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Neighborhood Housing Services: A Program With Promise

Charles Lee Thiemann*

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Neighborhood Housing Services (NHS) is a concept concerned with the problem of neighborhood preservation and revitalization. It is also a program that has developed out of this concept which many believe has much promise as a means of dealing with these problems. What reasons do we have for believing that NHS is a program with promise? How is the concept of Neighborhood Housing Services germane to the problem of neighborhood preservation and revitalization? What is the nature of the problem of neighborhood preservation and revitalization? These are the questions addressed in this article.

I. THE PROBLEM OF RESIDENTIAL DECAY

Despite the fact that residential dwellings are durable assets with a long life cycle, they do not last forever. They are subject to physical depreciation that stems from use and the elements. Many units deteriorate with age. Some do so quickly; others are maintained for relatively long periods. Many fall somewhere in between these two extremes. In addition, a number of units at some point in the process of deterioration are restored back to or even upgraded beyond their original condition.

The key to what happens to dwelling conditions over time is the

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decisions made by landlords and homeowners with respect to upkeep and maintenance. Property owners have wide latitude in the choices they make with respect to upkeep spending. At one extreme, they can choose a level of upkeep spending so high as to minimize depreciation; at the other extreme, they can spend nothing on upkeep and thereby permit maximum depreciation. The upkeep expenditures of individual property owners depend on many things. Sternlieb argues that tenure status is crucial; the prime generator of good maintenance is owner residence.¹ Slums contain some owner-occupied units, however, and many of the dwellings in the gray areas of our cities are occupied by owners. Owner-occupiers apparently do not have the same views about upkeep spending. Winger argues that the income, age, and educational background of the homeowner influence upkeep spending. There is evidence that suggests owner-occupants who have high incomes and who are young, married, and have a good deal of education spend more on upkeep than those who are relatively old, have little formal education, and have low to moderate incomes.²

The dwelling itself also has bearing on the amount of upkeep expenditures made by owners. The benefits received from a given dollar amount of upkeep are influenced by the condition and structural characteristics of the dwelling. Property owners with dwellings that are in poor condition and have structural defects, for example, receive less benefits per dollar than those who own dwellings that are in good condition and are structurally sound. Lower benefits per dollar mean, of course, less incentive to spend on upkeep.³

Finally, there are factors external to the owner and the dwelling that have bearing on upkeep decisions; indeed, some urban scholars argue that external factors are the crucial variables in the upkeep equation. Government actions in the form of taxes and code enforcement are generally believed to have impact on upkeep. Sternlieb and others have investigated the impact of these activities on maintenance expenditures and have come up with mixed conclusions. They are important in some cases, not important in others.⁴

More important in its impact on upkeep spending are so called externalities in housing consumption. Apparently, the housing consumption of any one household has impact on the housing consump-

1. G. STERNLIEB, *THE TENEMENT LANDLORD* (1966) [hereinafter cited as STERNLIEB].

2. Winger, *Some Internal Determinants of Upkeep Spending by Urban Home-Owners*, 69 *LAND ECON.* 474-79 (1973).

3. *Id.*

4. STERNLIEB, *supra* note 1.

tion of his or her neighbors. If so, this means that the benefit of upkeep and improvement expenditures accrues not only to those making the expenditure but also to those who live nearby. This is important because if there are "neighborhood effects," as Davis and Whinston have shown, each household has incentive to "undermaintain" its property relative to all others. If others receive some of the benefits from one owner's upkeep spending, he may hesitate to make the needed repairs. The benefits he perceives may not equal his estimates of the cost; consequently he may conclude that it is in his best interest to do nothing. On the other hand, he receives benefits from doing nothing if his neighbors keep up their homes. With neighborhood effects, the way to maximize benefits from upkeep and improvement expenditures is to do nothing.

Note that if this holds for one, it should hold for all, which implies that all households have incentive to "undermaintain" their residence. If all households respond to this incentive, depreciation will accelerate, leading quickly to urban residential decay and ultimately to urban blight and slums.⁵

This argument is persuasive and provides some insights, but it by no means explains the facts of urban residential depreciation and decay. The problem with it is that in all cities there are neighborhoods that are deteriorating, some that are well-maintained, and some that are "mixed bags." If we are to account for maintenance—or a lack of maintenance—in terms of neighborhood effects, such facts imply that these effects are strong in some neighborhoods, less so in others, and absent in still others. Unfortunately, there is no acceptable explanation of why this is so.

Obviously, there is no simple explanation of why some residential neighborhoods deteriorate into blighted or slum areas. It is clear in light of the discussion to this point, however, that we do know many of the elements that go into that explanation. We can assert that residential decay is most probable in neighborhoods populated with low and moderate income families. The budgets of these families do not provide them with very much to spend on maintenance if they are home-owners. If they rent, their incomes tend to keep landlords from pushing up rents to levels that would make upkeep profitable. Tax laws and laxity in housing code enforcement also add to the incentive for landlords to keep upkeep at relatively low levels in some cases.

5. Davis & Whinston, *The Economics of Urban Renewal*, 26 LAW & CONTEMP. PROB. 105 (1961).

The fact that poor people are likely to be living in older dwellings is another factor that increases the probability of low upkeep. In the absence of subsidies, the construction industry does not build very many new units for low income families;⁶ rather, their housing options are largely confined to previously occupied dwellings that filter down the quality scale.⁷ Significantly, these are dwellings that have a relatively high probability of being in poor condition and of having structural defects, which means the payoff from upkeep spending is low.

Finally, and most important, if there are neighborhoods where the incentive for upkeep is low to begin with, the problem will be compounded by neighborhood effects that come into play. Suppose there are families in the neighborhood who feel strongly about maintaining the condition of their home despite their low income. They may decide that a coat of paint is necessary. If their neighbors do nothing, however, they may conclude that the benefits from painting their house are less than the costs since these neighbors will share in the benefits without contributing anything in return. Neighborhood effects could very easily impair the incentives for any family in this neighborhood to do much about upkeep.

Suppose, however, there are those who feel strongly enough about maintaining the condition of their homes to do something about it anyway. Often they encounter additional difficulties. Most of them need credit to afford such maintenance. What they find in many instances is that lenders shy away from loans to those who seek to do what their neighbors will not. While the applicant might measure up to the credit requirements of the lender in most respects, problems can arise if the property that stands as collateral for the loan is located in a declining neighborhood, and for good reason. The risk exposure of lenders in making such loans in some instances is much greater than it is in other neighborhoods.⁸

6. See REPORT OF THE PRESIDENT'S COMMITTEE ON URBAN HOUSING, A DECENT HOME (1968).

7. The process of units "filtering" down the housing stock has, not surprisingly, been dubbed filtering. How this happens, if indeed it does in some cases, is a controversial matter. Upon careful inspection, however, filtering turns out to be a process through which the market adjusts the qualitative characteristics of the housing stock to the structure of housing demands. Some of these adjustments involve upgrading the dwelling. Many of them, however, do involve the movement of units down the quality scale. For a more extended discussion of filtering and the filtering controversy see Brueggeman, *An Analysis of the Filtering Process with Special Reference to Housing Studies*, in U.S. DEP'T OF HOUSING & URBAN DEVELOPMENT, NATIONAL HOUSING POLICY STUDY PAPERS (1973).

8. The neighborhood implications of decisions lenders make have come into sharp focus in the current controversy about redlining. Many argue that lenders redline or simply refuse

Nor will this be the end of their problems. When residential decay sets in, public investment expenditures in the neighborhood tend to lag. Public amenities become less abundant for reasons that are not hard to understand. Investment, no matter whether it is public or private, must show signs of having visible payoffs, and this becomes increasingly difficult to do in neighborhoods that are deteriorating.

What comes through clearly from these last few remarks is that interdependence is the key that unlocks the mysteries of why we have so much difficulty in dealing with the problem of residential decay. Interdependence in the actions of people contributes significantly to the problem; it also greatly complicates efforts to deal with it. If we understand this fact, however, the broad outlines of the solution of the problem become clear. What is essential to neighborhood preservation and revitalization is involvement and cooperation among those who live in the neighborhood and others whose activities impinge importantly on the upkeep and improvement decisions these residents make.

II. THE NEIGHBORHOOD HOUSING SERVICES CONCEPT

Neighborhood Housing Services is a concept, the essential ingredient of which is cooperation and partnership. The concept is directed toward the problem of a declining neighborhood. It encompasses three major groups of people and a designated target area. These groups are the neighborhood residents of the target area, financial institutions that might make loans in this area, and government officials of the city in which the target area is located. The concern is with the development of a practical approach to arresting residential decline in the targeted neighborhood.

In Neighborhood Housing Services, this approach revolves around the development of a "partnership" between financial institutions, city government, and community residents as they interact

to make loans in certain neighborhoods and, as a consequence, cause neighborhood disinvestment and decline. Economic studies of lending practices and the issue of neighborhood decline is much too simplistic. While some lenders may not take advantage of the lending opportunities available in certain neighborhoods, virtually all lending reflects underwriting standards. Significantly, risk is assigned an important role in these standards. If lending risks are taken into account, lenders will be influenced by risk characteristics of neighborhoods. But are lending risks higher in some neighborhoods than others? Are they higher in neighborhoods that have been redlined? While no definitive answer can be given to these questions, there are studies which imply lending risks are, on the average, higher in neighborhoods that are in a stage of residential decline. See, e.g., Williams, Baranek & Kenkel, *Default Risk in Urban Mortgages: A Pittsburgh Prototype Analysis*, 2 AMERICAN REAL ESTATE AND URBAN ECONOMICS ASSOCIATION 101 (1974).

in the target area. This implies the establishment of some kind of coordinating body or Board of Directors, which has to define the covenants of that partnership in ways that lead to the desired group involvement and cooperation. The "rules of the game" must encourage community residents in the target area to make upkeep and improvement expenditures, financial institutions to make loans to these residents, and city government officials to take necessary actions such as code enforcement and increased public investments in this area.

The specifics of such an agreement are important. What they might be can be best illustrated by looking more closely at particular Neighborhood Housing Services programs.

III. NEIGHBORHOOD HOUSING SERVICES PROGRAMS

The origin of Neighborhood Housing Services programs was in Pittsburgh, Pennsylvania, in 1969. A group of neighborhood residents, concerned with the problem of residential preservation, organized under the name of CASH (Citizens Against Slum Housing). Their concern was simply to save their neighborhood and improve the quality of life. They initiated meetings with local government and lending institutions, out of which came a plan, which marked the beginning of a partnership between neighborhood residents, local government, and lenders. Financial institutions were initially wary of lending in this neighborhood, but they agreed to try it. A high risk revolving loan fund was established with a foundation grant to help all residents in the area who did not qualify for a loan on the basis of underwriting standards applied by private lenders. The city agreed to provide the code enforcement program and give attention to public services as needed. To tie together these elements—the city's contribution, the lenders' involvement, and the citizens' need for help — a staff was created. The staff, among other things, supervised the awarding of contracts and the construction work. They also gave credit counseling, as well as relocation assistance, and made referrals to social service agencies.

The success of this Pittsburgh program led the Urban Reinvestment Task Force to approach the Federal Home Loan Bank of Cincinnati about establishing a program in the City of Cincinnati. In February 1972, the directors of the Federal Home Loan Bank of Cincinnati passed a resolution to fund the development of NHS in the Fifth District. An urban housing workshop was held in Columbia, Maryland. An Ad Hoc Housing Committee, whose objective was to establish a Housing Services Program, was formed. This

committee, along with the Federal Home Loan Bank Board and the Federal Home Loan Bank of Cincinnati, developed a process for establishing a Neighborhood Housing Services Program. The culmination of this work was the incorporation of the Madisonville Housing Services of Neighborhood Housing Services, Inc., of Cincinnati, Ohio, on December 22, 1973. An adaptation of the Pittsburgh model, the Madisonville Program became a model in its own right. A discussion of this program will shed light on what a Neighborhood Housing Services program is all about.

A. *The Madisonville Housing Services Program*

(1) Board of Directors and Staff

The basic policies of the Corporation were established by its Board of Directors. Those appointed to this Board included persons from all groups to be involved in the development of the program. The initial concern of the Board was to set up local objectives for the Madisonville project based upon the Neighborhood Housing Services concept. Staff was also a primary concern of the Board. At the outset, the key to success was believed to be bringing together diverse groups of people and getting them to work together in a cooperative spirit. A highly qualified staff was necessary to achieve this.

(2) Loan Processing

Home improvement purposes were the core of the Madisonville program. A loan processing procedure was established, which consists of several interviews with a staff counselor. Potential borrowers are those who have to make certain home improvements — their home is in violation of a housing code — and those who want to make these improvements. The first interview is to establish rapport. If the counselor decides that a loan is needed, the loan process begins. At Madisonville Housing Services, all NHS clients' loans are processed through the loan committee. The loan committee members are two financial institutions, two community residents, and one community-at-large professional person. If a loan is judged to be a high risk loan, it is processed through the High Risk Revolving Loan Fund. If it meets the normal underwriting criteria applied by area lenders, it is referred to one of the participating lending institutions.

(3) Funding

Three areas of funding are necessary to implement Neighbor-

hood Housing Services. First are the Fund Requirements for staff persons and resources. The Urban Reinvestment Task Force contributes funds for this purpose as does the Federal Home Loan Bank of Cincinnati. Twenty-nine savings and loan associations also have contributed to the corporation for operating expenses for the first two years.

Second are the funds for the High Risk Revolving Loan Fund, one-half of which was provided by a Foundation grant of \$100,000. This grant was contingent upon an equal match of funds from local philanthropic contributors. The local funds were quickly forthcoming.

Finally, there were funds provided by the City of Cincinnati. The City Council appropriated an initial \$25,000 for housing code enforcement to inspect systematically each house in Madisonville target areas for violations. Since the initial commitment, the City has spent \$1.4 million in the following areas of public improvements in Madisonville:

\$60,000	Two inspectors for first year—\$25,000, Three inspectors for second year—\$35,000
800,000	Neighborhood Improvement Program (NIP) (street repairs, new gutters, curbs, massive trash pickups, etc.)—\$300,000 - 1974; \$500,000 - 1975
54,000	Expansion of Madisonville Health Clinic
27,000	Development of historical park—Toll Gate Park
3,000	Planning study to provide for \$1 million of recreational development in Madisonville
90,000	Approval of CDA funds (Community Development Act) for improving business district in concert with a HUD (Department of Housing and Urban Development) grant of \$200,000 to set up NHS-type program for the commercial sector is imminent.
130,000	Statistical study of Madisonville, which will serve as the Master Plan for Madisonville. The City Planning Commission has approved the recommendations made in the study.
315,000	Approval of LEAA (Law Enforcement Assistance Act) grant for Madisonville Youth Delinquency Project from Community Developments funds.

(4) Implementation

The inspection of residences in the Madisonville community was considered a key but potentially controversial part of the implementation of the program. For these inspections to be successful, it is essential that all homeowners know what is happening. They must be aware that inspectors are coming and understand the Neighborhood Housing Services concept. A procedure set up to provide this information included letters, block club meetings, and/or house-to-house contacts. When the city inspector goes to inspect a house, the individual has received a letter of information about Neighborhood Housing Services that indicates certain services are available. After the inspector inspects the house, he lists all code violations. It then becomes the responsibility of the homeowner to comply with the safety and sanitary standards of the code. Yet, the homeowner now knows about Neighborhood Housing Services: NHS help is available if needed. If homeowners so choose, they can proceed to deal with the inspector, contractor, and the Banks on their own, or they can seek NHS assistance. Beyond the technical assistance needed for individual homeowners, the staff of NHS also provides relocation assistance, budget counseling, credit counseling, referrals to other agencies and referrals for legal advice.

While these things are crucial, the Madisonville Housing Services staff has done more. They have worked with other agencies to coordinate other kinds of investment in the neighborhood. They have worked with the local businessmen's association in acquiring a \$200,000 grant from the Department of Housing and Urban Development to set up a Neighborhood Housing Services type program to assist the commercial area. They have worked with the Planning Commission in developing a master plan which will serve the Madisonville area. They have also worked with the State Department for assistance in the Law Enforcement Assistance Act for a grant for the Madisonville Youth Delinquency Project, which will be funneled through a local children's home.

The list is much longer. The point is that these things were done because of a belief that to turn a neighborhood around required inclusion of all facets of the community. The Madisonville experience has in fact displayed that a coordinated reinvestment from all sectors of the community is the only way to revitalize the neighborhood.

IV. AN EVALUATION

There are concrete indications of success in the Madisonville

Housing Services program. The program went into actual operation in August 1973. If it were having impact, construction activity in the community should be picking up. Significantly, building permits in Madisonville increased 56 percent between 1972 and 1975, at a time when permit figures for the City of Cincinnati as a whole declined. Another indication of success is in the decline in the number of crimes and fires reported in Madisonville since the establishment of the program. Reports on the inspection process also suggest some success. In the NHS target area, a total of 694 buildings were inspected, of which 534 were indicated to be in violation of the city's housing codes. By the end of 1975, the number of dwellings in violation in NHS areas was greatly decreased. Finally, that Neighborhood Housing Services is in some way responsible for these changes is suggested by the fact that close to one-half of the owners who were cited for code violations made use of the facilities of Madisonville Housing Services.

The current figures show that the Madisonville community still has residential housing problems in the sense that some units still do not meet the minimum standards embodied in the housing codes of the City of Cincinnati. The process of residential decay in this community, however, has clearly been arrested and some upgrading has occurred. While the NHS program in this community must meet the ultimate test — the test of time — the results thus far certainly have to be judged as highly encouraging.

To the Cincinnati Federal Home Loan Bank, the results of the Madisonville experiment provided sufficient grounds for an expansion of the program to other neighborhoods in other cities in the Fifth District of the Federal Home Loan Bank System. The Bank now has two ongoing projects in Cleveland, Ohio and one ongoing project in Nashville, Tennessee. We are also reviewing the interest expressed by a number of people in the cities of Toledo, Columbus, Springfield, and Barberton, Ohio.

Neighborhood Housing Services Programs, we believe, have been successful thus far in addressing the problem of neighborhood decline because they come to grips with the root cause of the problem. People acting on their own will not solve the problem. They must act in concert and in a cooperative vein. There must be involvement if there is to be neighborhood revitalization, and involvement is the key element in the Neighborhood Housing Services Program. A crucial task is to get neighborhood participation, usually by setting up community meetings, establishing block clubs, and making door-to-door contacts. Much effort is also de-

voted to getting the involvement of financial institutions and city government officials.

Getting people involved, however, is not enough. This involvement must lead to something. With several groups that consist of potential adversaries — lenders versus borrowers, private citizens versus government — cooperation or some sort of partnership is necessary. The creation of a workable partnership between neighborhood residents, lending institutions, and government is, of course, one of the primary concerns of a Neighborhood Housing Services Program. This is the core of the NHS concept.

Finally, to keep people involved and to keep the partnerships going, the program must be structured to accommodate the self-interest of the participants. Appealing to the altruistic streak in people will only take us so far. To get people to participate for extended periods of time, there must be something in it for them, such as a better home in a better neighborhood, a viable loan, or a neighborhood that generates more rather than less tax revenues. Self-interest in this sense is, of course, recognized as an important part of a successful Neighborhood Housing Services Program.

In theory, all the ingredients of a potentially effective program are there. As the program has been implemented to date it has been a success. Further tests of its viability as a solution to the problem of neighborhood decline lie ahead. Based on experience, however, the program is one with much promise.

