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THE WHITE HOUSE

WASHINGTON

October 2, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

JERRY JONES

FROM:

JIM CONNOR *gEC*

SUBJECT:

Use of Urban Homesteading in Michigan
Speech and Recommendation for Expansion
of Program

The attached memorandum from Carla Hills was returned in the President's outbox with the following notation:

"If and when I go to any of these cities
I should visit these projects."

Please follow-up with appropriate action.

cc: Dick Cheney
Bill Nicholson

THE WHITE HOUSE
WASHINGTON

September 13, 1976

MR PRESIDENT:

A copy of the attached letter from
Carla Hills has been sent to
Bob Hartmann.

Jim C. [unclear]

*of 4 when I go to
my 2 these cities I should
visit these projects*



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, D. C. 20410

SEP 13 1976

MEMORANDUM FOR: The President

FROM: Carla A. Hills

SUBJECT: Use of Urban Homesteading in Michigan Speech
and
Recommendation for Expansion of Program

If you intend to mention your concern for the problems of urban neighborhoods in your Michigan speech, you may wish to take credit for HUD's successful urban homesteading demonstration program. Under this program, HUD provides Federally acquired homes to cities for sale at a cost of \$1 to families who agree to rehabilitate and live in these abandoned structures for at least three years.

The 23 participating cities (listed in Attachment A) have thus far received 900 homes valued at \$5 million. We are about to provide cities with the additional \$6.25 million in properties authorized by the Housing Amendments of 1976.

In addition, I recommend that you immediately propose legislation to authorize an expanded program level of \$15 million in each of Fiscal Years 1977 and 1978. This is the maximum responsible program level given the size of HUD's current inventory of homes in appropriate neighborhoods. At this program level, we could provide assistance to at least 10 additional cities.

The program has been extremely successful, both in providing home ownership opportunities for a limited number of moderate-income Americans and in eliminating the blighting influence of boarded-up HUD properties (see Attachment B, an October 7 Washington Post feature story). Cities have developed ambitious plans for the revitalization of homesteading project neighborhoods involving total public and private investments of over \$40 million and have shown an impressive ability to develop creative variations on the homesteading theme.

You may be interested to note that last week Mr. Carter, apparently unaware of our ongoing urban homesteading program, stated that he would start such a program.

cc: James M. Cannon
James T. Lynn
L. William Seidman

URBAN HOMESTEADING DEMONSTRATION SITES

CALIFORNIA, Oakland

DELAWARE, Wilmington

GEORGIA, Atlanta

GEORGIA, Decatur

ILLINOIS, Chicago

ILLINOIS, Rockford

INDIANA, Gary

INDIANA, Indianapolis

INDIANA, South Bend

MARYLAND, Baltimore

MASSACHUSETTS, Boston

MINNESOTA, Minneapolis

MISSOURI, Kansas City

NEW JERSEY, Jersey City

NEW YORK, Freeport

NEW YORK, Islip

NEW YORK, New York

OHIO, Cincinnati

OHIO, Columbus

PENNSYLVANIA, Philadelphia

TEXAS, Dallas

WASHINGTON, Tacoma

WISCONSIN, Milwaukee

TAB B

Tuesday, September 7, 1976

Homestead Plan a Hit Across U.S.

By Charles A. Krause
Washington Post Staff Writer

INDIANAPOLIS—“We plan to live like the Rockefellers,” Shon Casey said as he proudly showed a visitor through the small, ranch-style home he and his wife, Jane, are remodeling here at a cost of more than \$20,000.

“Ever since I heard mention of homesteading,” Casey said recently. “I said I was going to get one of those homes for a dollar.” Last Christmas Eve, Casey did. His name was picked out of a bowl by former Indianapolis Mayor Richard G. Lugar.

In South Bend, 120 miles north, nurse's aide Ruth Tilley already has moved into the three-bedroom 50-year-old house on Marine Street that she and her family applied for and won in that city's homestead lottery.

“We just never thought we'd own a home,” she said, bouncing on a tattered sofa as she talked about how “terrific” she feels about her new home. “My mom kept saying she'd sell us her house when my dad dies—but, shoot he might live another 25 years.”

And in Chicago, Craig Martin has moved his mother out of a depressing, crime-ridden public housing project into a small, wood-frame house on West 104th Street, a house that had been vacant and boarded up for more than a year before the Martins moved in.

Martin, 23, plans to fix the place and live in it for three years with his mother and other members of his immediate family and then use the house either as collateral to start his own business or to buy a larger, better house for himself.

“I didn't have anything when I was coming up,” he said last week. The home he plans to rehabilitate at a cost of almost \$10,000 “will give me a financial boost in the future,” he said.

The Caseys, Tilleys and Martins are among 500 families in 23 cities now participating in the Department of Housing and Urban Development's urban homesteading program. The \$5 million experiment has met an unusually cordial reception from cities in which it is being tried and from families making it go.

“The program really has a lot of hope,” said Michael A. Carroll, deputy mayor of Indianapolis, during an interview about homesteading in his city. “The concept of the program is sound.”

When urban homesteading was conceived several years ago in Wilmington, Del., and Philadelphia, the plan received a lot of attention because it seemed and sensible appealed to old-fashioned American values—give someone a piece of land, or in this case a vacant old house that nobody would buy, and let them use wits and hard labor to fashion their economic destiny.

The early homesteading programs ran into trouble, because homesteaders often were unable to do the complicated heating, plumbing and roofing work that was needed and were just as often unable to obtain financing to have the work done professionally. Many early homesteaders in Wilmington and Philadelphia simply gave up, although some notable success stories emerged.

In 1974, Congress enacted federal urban homesteading legislation and gave HUD money to start the program. Last year, after Carla A. Hills was appointed its secretary, HUD began planning and implementing a “demonstration” homesteading program in 23 cities of more than 60 cities that applied.

The program was attractive because it enabled HUD to rid itself of some of tens of thousands of homes it owned in cities across the country. The homes, boarded and vacant, had been foreclosed on by the Federal Housing Administration, part of HUD, which insured more than \$1 billion worth of unsound mortgages under various programs in the late 1960s and early 1970s.

The cities were eager to participate because the homesteading program promised to put families back in HUD-owned homes, that often stood vacant for years while FHA tried to resell them.

The boarded-up homes often had a depressing and destabilizing effect on urban neighborhoods in which they were concentrated because the homes were fire hazards, eyesores, tempting magnets for juvenile crime and graphic reminders that the neighborhoods were decaying, often very seriously.

At the outset, neither HUD nor the cities had much to lose by implementing the proposed federal homesteading program by making a few HUD-owned homes available in hundreds of cities and waiting to see what might happen.

But, according to Sybil Phillips, who administers the program here for HUD, a series of tantalizing questions arose during a planning conference attended by HUD officials and representatives of more than 100 cities, in June, 1975:

- Could something of lasting value be gained from the program beyond reducing the number of HUD-owned homes and finding families to live in them?

- Could urban homesteading serve as a catalyst for reviving entire neighborhoods rather than simply resulting in a few rehabilitated houses scattered in neighborhoods and cities throughout the country?

- If the houses chosen for the program were concentrated in “target neighborhoods,” could enough other improvements be made in these areas to induce other homeowners to want to improve their homes and stay in marginal city neighborhoods rather than flee to the suburbs?

- Could the program, by revitalizing one or two sections of a city, become a symbol of urban resurgence that would attract middle- and upper-middle-class suburbanites back to the nation's core cities?

The federal homesteading demonstration program was designed to answer these questions. HUD decided that only a limited number of cities could participate in the initial program and that homesteading would be concentrated in certain neighborhoods within those cities.

“The demonstration design is based on the assumption that an urban homesteading program should not stand by itself but must be integrated into a program of neighborhood revitalization,” HUD wrote in its official invitation to cities to apply for the program.

“HUD is interested in homesteading programs in cities that are willing to specify the neighborhoods in which they will coordinate conservation efforts and provide the public services and amenities commensurate with the need to arrest decline and encourage private investment,” the invitation said.

In other words, HUD would give the selected cities 1,000 properties, and homesteaders would be eligible for \$5 million in low-interest federal rehabilitation loans. That was intended to remedy the problem faced by Philadelphia and Wilmington homesteaders who had trouble obtaining rehabilitation financing from private lenders.

The cities had to select target neighborhoods and promise to use federal community bloc grant money or other local funds to upgrade roads, schools, police and fire protection or other services in the homestead areas.

From a planning viewpoint, the goal was to achieve an immediate and positive impact on neighborhoods and cities selected to participate.

An obviously important side effect was to provide 1,000 families this year with a home for \$1 plus whatever they spent to rehabilitate the home and meet housing code standards.

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Last Oct. 10, HUD announced the 23 cities selected for the homesteading program. By last April, most had selected the federally-owned homes they wanted homesteaded, HUD had conveyed their titles to the cities and the cities began selecting homesteaders.

Most of the cities have held widely publicized local homestead drawings or lotteries after an initial screening process designed to eliminate applicants who were not at least 18 years of age did not have the financial resources to pay for rehabilitating the homes, utilities and taxes.

Some cities, such as New York, Atlanta, Wilmington, Boston and Gary, Ind., are moving at a relatively slow pace. The reasons include poor local administration of the program, legal problems associated with selling property for less than its appraised worth, slow HUD processing of rehabilitation loan applications and refusal by some lending institutions to provide interim or long-term financing for homesteaders.

Some cities attempted to rely on local private lenders rather than the federal loan program because they initially thought private financing could be obtained more quickly.

Based on telephone interviews with homesteading coordinators in 12 of the 23 cities, HUD's national progress statistics and a one-week tour of four demonstration cities — Indianapolis, South Bend, Gary and Chicago — it appears that most cities and homesteaders are quite successful.

"It is just one of the very, very best programs we could have," said Warren C. Ditch, who administers the homestead plan for the Minneapolis Housing and Redevelopment Authority.

Minneapolis has awarded 34 of the 52 homes in its federal homesteading program. Fourteen of the 34 will cost between \$15,000 and \$17,000 to rehabilitate and already are occupied. Ditch said his office has received an average of 150 applications for each of the 34 homes.

"Young people are going into these neighborhoods, taking the boards off these houses and becoming part of the community," Ditch said with an enthusiasm typical of most city officials and homesteaders interviewed.

In Dallas, all 77 homes have been awarded and 35 are occupied, according to Pink A. Voss, chief of field operations at the Dallas department of housing and urban rehabilitation.

Voss said Dallas deliberately sought homesteaders with the ability and desire to do much of the rehabilitation work themselves. That is an integral feature of the original homestead programs that has been discarded by many cities in the demonstration plan.

To help the homesteaders, Voss said the Dallas housing authority is providing counseling, a tool-lending program for homesteaders and various

services.

Dallas also has created an innovative financing arrangement with seven local banks. In return for \$66,000 in city funds deposited with the banks as security against defaults, the banks have agreed to make \$500,000 worth of rehabilitation loans to the 77 homesteaders.

On the other hand, only a few homesteaders in Gary, Ind., have started working on their homes, and none has moved in. Richard Comer, director of the Gary Housing Development Corp., said that Gary banks have been reluctant to lend money in the city and that federal rehabilitation loans have taken months to process.

Without the loans, Comer said, homesteaders cannot hire contractors to do heating, plumbing and roofing that most houses need before homesteaders can move in.

Comer said that the knowledge that boarded-up homes in Gary's Horace Mann neighborhood will be rehabilitated soon and occupied, has given present Horace Mann homeowners "an enormous psychological lift."

There is clear evidence that such homeowners are responding to prospective homesteading just as HUD had hoped. Neighborhood houses are being painted, new shrubbery is being planted, other improvements are being made, and Comer believes the neighborhood may have been saved from irreversible decay.

Gary's Horace Mann section is typical of neighborhoods in the homesteading program. It is similar to the Oak Cliff section of Dallas, the Park Heights section of Baltimore, the Wynnefield section of Philadelphia and the Forest Manor section of Indianapolis.

These neighborhoods have experienced rapid racial change over the past 5 to 10 years and are older, but still quite pleasant, city neighborhoods with single family homes on tree-shaded streets.

While the worst slums in most cities receive most attention from planners, the news media and politicians, it is moderate-income neighborhoods such as Horace Mann or Studebaker Park in South Bend with vacant and abandoned homes that many cities now see as the keys to their future.

If sections such as Horace Mann, which only a few years ago was a middle and upper middle income Jewish neighborhood, become irreversibly blighted, cities will lose what remains of their black and white middle class and their residential tax base. Homesteading is designed to preserve and stabilize such sections.

Most homesteaders are upwardly mobile young couples, black and white, who earn from \$10,000 to \$25,000 a year in family income, easily can afford the costs of home ownership but may have had trouble saving the down payment needed to buy a home with a

conventional mortgage.

Martin Orłowski, 22, seems typical. A South Bend fireman, he earns \$8,520 a year and plans to be married this month. He and his fiancée, Michelle Boosi, 19, have worked together on the two-bedroom home Orłowski won in the South Bend drawing last February.

They have spent more than \$5,000 for a new bathroom, electrical system, furnace, roof and aluminum siding—to meet building code regulations. Today, it is almost impossible to believe that the home was a boarded-up wreck only six months ago.

Located in South Bend's integrated Belleville section, the home will belong to the Orłowski's in three years if they stay in it, and they say they will. HUD has imposed a three-year residency requirement for all homesteaders to discourage speculators from taking advantage of the program.

Orłowski's fiancée said she loves the house. "We never could have bought a house. Homesteading gives people a chance," she said.