

## CHAPTER 5. COMMUNITY DEVELOPMENT

- 5-1. SCOPE OF INSTRUCTIONS. These instructions define underwriting functions and responsibilities in connection with the planning and execution of urban renewal projects promulgated by Local Public Agencies where the use of mortgage insurance is contemplated.
- 5-2. ELIGIBILITY FOR MORTGAGE INSURANCE. Section 220 is specifically designed for use in urban renewal areas and Section 117 concentrated code enforcement areas. However, financing under other applicable Sections of the Act is also available and may be more suitable for attaining the objectives of the Urban Renewal Plan. The Field Office will base its conclusions as to eligibility, values, and other underwriting considerations on the assumption that the Urban Renewal Plan will be successfully executed and its objectives will be attained.
- 5-3. STATUS OF URBAN RENEWAL PROJECTS. Mortgage insurance under Section 220 is designed for use in urban renewal areas that may involve either Assisted or Non-Assisted type projects. Federally-assisted urban renewal projects entail a Federal capital grant and may involve condemnation of properties, demolition of slum structures, redevelopment of land with new construction, rehabilitation of existing structures, or any combination thereof. Non-Assisted urban renewal projects are those in which no Federal grants are requested. Public improvements to be made are financed entirely with local funds. These projects generally will depend on preservation and stabilization of the neighborhood through rehabilitation and conservation of existing structures, supported, as in Assisted projects, by effective programs of zoning, code enforcement, and neighborhood improvement. In either type project, the DO/CU must develop the underwriting program and requirements needed to stabilize value and make possible the use of mortgage insurance, if such use appears feasible.
- 5-4. COLLABORATION WITH COMMUNITY DEVELOPMENT AND LPA. The problems inherent in urban renewal are so complex and far-reaching in their significance that only close collaboration by the Field Office, the LPA, and Area/Regional Office Community Development Representatives can assure successful operation. The DO/CU must participate as early as possible in identifying these problems and establishing the basis for mortgage insurance. The essential underwriting determinations should be worked out so there will be no misinterpreta-

tation of the Field Office position. The DO/CU should strive for complete understanding without compromising his

best judgment but bearing in mind the objectives of the urban renewal program and Department policy.

- 5-5. WORKABLE PROGRAM FOR COMMUNITY IMPROVEMENT. Contracts for Federal assistance for new projects cannot be entered into nor the special insurance aids under Section 220 be made available for urban renewal areas unless the locality has secured certification of a Workable Program by the Secretary. This program provides for appropriate private and public resources to eliminate and prevent the development or spread of slums and urban blight, to encourage needed urban rehabilitation, and to provide redevelopment of blighted, deteriorated, or slum areas.

The Area Office has primary responsibility for processing workable program applications. The Insuring Office will participate in this processing only when requested to furnish assistance.

- 5-6. THE URBAN RENEWAL PLAN. Before mortgage insurance benefits under Section 220 can be made available in an urban renewal area, the governing body of the locality must approve an Urban Renewal Plan for a specific area. This plan is submitted by the locality to the Area Office Director for approval. If approved, the Director will advise that applications for mortgage insurance under Section 220 may be accepted for processing. There are many important differences between an Urban Renewal Plan and a Workable Program, including the fact that the former pertains to a specific delineated neighborhood, whereas a Workable Program applies to the entire community. "Urban Renewal Plan" means a plan for an urban renewal project; which plan:

- a. Conforms to the general plan for the locality as a whole and to the Workable Program and is consistent with definite local objectives respecting appropriate land uses, improved traffic, public transportation, public utilities, recreational and community facilities, and other public improvements; and
- b. Is sufficiently complete to indicate such land acquisition, demolition and removal of structures, redevelopment, improvements, and rehabilitation as may be proposed to be carried out in the urban renewal area, zoning and planning changes, if any, land uses, maximum densities, and building requirements.

- 5-7. URBAN RENEWAL PROJECT. "Urban Renewal Project" may include undertakings and activities of a LPA in an urban renewal area to eliminate slums and blight or prevent their development or spread, and may involve slum clearance and redevelopment, rehabilitation or conservation, or any combination thereof, in accordance with the urban renewal plan. Such undertakings and activities may include:

- a. Acquisition of a slum area, a deteriorated or deteriorating area, or land which is predominantly open and which, because of obsolete platting, diversity of ownership, deterioration of structures or site improvements, substantially impairs or arrests the sound growth of the community, or open land necessary for sound community growth which is to be developed for predominantly residential uses; provided, that the requirement that the area be a slum or a blighted, deteriorated, or deteriorating area, shall not be applicable in the case of an open land project.
- b. Demolition and removal of buildings and improvements.
- c. Installation, construction, or reconstruction of streets, utilities, parks, playgrounds and other improvements necessary for carrying out in the urban renewal area the objectives of Title I of the Housing Act of 1949 in accordance with the Urban Renewal Plan.
- d. Disposition of any property acquired in the urban renewal area (including sale, leasing or retention by the LPA itself) at its fair value for uses in accordance with the Urban Renewal Plan, or for low rent public housing or housing for moderate income families.
- e. Carrying out plans for a program of voluntary repair and rehabilitation of buildings or other improvements in accordance with the Urban Renewal Plan.
- f. Acquisition of any other real property in the urban renewal area where necessary to eliminate unhealthful, unsanitary, or unsafe conditions, lessen density, eliminate obsolescence or uses detrimental to the public welfare, or otherwise to remove blight or prevent the spread of blight or deterioration, or to provide land for needed public facilities.

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- g . Acquisition, and repair or rehabilitation for demonstration purposes and resale by the LPA, of a limited number of structures which are located in the urban renewal area and which, under the Urban Renewal Plan, are to be repaired or rehabilitated for dwelling use or related facilities.

5-8. OBJECTIVES IN URBAN RENEWAL PLANNING. Where mortgage insurance is contemplated, the Field Office is vitally interested in the specific Urban Renewal Plan because of the important effect such plan may have upon underwriting judgments. For this reason, the DO/CU and such technical staff as he may designate are expected to participate in discussions with the LPA. However, it will be the community's responsibility to initiate urban renewal

proposals, and to establish the general character and extent of the proposed renewal operation. It is the responsibility of the Area Office to initiate consultations with the Insuring Office when and if necessary.

- a. The objective of the consultation during the preparation of an Urban Renewal Plan is the creation of a neighborhood containing decent, safe, and sanitary dwellings with stability of values which can be expected to endure through the life of the proposed insured mortgages. The processing of individual applications will be carried out within the perspective of this objective. Accomplishment of this objective will be dependent on the elimination of the present blighting influences, the ultimate existence of suitable community facilities and services properly adapted to the character of the neighborhood, adequate protection of the neighborhood from adverse influences, and elimination of specific nonconforming uses which may have a deleterious effect on individual property values.
- b. The Field Office's advice during all stages of development and execution of the Urban Renewal Plan should be confined to factors directly relating to the economic and financial feasibility of residential redevelopment and to mortgage insurance. In giving its advice, the Field Office should be aware of the primary responsibility of the city for establishing its redevelopment objectives and of the dignity and importance attached to an Urban Renewal Plan as an official expression of local will. Once adopted, an Urban Renewal Plan has the full force of law.

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- c. In one way, the analysis of urban renewal plans and projects by the Field Office may be compared to the analysis of new subdivision proposals. In both instances, the staff must project its thinking into the future and must visualize areas as they will appear at this future time when certain mandatory requirements have been fulfilled. To accomplish substantial upgrading of a neighborhood, the Urban Renewal Plan must go deep enough to affect the attitudes of the people toward their neighborhood and to give them greatly increased pride in their homes or other type living units.
- 5-9. UNDERWRITING CONSIDERATIONS IN URBAN RENEWAL AREAS. Poorly maintained structures lacking adequate sanitary facilities ordinarily characterize blighted areas; the degree of blight being in direct proportion to the number of dwellings exhibiting these conditions. Over-occupancy of structures in relation to the sanitary and cooking facilities available creates a situation which releases a chain of related

reactions that combine to condemn the neighborhood to a pattern which will inevitably result in a slum area. Related conditions ordinarily found characterizing blighted neighborhoods are the mixed uses of structures and land; that is, mixed residential and non-residential uses; inadequate city services, such as garbage and trash removal facilities; deficiencies in recreational and community facilities; and congested, unsafe, unlighted, or otherwise deficient streets and alleys. Many of the above blighting, value-destroying influences are, by their nature, deficiencies which can only be eliminated or corrected through public action. Their elimination is essential to the recreation of a neighborhood if values are to be sustained or restored.

- a. It is a responsibility of the Field Office to give constructive advice to which the locality should give consideration. Merely cataloguing the deficiencies is not enough, and positive suggestions to remedy the situation should be made.
- b. It is evident that blighted areas cannot be restored unless the causes of blight are identified and offset or eliminated through the provisions of an Urban Renewal Plan. The problems in blighted areas are much more extensive and acute than in neighborhoods eligible under a regular program such as Section 203(b). In the latter, deficiencies in individual properties submitted as security for insured loans can generally be corrected through requirements normally placed on individual commitments; and, thus, this aspect of the problem is largely within HUD's control. However, in urban

renewal areas, it should be evident that simply taking care of the physical needs of the individual properties would be a superficial approach and a wasted effort if not preceded by the steps previously outlined to remove, or reduce to an acceptable degree, the underlying causes of blight which affect all the properties in the area.

- c. Those elements which create and sustain real estate values must outnumber and outweigh those elements which destroy values. In other words, it is the recognition of the presence and extent of these opposing elements which must be analyzed in making a determination as to the degree of mortgage risk. The ability to isolate and identify the value-destroying influences in a given neighborhood, and to present them clearly to the LPA, should bring about a mutual understanding of problems common to the local agency and the Field Office.
- d. The improvement of housing standards and conditions is

an objective of the National Housing Act. Improvement of housing standards and conditions is a relative matter. The degree to which it can be accomplished in the case of existing properties and neighborhoods varies widely, depending upon the level of quality of existing housing supply in different localities. Bringing an unacceptable neighborhood to an acceptable status, through elimination of causes creating the unacceptable conditions, definitely improves housing standards and conditions in that neighborhood. The status to which it is brought may be barely acceptable, but it represents positive improvement over former conditions and thus meets the above-mentioned objective of the Act. Fair neighborhoods can be brought to the status of good neighborhood, again resulting in improved housing standards and conditions.

- 5-10. REHABILITATION STANDARDS. Reference 11 of the Foreword serves as a guide for the development of specific standards for the Urban Renewal Plan. When the Urban Renewal Plan has been adopted, the standards therein become HUD-FHA standards for rehabilitation within the urban renewal area.

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- a. Improvement in housing standards and conditions is measured by relating the condition that will exist after causes of blight and deterioration have been removed to currently existing conditions in the neighborhood. Improvement is not measured by comparison of the rehabilitated neighborhood with superior neighborhoods. Broadly speaking, when HUD is successful in achieving conditions which reduce the mortgage risk in a given area to a degree which makes it acceptable for mortgage insurance, HUD has, for practical purposes, met the purpose and intent of Reference 11 of the Foreword.
- b. The needs and desires of the market must be given full consideration in determining whether or not the objectives of the rehabilitation standards have been achieved. It is of the utmost importance that this approach and interpretation be fully understood and adopted in all offices, and that the public be made aware of HUD's attitude in this regard.
- 5-11. DEVELOPMENT OF URBAN RENEWAL PLANS. The DO/CU is responsible for carrying out the requirements for coordination with the LPA. Authority to coordinate the conclusions of the underwriting staff and to make decisions should be delegated when possible to one person. This person may be any available member of the staff capable of dealing with the problems peculiar to urban renewal.
- 5-12. CONCURRENCE IN LAND PRICE. Instructions require that agreement be reached between the Field Office and the LPA

concerning the minimum price of land to be sold in urban renewal areas for private residential development. Every effort should be made to reconcile any differences at the local level before the LPA requests concurrence by the HUD Area Office in the proposed price. In order to provide a degree of flexibility and to expedite agreement, the DO/CU is authorized to increase by up to 5% the estimated land value as determined by the Valuation Section. The increase must be appropriate based on review of market data, and it must be given to assist the LPA in arriving at an acceptable land disposition price for recommendation to HUD.

- 5-13. FEASIBILITY OF REHABILITATION. If the Urban Renewal Plan includes rehabilitation of residential properties, the Field Office will be requested at the completion of the planning stage to furnish its conclusions as to the feasibility of rehabilitation. Also, opinions as to the market demand for rehabilitated residential properties and the adequacy of the Rehabilitation Standards established by the LPA should be determined.

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- 5-14. PROCESSING OF TYPICAL PROPERTIES. Typical properties intended for rehabilitation under the Urban Renewal Plan will be selected to test the feasibility of rehabilitation. The properties selected must be mutually agreed on by HUD-FHA and the LPA. Since they will serve as prototypes for the area, proper selection and analysis will have a predominant bearing on the tests for feasibility. They should represent the main structural classes and use and occupancy patterns. The condition of the properties should represent typical deterioration rather than extremes.
- a. Selection of the most suitable financing program is a key element in the feasibility determination. Where the objective of urban renewal is to provide housing for the present occupants of the area or other low and moderate income families, one of the HUD-FHA financing programs involving interest or rent subsidies should be chosen for the feasibility test.
  - b. The "ability to pay" is the key element of feasibility. In single units to be rehabilitated, the test is the ability of occupant mortgagors to pay the housing expense under the available financing programs. In rental properties, the test is the ability of the property to generate net income sufficient to support the maximum HUD-FHA mortgage based on total cost. Feasibility will be determined on each selected property or group of properties in the same manner as if a sponsor had submitted the proposal to rehabilitate up to the Rehabilitation Standards established by the LPA. The cost of rehabilitation must be estimated by the Field Office.

- c. If the typical properties contain a small number of units, it will probably be necessary to group the individual properties in order to create economically feasible projects for the feasibility tests.
- d. The economics of rehabilitation will be compared to the alternative of demolition and redevelopment if it is evident that the cost of rehabilitation per unit is approaching that of new construction. Rehabilitation will not be considered infeasible solely on the basis of comparison of costs with new construction unless the Urban Renewal Plan can provide suitable relocation housing for the present tenants. Borderline situations involving the economics of redevelopment vs. rehabilitation should be referred to the Regional Administrator.

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- (5-14) e. When it is concluded that rehabilitation is feasible only with financing involving interest or rent subsidies, this fact should be noted and the availability of financing conditioned on the availability of funds for such purpose.

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