities Among Partners

Activity	Lead Agency	Cooperating Partners	Contractor/ Consultant
Administration			
Public Agency Lead (N=46)	79%	19%	2%
Nonprofit Lead (N=14)	90%	10%	0%
Acquisition of properties			
Public Agency Lead (N=43)	59%	37%	3%
Nonprofit Lead (N=14)	62%	36%	1%
Rehabilitation			
Public Agency Lead (N=46)	31%	29%	40%
Nonprofit Lead (N=14)	43%	18%	40%
Homeowner Training			
Public Agency Lead (N=46)	25%	59%	16%
Nonprofit Lead (N=14)	40%	34%	27%
Economic Development			
Public Agency Lead (N=16)	33%	64%	3%
Nonprofit Lead (N=4)	38%	38%	25%
Marketing			
Public Agency Lead (N=45)	46%	47%	7%
Nonprofit Lead (N=14)	53%	40%	7%
Homeowner Selection			
Public Agency Lead (N=45)	49%	48%	3%
Nonprofit Lead (N=14)	64%	36%	0%

Source: Grantee Survey

selection and training, and economic development (in the relatively few programs that have an economic development component).

6.3.2 Staff Development: Training, Technical Assistance, and Working with Consultants

Provision for staff training in program budgets is one of the most direct capacity building elements of the HOPE 3 program. As was the case for planning grantees, non-profit implementation grantees built more training into their programs than public agency grantees, and focused more of their training effort on building the capacity of non-profit staff. Non-profit grantees planned for about 20 percent more total training hours than public sector grantees, and concentrated a much greater percentage of their training resources on building the skills of non-profit staff. They also tended to plan more intensive training activities (i.e., more hours of training per person).

As shown in Exhibit 6-5, non-profit grantees planned, on average, to provide 2.5 people with a total 67 hours of training. This training was intended almost exclusively for non-profit employees. As shown in the bottom panel of the exhibit, sixty-six percent of non-profit grantees planned to train non-profit staff (their own or their partners'); they planned an average of 92 training hours (median=58). Only eight percent of all non-profit lead agencies (three of the ten that had public sector partners) planned any training for public sector staff; these public agencies were budgeted to receive an average of 84 hours of training (median=85).

Public agency grantees planned an average of 55 hours of training, and typically planned to train about 4 people. However, public sector lead agencies planned roughly the same number of hours of training for their own staff (26.8) as for the staff of their non-profit partners (28.3). Generally, public agency leads were more likely to include training for their own staff (59 percent) than for non-profit staff (44 percent). However, non-profits were allotted more training hours than public agency staff (65 hours versus 45 hours, on average).

Grantees were also asked as a part of the grantee survey to report on their actual training activity through the end of December 1993. Both public and non-profit grantees had provided training for a somewhat greater number of employees than originally planned (Exhibit 6-6). Public agency grantees had provided about the number of training hours budgeted, both for public sector and non-profit sector staff. By contrast non-profit grantees, which are providing training almost exclusively for non-profit employees, had provided only two thirds of the training hours they had planned. Nevertheless, they had still provided more training hours for non-profit staff than public agencies had because their planned targets were so much higher.

As expected, training was used most intensively by non-profit grantees with the least housing capacity and experience (Exhibit 6-7). Groups with ten or more housing staff members typically provided staff with less than half as much training as groups with five or fewer housing

Exhibit 6-5

Planned Grantee Training

Planned Training Hours (For Those Who Planned Some Training)

Total Planned Training Hours	Non-Profit Lead	Public Agency Lead
Non-Profit Staff		
Percentage that Planned Training	66% (N=38)	44% (N=39)
Mean Hours Planned	92	65
Median Hours Planned	58	48
Public Agency Staff		
Percentage that Planned Training	8% (N=40)	59% (N=37)
Mean Hours Planned	84	45
Median Hours Planned	85	31

Amount of Training Planned for Non-Profit Staff

Training for Non-Profit Staff	Non-Profit Lead	Public Agency Lead	All Grantees
Avg. Number of Employees	2.3 (N=41)	1.6 (N=39)	1.9 (N=80)
Total Number of Hours	60.7 (N=38)	28.3 (N=39)	44.3 (N=77)
Avg. Hours per Person	26.7	18.1	22.9

Amount of Training Planned for Public Agency Staff

Training for Public Agency Staff	Nonprofit Lead	Public Agency Lead	All Grantees
Avg. Number of Employees	0.2 (N=41)	2.2 (N=38)	1.2 (N=79)
Total Number of Hours	6.3 (N=40)	26.8 (N=37)	16.2 (N=77)
Avg. Hours per Person	26.4	12.3	13.7

Source: Grantee Survey

Exhibit 6-6
Actual Training Through December 1993

Actual Training Hours (For Those Who Did Some Training)

Total Actual Training Hours	Public Agency Lead	Non-Profit Lead
Public Agency Staff		
Percentage that Planned Training	69 % (N=39)	8 % (N=37)
Mean Hours of Training	40	58
Median Hours of Training	30	80
Non-Profit Staff		
Percentage that Planned Training	46 % (N=39)	64 % (N=36)
Mean Hours of Training	62	62
Median Hours of Training	44	32

Amount of Training (Actual) for Non-Profit Staff

Training for Non-Profit Staff	Non-Profit Lead	Public Agency Lead	All Grantees
Avg. Number of Employees	3.5 (N=38)	2.1 (N=39)	2.8 (N=77)
Total Number of Hours	39.5 (N=36)	28.7 (N=39)	33.9 (N=75)
Avg. Number Hours per Person	11.3	14.0	12.2

Amount of Training (Actual) for Public Agency Staff

Training for Public Agency Staff	Non-Profit Lead	Public Agency Lead	All Grantees
Avg. Number of Employees	0.2 (N=38)	2.4 (N=39)	1.3 (N=77)
Total Number of Hours	4.7 (N=37)	27.8 (N=39)	16.6 (N=76)
Avg. Number Hours per Person	22.3	11.4	12.4

Source: Grantee Survey

Exhibit 6-7

Training Provided for Non-Profit Staff by Housing Capacity of Non-Profit Grantee

Training Hours by Number of Housing FTE

Capacity Building	Number of Housing FTE		
	0-5 (N=16)	5.01-10 (N=10)	10+ (N=8)
Hours of Actual Training			
Mean	46.8	46.6	22.1
Median	16.0	25.0	6.0

Training Hours by Number of Homeownership Units Developed

Capacity Building	Homeownership Units Developed During Prior 2 Years		
	0 (N=13)	1-30 (N=9)	30+ (N=12)
Hours of Actual Training			
Mean	36.6	64.1	24.3
Median	30.0	6.0	7.0

Source: Grantee Survey

staff, and those with little recent homeownership development experience typically provided staff with more training than did groups with a more substantial track record.

The site visits identified a small number of implementation grantees (two of 13 public agencies and two of 13 non-profits) that had undertaken program-related training even though it was not included in their HOPE 3 budgets. For example, one grantee sent its program coordinator and another staff person sent to a 32-hour course on lead-based paint testing and abatement, and another grantee trained two staff to become certified housing counselors.

Exhibit 6-8 shows the sources of grantee staff training reported in the grantee survey. The most common sources of training are in-house (on-the-job) training and sessions offered by HUD on the operation of the HOPE 3 program. One half of both public and non-profit grantees included these forms of training in their programs. Public agency grantees use each of the other types of training infrequently; in contrast, one third of non-profit grantees are sending employees to formal training programs. This is consistent with their tendency to provide more training hours.

Topics covered in the training planned by public and non-profit lead agencies were similar, with both most commonly budgeting for training or technical assistance in homeowner financing and credit analysis and delivering homeowner counseling programs. Non-profit lead agencies were, however, more likely to seek out training in preparing specifications and cost estimates for rehabilitation work (51 percent), in program budgeting, accounting, and management (49 percent), and in construction management and oversight (40 percent). The site visits suggest that this type of training was often quite intensive; three of the 13 nonprofit grantees sent at least one staff person to training sessions on the development process sponsored by Neighborhood Reinvestment Corporation or LISC. For public agency grantees, which planned approximately equal amounts of training for their own agencies and their partners, we have no information about the distribution of different types of training among the partners.

Working closely with consultants and contractors does not appear to be a significant source of training for non-profit program participants. Only 11 percent of non-profit lead agencies cite consultants as a budgeted source of training, and the vast majority of the work these agencies contract out (98 percent of the value of all contracts) is home rehabilitation. The other activity most commonly conducted by contractors (many of whom are also non-profits) is homeowner training and counseling; 33 percent of such training provided in programs run by non-profits is provided by contractors. Although three quarters of non-profit grantees reported in the grantee survey that they worked closely with some or all of their non-construction contractors, the site visits suggest that these working relationships promoted coordination rather than on-the-job training for the non-profits.⁵

⁵ However, at some sites contractors or consultants were used in place of regular employees. For example, the Tampa Bay CDC which administers the HOPE 3 program for Pinellas County, Florida has recently contracted with an individual to serve as rehabilitation manager, preparing work write-ups. As mentioned previously, the non-profit grantee in Bridgeton, New Jersey similarly contracted with two individuals to serve as construction manager and intake coordinator. In Chandler, Arizona, a former staff member of the non-profit grantee works under contract to the HOPE 3 program as administrator and bookkeeper; this individual has helped to write all three successful HOPE 3 applications submitted by the non-profit, and the consulting firm that she has established provides management assistance to a variety of non-profit organizations in the area.

Exhibit 6-8

Training Sources and Topics

Training Sources

Sources of Training	Non-Profit Lead (N=45)	Public Agency Lead (N=51)
In-house/On-the-job	51%	51%
Private Consultant	11%	14%
Private or non-profit training	33%	12%
University/college	4%	4%
HUD	51%	49%
Other	9%	0%

Training Topics

Topics Covered in Training	Non-Profit Lead (N=45)	Public Agency Lead (N=51)
Rehab Specification/cost estimating	51%	39%
Contractor selection/negotiation	31%	39%
Construction management and oversight	40%	31%
Homeowner financing/affordability/ credit analysis	53%	55%
Running economic self-sufficiency programs	13%	18%
Running/delivering homeowner counseling programs	51%	49%
Program budgeting/accounting/management	49%	43%
Other	18%	14%

Source: Grantee Survey

6.3.3 Grantee Perceptions of Increased Organizational Capacity

The vast majority of grantees reported on the grantee survey that participation in the HOPE 3 program had increased their organizational capacity. As shown in Exhibit 6-9, non-profit lead agencies, which appear to have started with somewhat less capacity on average (since they are typically smaller and had less experience with federal housing programs), reported greater organizational gains than public agencies. Only two of the non-profit grantees indicated that participating in the program had not enhanced their organizational capacity, and most reported multiple benefits to their organizations.

Non-profit grantees were more likely than public agency grantees to report each of the five main types of capacity-building benefits identified in the survey. Enhanced skills for existing staff was the most commonly cited benefit, reported by almost three quarters of non-profit grantees. Undertaking new activities and developing new working relationships with other organizations were cited as program benefits by more than 60 percent of each group of participants. In addition, almost one half of non-profit lead agencies hired new staff as a result of the program, and an equal number were able to identify new sources of expertise or technical assistance as a result of their program participation.

Non-profit and public sector grantees differed in their views about the types of organizational changes that were most crucial in helping them increase their capacity. As shown in the second panel of Exhibit 6-9, among all public lead agencies, 29 percent said the most crucial change was developing new working relationships; the site visits confirm that these relationships were typically with the non-profit partners required by the program, and that if the relationship was positive for the public agency it was typically beneficial for the non-profit partner as well.

Among non-profit lead agencies, the organizational benefit identified as most crucial is an increase in the number and capabilities of staff members. This benefit is cited first by 38 percent of all non-profit grantees, and by almost half of the 29 grantees that added to their staff skills. Hiring new staff was most critical to 22 percent of all non-profit grantees. The site visits confirm that staff additions typically bring considerable new talent to the organization. Women's Development Center in Las Vegas and Western Maryland Interfaith Housing Development Corp., for example, each hired strong new program directors.

As expected, reported increases in organizational capacity were most frequent among those non-profits that began the program with the least housing experience (Exhibit 6-10). Each of the major types of capacity building impacts were most common among organizations that had relatively small housing staffs and that had little or no recent experience developing homeownership units—although improved staff skills is a commonly cited program benefit across the board.

One nonprofit grantee, which had no previous experience developing homeownership units, exemplifies an organization on which HOPE 3 had a major impact. This organization

Exhibit 6-9

Capacity Building Impacts

Percent of Grantees Indicating Impact

Capacity Building Impact	Non-Profit Lead (N=45)	Public Agency Lead (N=51)
Hire new staff	49%	25%
Enhance skills existing staff	73%	65%
Undertake new activities	67%	61%
Identify new expertise/tech. assistance	49%	33%
Develop new working relat.	62%	61%
Other changes	7%	4%
No impact on capacity	4%	14%

Percent Indicating Impact as Most Important (All Grantees)

Capacity Building Impact	Non-Profit Lead (N=37)	Public Agency Lead (N=38)
Hire new staff	22%	24%
Enhance skills existing staff	38%	21%
Undertake new activities	16%	18%
Identify new expertise/tech. assistance	11%	3%
Develop new working relat.	11%	29%
Other changes	3%	3%
No impact on capacity	0%	3%

Source: Grantee Survey

Exhibit 6-10

Capacity Building by Type of Organization

Capacity Building by Number of Housing FTE

Capacity Building Impact	Housing FTE		
	0-5 (N=22)	5.01-10 (N=11)	>10 (N=8)
Hire New Staff	55 %	45 %	25 %
Enhance Skills of Staff	82 %	64 %	63 %
Undertake New Activities	77 %	64 %	38 %
Identify New Expertise	59 %	45 %	25 %
Develop New Working Relations	82 %	55 %	25 %
Other	5 %	9 %	13 %

**Capacity Building by Number of
Homeownership Units Developed in Prior Two Years**

Capacity Building	Number of Homeowner Units Developed in Last Two Years		
	0 (N=16)	1-30 (N=13)	30+ (N=14)
Hire New Staff	63 %	46 %	43 %
Enhance Skills of Staff	63 %	92 %	64 %
Undertake New Activities	94 %	54 %	43 %
Identify New Expertise	81 %	31 %	36 %
Develop New Working Relations	75 %	69 %	50 %
Other	13 %	0 %	7 %

Source: Grantee Survey

(continued on next page)

Exhibit 6-10

Capacity Building by Type of Organization
(continued)

**Capacity Building by Ratio of Planned HOPE 3 Units/
Homeownership Units Previously Developed**

Capacity Building Impact	Ratio of HOPE 3 Units to Homeownership Units Developed in Last Two Years		
	0-0.4 (N=9)	0.4-2 (N=9)	2+ (N=9)
Hire New Staff	33 %	33 %	67 %
Enhance Skills of Staff	67 %	78 %	89 %
Undertake New Activities	44 %	67 %	33 %
Identify New Expertise	33 %	44 %	22 %
Develop New Working Relations	22 %	78 %	78 %
Other	11 %	0 %	0 %

Capacity Building by Ratio of HOPE 3 FTE to Housing FTE

Capacity Building Impact	Ratio of HOPE 3 FTE to Non-Profit Housing FTE		
	0-0.15 (N=9)	0.15-0.75 (N=9)	.76+ (N=8)
Hire New Staff	22 %	44 %	75 %
Enhance Skills of Staff	56 %	78 %	75 %
Undertake New Activities	33 %	67 %	75 %
Identify New Expertise	33 %	44 %	63 %
Develop New Working Relations	44 %	89 %	63 %
Other	0 %	0 %	0 %

hired new staff, sought training from both HUD and the city, used staff meetings for on-going training, and built important new relationships with other organizations. HOPE 3 moved the group from "a Mom and Pop non-profit organization" to a non-profit organization with statewide recognition, credibility, and visibility. This growth was not painless; the speed of their growth put a strain on their financial management ability and created cash flow problems during rehab, but the organization dealt with these issues and is now undertaking new housing activities, having recently received three HOME grants.

Analogously, program benefits to the organization were greatest among non-profit grantees for which the HOPE 3 program represented the greatest organizational stretch. Grantees for which HOPE 3 housing units represented a substantial increase in production, or for which staff time devoted to the program constituted a significant share of their total housing staff, were more likely to report increases in organizational capacity, particularly staff capacity. For example, groups that more than doubled their homeownership production under the program (the third panel of Exhibit 6-10) were twice as likely as other groups to hire new staff members, and were the most likely to strengthen the skills of existing staff.

Finally, fifteen percent of survey respondents—eight public agencies and six non-profits—reported that participation in the program had some negative impact on their organization. However, brief descriptions of these negative effects contained in the surveys revealed that they were typically short-term and focused mainly on program implementation problems and centered around two, often interrelated themes. First, running the program was more time-consuming than some grantees (both public and non-profit) expected and planned for; this placed heavy demands on staff and pushed up administrative costs. Second, managing the partnerships entailed stress or conflict for a number of these grantees, particularly when relationships were new, or when partners needed training, did not understand (and did not necessarily want to understand) HUD regulations and reporting requirements, or could not meet their responsibilities.

6.3.4 Future Plans

Organizations that either had the capacity to engage in HOPE 3 activities at the time of application or that developed relevant organizational capacity during the program are presumably more likely than others to want to continue their activities. To the extent that this is the case, grantee interest in continuing to participate in HOPE 3 may be viewed as a demonstration of enhanced organizational capacity.

As noted in Chapter 3, public and non-profit grantees were equally likely to have applied for HOPE 3 funding in FY 1993 and to indicate an intention to apply in FY 1994. Based on survey responses, about half of the grantees have reapplied, and 69 percent say they intend to reapply in the next funding cycle. By contrast, about 35 percent of agencies of each type have no intentions to participate further, with most citing as their reason the fact that they are still working on their FY 1992 activities.

Non-profit grantees that felt that their HOPE 3 grant had enabled them to build organizational capacity were more likely than other non-profit grantees to report that they had applied for another round of funding and/or expected to do so. For example, 64 percent of non-profit grantees that used their FY 1992 grant to hire new staff, applied for funding in FY 1993 (see Exhibit 6-11). By contrast, of those that did not hire new staff, only 37 percent applied for FY 1993 funding. Similarly, non-profits were more likely to have applied for FY 1993 funding if they reported that their HOPE 3 grant had allowed them to enhance the skills of existing staff or to undertake new activities. In general, the observed effect of increased capacity is greater when actual behavior (i.e. "applied in FY 1993") rather than intentions (i.e. "expect to apply in FY 1994") is the outcome measure.

There is some indication that more intensive training (arguably more likely to add significant new capabilities) had a positive impact on grantees' interest in continuing in the program. Non-profit grantees that sent employees to training courses were more likely than those that did not to apply for HOPE 3 funding in FY 1993 and to say that they planned to apply in FY 1994. This effect is mirrored in the frequency with which survey respondents providing different amounts of training seek to continue participation in the program. Groups that built more than 50 hours of staff training into their programs were the most likely to want to continue the program in future years.

The impact on the desire to continue in the program of capacity enhancements that are *external* to the organization—identifying new sources of outside expertise and developing new working relationships with other local housing actors—are smaller and less consistent. The site visits suggest one possible reason for this: in some instances, newly established working relationships have been stressful, for example when partners proved not to have common expectations about matters such as performance standards or record keeping requirements. More broadly, the absence of this impact may be an indication that improved external relationships, absent improved internal organizational capability, are not enough to sustain continued program involvement. Finally, of course, continuation in HOPE 3 is contingent on a suitably large supply of publicly-owned units for use in the program.

Exhibit 6-11

**Reported Capacity Building Impact and
Desire to Continue in the HOPE 3 Program**

Capacity Building	Applied in FY 1993		Will Apply in FY 1994	
	%	Ns ^a	%	Ns ^a
Hire New Staff				
YES	64%	(14/22)	80%	(16/20)
NO	37%	(7/19)	63%	(12/19)
Enhance Skills of Staff				
YES	53%	(16/30)	75%	(21/28)
NO	45%	(5/11)	64%	(7/11)
Undertake New Activities				
YES	63%	(17/27)	72%	(18/25)
NO	29%	(4/14)	71%	(10/14)
Identify New Expertise				
YES	55%	(11/20)	67%	(12/18)
NO	48%	(10/21)	76%	(16/21)
New Working Relationships				
YES	52%	(14/27)	75%	(18/24)
NO	50%	(7/14)	67%	(10/15)
NP Planned Training Hours				
0	54%	(7/13)	70%	(7/10)
1-50	40%	(3/10)	67%	(7/12)
Over 50	67%	(9/12)	83%	(11/12)
NP Actual Training Hours				
0	38%	(5/13)	60%	(6/10)
1-40	38%	(5/13)	67%	(10/15)
Over 40	86%	(6/7)	86%	(6/7)

^a The denominator is the number of grantees responding yes or no to the question on capacity building impacts, while the numerator indicates, of these, the number that applied for subsequent funding rounds. Thus, of 22 non-profit grantees who indicated that they hired new staff, 14 (64%) applied for a FY 1993 grant.

Source: Grantee Survey

APPENDIX A

APPENDIX A HUD'S C/MI DATA SYSTEM

The HOPE 3 Cash/Management and Information (C/MI) system is used both to authorize drawdowns of HOPE grant funds (for electronic transfer to sponsors) and to monitor selected aspects of the program. The current study relies on C/MI data for much of the property related analysis. Moreover, various program status and performance variables are drawn from the system. This appendix details problems related to the accuracy of the C/MI data and provides recommendations which we believe would improve the system and help grantees provide more accurate data. We begin with a brief overview of how the system works.

The C/MI system is triggered by "setting up" individual projects for which drawdowns of funds will be requested. This is accomplished initially by voice, followed by the submission of a Property Set Up Form which provides basic information about the property (size, acquisition source, etc.) and estimates the amount of HOPE and matching funds that will be used for acquisition, rehab and other expenses. As work is completed on the property, HOPE 3 funds are drawn down against the set up budget. The vouchers that are used to make draws for a specific property also permit the grantee to draw down funds in a variety of non-property related accounts such as administration, legal, or training.

When properties are completed and transferred to the new homebuyer, a Property Transfer Form is submitted. This form provides information on the buyer and the property, including detailed information on homebuyer financing. (For properties involving lease purchase, the financing data is provided at completion rather than transfer.)

The final step in C/MI reporting is the submission of a Property Completion Form, which must be sent in within 30 days of the last drawdown of funds. The completion form collects information on the full costs to the grantee of acquiring and reselling the unit and certifies that the unit meets program requirements.

Our research demonstrated a number of problems in the C/MI, not the least of which was grantee frustration with some of its features. In the remainder of this Appendix, we detail these problems with the goal of assisting HUD in improving grantee reporting and improving the way the system works. Despite its weaknesses, however, it is important to note that the C/MI appears to be providing reasonably reliable data on the overall program. Moreover, the basic C/MI approach (begun under the Rental Rehab program in the mid-1980s) is an extremely useful tool for collecting program data as part of the funds disbursement process.

In the sections that follow, issues related to the C/MI are organized into systems issues, design issues, and accuracy issues. It should be noted that the extent of experience with the C/MI varies among the grantees. As of May 1994, one of the 26 intensive sites had not yet set up any units, and well over half of the sites had no transfer or completion forms in the system.

Several grantees admitted to being extremely confused by the C/MI system and to needing additional guidance on how to fill out the forms.

A.1 SYSTEM ISSUES AND PROBLEMS

Systems shortcomings in the C/MI focus on cumbersome or non-existent procedures for verifying and editing data as well as lags in entering data from the field. Presumably these problems can be corrected now that the system is up and running.

- **Grantees have difficulty deleting and/or editing C/MI records.** We found that many grantees cannot remove (or do not know how to correct) erroneous records from the C/MI system. One grantee (whose C/MI data continued to show a number of set ups for properties that had fallen through) told us that the only thing they could do was to wait 12 months for the system to automatically delete records with no further activity.
- **System requests for set up forms can result in duplicate records.** Data for the C/MI system from May 1994 show a number of sites where the number of set ups exceeds total planned production. One grantee indicated that this occurred when the C/MI automatically prompted for "overdue" set up forms that had already been submitted. A second form was faxed, resulting in a duplicate set up. Another site told us that HUD staff had instructed them to submit a new set up form each time they needed to draw down funds for a property, also resulting in duplicate records.
- **Changing line items and/or adding items across properties is time consuming and difficult.** Staff from one site noted that the process for amending budget items (by indicating the amounts added or deducted instead of the new total) is confusing. In addition, when this site needed to add funds for all of its set ups (to cover the costs of signs), there was no procedure that would allow them to make this change without going through all of the C/MI steps for each property.
- **Grantees do not have regular access to their own records and therefore cannot proof the data.** A possible solution would be to have field offices or central office generate critical reports for grantee verification. Form-by-form verification might also be useful in sites known to have very bad C/MI data, however, this could be time consuming.
- **Certain "limited" fields in the system have caused some frustration for grantees.** For example, total costs at set up (from HOPE and match) cannot exceed 80 percent of the FHA high cost limit for the area. Similarly, PITI must fall between 20 and 30 percent of the buyer's income. At least one grantee

complained that the system will not accept cases where the PITI ratio is 19.8 percent. (This problem has been fixed, since that time).

- **Entry of C/MI forms apparently lags behind the grantees' actual activity.** Among the 26 grantees where site visits were conducted, 10 sites reported acquisitions (as of 3/31/94) that were not reflected in the 5/4/94 C/MI. Over half reported sales that were not reflected in the C/MI. Some of the delay may also be due to slow reporting on the part of the grantees.

A.2 DESIGN ISSUES

Beyond the system shortcomings identified above, the C/MI suffers from a few design choices that limit its usefulness and may contribute to inaccurate reporting. While it may be too difficult to revamp the system mid-stream, HUD should consider these problems when designing future systems. Also grantee training on the system (see below) may prove helpful.

- **Features designed to minimize reporting burden reduce the value of the C/MI as a tool for monitoring and evaluating the costs of program wide activities.** The C/MI is a "limited system", in that it does not attempt to capture all costs associated with a project or program activity. At the activity level, for example, counseling costs can be funded from HOPE 3, match, or other funds. C/MI reporting for this activity, however, is limited to HOPE 3 funds. While this is reasonable on its face, since only HOPE money needs to be drawn down, it restricts the program's ability to monitor overall match or the total costs of an activity. (Instead, matching funds are supposed to be reported in the Annual Performance Reports, and other funds are not captured at all unless they are related to a specific property.)
- **Property-level reporting is incomplete at set up.** In keeping with the limited nature of the C/MI system, property level costs reported at set up include *only* estimated HOPE 3 funds and matching funds. The rationale for adding match here is that the sum of HOPE and match funds cannot exceed 80 percent of the FHA limit -- and the C/MI is designed to reject set ups that exceed this amount. Reporting of "other" funds is excluded, presumably to minimize burden on the grantees. The problem with this approach, however, is that it makes the set up forms unusable for learning about estimated per unit costs.
- **Categories for capturing property-level costs differ at set up and completion, leading to possible confusion.** A second problem related to property-level reporting is the different formats used at completion and set up. One important difference is that "other" funds are added at completion as a source. Any amounts exceeding the FHA limit must be reported in this column (however, there is no reason that other funds cannot be used for costs within this cap as

well.) A second difference is that a row for Grantee Property Transfer Costs is added. This is because these amounts can be subtracted from the total when calculating costs that must fall within the FHA cap; to monitor compliance with the statute, these costs must be captured at completion, although they have been ignored at set up. Finally, the items to be included in the "other" costs category differ between the two forms. At set up, this may include homebuyer assistance (since this may come from HOPE 3 funds). At completion, however, grantees are to exclude any homebuyer assistance, as well as grantee closing costs which are to be broken out separately. We believe that these distinctions are confusing, and that the C/MI would be more accurate if a single property cost format were used. (Use of the single, more detailed format might even appeal to grantees since it would help them recall and account for the *all* of the inputs associated with the property.)

- **Distinctions between program and property-level costs are not absolute.** Finally, there is some difficulty with the distinction between property costs (reported fully at completion) and program costs (for which only HOPE 3 costs are recorded). Administration is an example of one of such element. As a necessary component of program delivery, one might like to include prorated administrative costs as a property related function. This is not possible however, since matching or other funds might be used for this purpose and are not recorded in the C/MI.

A.3 PROBLEMS WITH GRANTEE REPORTING

In addition to the above, grantee reporting practices were not always consistent or correct. In some cases, grantees had simply not reported on some units. In other cases they misunderstood and misreported individual C/MI data items.

- **Some grantees appear to be slow in sending in C/MI forms. Part of this results from lack of training on how to use the forms.** As an example, one site had sold 13 properties but as of May 1994 had only submitted a few transfer forms and no completion forms. The project director indicated that his predecessor had not understood how to fill the C/MI forms out, so that they all had to be redone. The new director explained that his was a "trial and error" approach in which he would submit some forms, wait to see if HUD had any problems with them, and then apply these lessons to the next batch. Another site had not submitted any transfer forms (despite 23 sales) because they wanted to wait until they had an approved budget amendment to reflect the closing cost assistance being provided to buyers.
- **Certain units are not being reported at all in the C/MI.** In one case, a grantee is beginning to acquire units with all costs to be covered from a combination of

local grant funds and recycled funds (i.e., sales proceeds) from the first wave of HOPE 3 units. The grantee was instructed by the HUD field office not to set these up as HOPE 3 units despite the fact that use of recycled funds was assumed in their original program size estimates.

In another site, the grantee exhausted all of its acquisition funds and, for a period, acquired properties using sales proceeds funds. HUD staff apparently told the grantee not to set these units up since they did not use HOPE 3 money. The result is that the site has produced 6 units that are not reflected in the C/MI.

- **Grantees are inconsistent in the way that they account for in-kind match.** The property-level cost data are intended to capture (at least at completion) the full costs of producing a unit. Based on the site visits, we found that some sites had not reported the value of any in-kind contributions (including donations of land or structures.) Failure to report the value of a property donation could, for example, mean that costs exceeding the FHA cap are not being captured. Less obvious "costs" that may be excluded from the property cost data are donations of labor or equipment that are used in multiple structures and would, therefore, need to be prorated across completions. Predictably, grantees who are not having any problems meeting overall match requirements are most likely to forget about some or all of their in-kind contributions. Those grantees who need to scrape their match together are more likely to carefully cost these items out; at this point, however, it is unclear whether they will report them fully in the C/MI since match monitoring will largely be done via the Annual Performance Reports.
- **Grantees may be inconsistent in reporting rehab costs separately for units where transfer occurs before rehab.** Although a number of sites technically transfer properties prior to beginning rehab, it appears that many of them view acquisition and rehab as a "package deal". Thus even in rehab-after-sale sites, the grantee may list rehab as "a cost to produce" rather than showing it as separately financed. Our review of C/MI data shows very few cases (9 out of 211) that show separate rehab financing.
- **A variety of errors or inconsistencies were observed and/or pointed out by grantees.** In one site, the study staff observed that the set up forms for some of the site's direct purchase properties show grantee acquisition costs and that, in one case, the mortgage amount differed from internal records. A couple of grantees indicated that certain data elements on the forms we had generated from the C/MI were simply wrong, but they hadn't a firm idea of how to fix them.
- **Grantees misunderstand (or ignored) certain variables.** One commonly misunderstood variable was the promissory note amount. As noted in Chapter 5, grantees often included the full value of all mortgages in this field. They were also inconsistent about adding together the value of any purchase price writedown

plus grants and deferred payment loans to determine whether the \$4,000 threshold had been crossed. Other problems included forms that were missing the date of acquisition for direct purchase properties (the only means of identifying this transaction type) and forms where a grantee has reported a VA or FHA loan as public funds (direct loan).

- **About a third of the C/MI Property Completion forms do not include any data on the grantee's costs to produce the unit.** We at first suspected that these might be direct purchase units, but this does not appear to be the case. (The only indicator of direct purchase is an entry in a date field on the Property Transfer Form.)

Grantee reporting problems appear to be fairly widespread, and the nature of the problem varies widely among grantees. HOPE 3 staff from central office told us that they contacted some of the grantees with peculiar C/MI entries early on, thus providing informal TA. We suggest that some form of written guidance (with a list of common errors or samples of filled out forms) might be useful at this point (particularly since only 12 of the 1993 grantees had set any projects up as of May 1994). Alternatively, the records for all grantees with completion forms could be dumped and reviewed; individual TA on C/MI reporting might then be delivered by telephone for those sites with the biggest problems.

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