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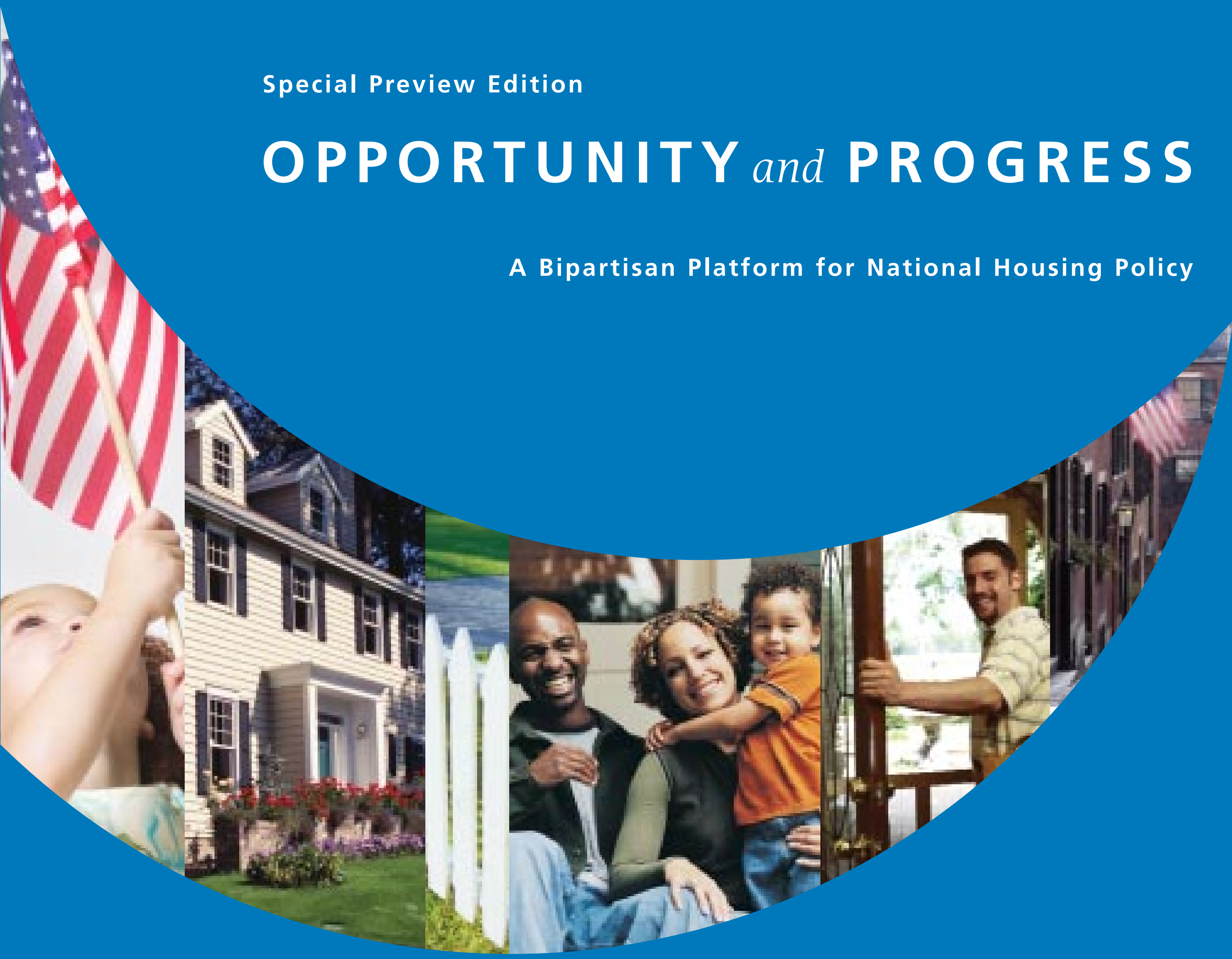
OPPORTUNITY *and* PROGRESS

A Bipartisan Platform for National Housing Policy



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A Bipartisan Platform for National Housing Policy

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LETTER *from the* AUTHORS

The four of us—coming from different experiences and perspectives—agreed on the gravity of this nation's housing problem, and the severe consequences if we as a nation fail to remedy that problem. Furthermore, we noted an erosion in the tradition of healthy political debate that has for so long undergirded our democratic system. The modern-day zeal for partisanship is counterproductive, often acrimoniously so. Debates about housing programs too often segue into partisan battles.

This joint project is borne from both those concerns. We worked together to develop a set of recommendations that reflects our shared vision for a national housing policy. We wanted this policy to be not just bipartisan, but pragmatic, plausible, and actionable. We affirm the underlying theme of this policy: that the nation's housing programs and policies should and must support individual access to opportunity. For all Americans to share in the potential for upward mobility that is inherent to our nation's system of free enterprise, equality of opportunity must be assured.

We therefore call on the President and Congress to set aside fractious partisan sentiments to take up the issue of housing, which is in critical need of thoughtful substantive attention. We present 12 recommendations to begin this process. All seek to preserve and expand programs that support individual access to opportunity. Where simple program reforms will not suffice, we propose new tools. Each of the recommendations listed below is described in detail beginning on page 11 of this book.

1. **End chronic homelessness.**

2. **Redirect public housing funding streams.**

3. **Protect and expand the Housing Choice Voucher program.**

4. **Establish a national housing trust fund.**

5. **Eliminate regulatory barriers to the production of workforce housing.**

6. **Enact a federal homeownership tax credit.**

7. **Create incentives for employers to provide housing assistance.**

8. **Preserve the affordability of privately owned multifamily rental housing.**

9. Redefine the affordable housing mission for the government-sponsored enterprises.

10. Prohibit predatory lending.

11. Institute university-based programs to train the nation's housing professionals.

12. Vigorously enforce the nation's fair housing and fair lending laws.

We look forward to the debate that will accompany efforts to implement these recommendations. In fact, each of us, from our respective vantages, will participate in the process, and we reserve the right to differ over how we might best implement these recommendations.

If we as a nation remain driven by the imperative to assure that all Americans enjoy access to a safe and decent home and a suitable living environment in today's complex economic world, we will find ourselves striving for common ground and the greater good.

Henry G. Cisneros

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OPPORTUNITY *and* PROGRESS

“Human progress is neither automatic nor inevitable. Even a superficial look at history reveals that no social advance rolls in on the wheels of inevitability.”

Dr. Martin Luther King, Jr.
Lecture at Yale University
January 14, 1959

1 INTRODUCTION

From our beginning as a nation, we have defined progress by articulating a vision of what we yearn to be—and acting on it. When the nation's founders signed their names to the Declaration of Independence, they affirmed through word and deed that life, liberty, and the pursuit of happiness are inalienable rights. From a historical perspective, the assertion of these rights was meaningful precisely because it was backed by a deliberate commitment to act.

These rights are not simply claimed by each American. They define the collective promise that we make to one another, and we must act continually to uphold them. Individual access to opportunity is the modern embodiment of these rights. It is a shared value that makes liberty and the pursuit of happiness meaningful. A life bereft of opportunity is a life without true liberty; it is a life within which the pursuit of happiness must be circumscribed to conform with the plausible. Our actions in support of this shared value mark our progress as a nation.

What does any of this have to do with housing? As we restate the goal of "a decent home and a suitable living environment for every American family"—a goal established in 1949 by one Congress in 1949 and reaffirmed by another in 1968—we assert that the nation's housing programs must promote individual access to opportunity. This is the shared value that should drive our national housing policy. A policy that falls short of this goal, and any programs—however well- intentioned—that undermine its achievement, do a disservice to our shared aspirations.

Since the New Deal, this nation has made progress in its housing efforts.The nation's record level of homeownership is evidence of this progress. Though racial disparities in homeownership rates reveal that critical work remains to be done, we can celebrate the role that the government has played in helping so many families to achieve the American dream. As Judge Joseph Story noted in 1852, ownership makes personal and political liberty meaningful. If property rights are unprotected, he said, "all other rights become worthless or visionary." Homeownership thus provides an opportunity for individual labor to be translated into personal capital, the physical embodiment of true liberty.

Opportunity is increasingly elusive, however, for the large and growing segment of our population that lacks access to a decent home and a suitable living environment. Those who pay too much for housing have little disposable income left for education, health care, childcare, and food. Those who live in substandard housing face physical hazards, hazards that can undermine the physical and cognitive development of children. Those who reside in neighborhoods cut off from the economic mainstream live in true poverty; they lack access to opportunities that embody the promise of advancement. Without question, safe, secure, and stable homes and neighborhoods are critical to individual achievement and community vitality.

If we are to keep our promise to one another, we must use our housing and community development resources to break the link between being poor and living in poverty, thus restoring the promise of liberty. Poverty in America is unacceptable. It is not a state of mind; it is an economic and social condition that cuts people off from opportunity. It is this absence of opportunity that translates the condition of being poor into a state of poverty. As a nation, we will overcome the problem of poverty only when we recognize that it is not self-correcting.

To address poverty we need to provide well-located housing for the nation's lowest-income households. We need to improve our central-city neighborhoods. We need to assure that public dollars are combined with private resources in a mutually reinforcing manner. And we need to create incentives for all communities to share in the responsibility for housing the nation's workforce. In short, we need to align our housing resources with the opportunities generated by the broader economy, helping to assure that those who are dependent on housing subsidy have access to the education, job training, and employment opportunities that create a path to independence.

The President and Members of Congress have a great opportunity before them. They have the opportunity to demonstrate that this nation values its principles as well as its privileges. They have an opportunity to demonstrate that democracy and the free market can work hand in hand to promote better outcomes for individuals, communities, and this nation. And they have the opportunity to assert that our nation's greatest competitive advantage is the quality of life enjoyed by all of its citizens, not only because of our commitment to individual rights, but because we define progress as the expansion of individual opportunity.

The Importance of HOUSING

Most people in the United States are well housed. To many, it is not readily apparent that housing influences health, access to opportunity, and personal achievement. But decent housing in fact provides access to a bundle of services, from schools to employment. Decent housing—housing that is affordable and well-located—provides a baseline for personal achievement. It creates freedom from physical vulnerability, and freedom to set out, each day, in pursuit of our aspirations.

Certainly the approximately three million Americans—many of them children—who find themselves homeless for some period of time understand the importance of housing. They have neither a roof to cover them nor a sanctuary from physical harm.

Housing is just as important to communities, because livability and competitiveness go hand in hand. Communities that can attract and retain investment and labor[1] are more likely to succeed in the evolving global economy. Simply put, a suitable living environment is a precursor to economic vitality. So, too, is decent housing. Housing that is excessively costly for the local work-force undermines workers' ability to afford the basic necessities of food, clothing, childcare, health care, and education.

Communities that want to be competitive or regain their competitiveness must provide housing for the full range of workers, from middle-income households and high-end earners to those in the moderate- and lower-income range. Achieving a jobs-housing balance that preserves economic diversity is key to success.

And for the nation as a whole, the impacts of housing consumption and investment are substantial. The housing finance system exerts a broadly stabilizing effect. The sector is a critical source of jobs and local, state, and federal tax revenues. These macroeconomic benefits represent an impressive return on the public-sector investments that stimulate private-sector housing activity.

In short, housing is key to the social and economic health of the nation and its many and varied communities. For each individual citizen of this nation, decent housing contributes to social and economic opportunity. For those who lack such housing, the daily struggle to meet basic needs takes precedence, and individual aspirations must be set aside—if not relinquished entirely.

Housing and Individual Outcomes

Numerous health problems have been demonstrated through research to derive substantially from poor housing, including infectious and chronic diseases and nutritional deprivation. According to the most recent American Housing Survey, 2.5 million households with children currently live in substandard housing; more than 770,000 reside in severely substandard housing. Children living in such housing are more likely to suffer from asthma and lead poisoning, conditions that lead to learning disorders, an increased likelihood of missing or dropping out of school, and aggression and antisocial behaviors.

Some studies have shown that unsafe housing conditions are more prevalent among renters than owners. A recent study examined the link between poor housing and pediatric injury, finding that “children residing in neighborhoods with the highest concentrations of poverty, compared with residents of neighborhoods with the lowest concentrations of poverty, were significantly more likely to sustain a fall or burn.”[2] When the researchers examined the mediating effects of housing, they found that the “risk for falling or being burned was mediated by both owner occupancy and age of housing.”

A significant body of research has demonstrated the benefits of homeownership,[3] especially for children. Findings have indicated, for example, that, compared with the children of renters of the same age, income, and race, the children of homeowners are more likely to graduate from high school and college, less likely to become pregnant as teenagers, and more likely to become homeowners themselves within 10 years of moving from their parents’ household. The children of homeowners have also been found to have higher math and reading scores, fewer behavioral problems, and fewer alcohol and substance abuse problems than do the children of renters.

For owners, the importance of housing extends far beyond shelter; it is a physical asset that can provide access to equity, which can be a critically importance resource in times of immediate, short-term financial need. Equity also contributes to household net worth. In 2000, median household net worth was $55,000, and home equity accounted for the largest share (32.3 percent) of that amount.[4]

While homeownership can result in better outcomes for children, it cannot be said that renting in itself is the cause of negative outcomes for children or families. Indeed, the relatively high cost of good-quality rental housing may be the more significant factor. Families who spend too much for housing lack the resources to afford other important spending priorities, from food and clothing to childcare. Renters who lack any disposable income at the end of the month are challenged to save for homeownership and higher education for themselves or their children. And as the Millennial Housing Commission noted in its 2002 report to Congress, “families lacking the means to pay for good-quality housing may have to make frequent moves,” which, if they occur during childhood and adolescence, can “have a strong negative impact on school performance.”

The neighborhoods in which much of the nation's affordable rental housing is located may contribute to negative outcomes, as well. Numerous studies have considered the significance of the living environment to individual outcomes—especially for children. Unemployment, crime, high-school dropout, and teen-pregnancy rates have all been shown to be higher in the high-poverty urban and rural areas in which much of the nation's assisted housing stock is located.[5] Inner-city youth are particularly vulnerable to post-traumatic stress disorder, depression, and anxiety.[6]

The influence of neighborhood quality on adult and child outcomes is the subject of study under the "Moving to Opportunity" program. Begun in 1994, the federal demonstration program offered randomly selected public housing tenants the opportunity to move from high-poverty areas. An interim evaluation, published in 2003, showed that families who moved increased the quality of their housing and the safety of their neighborhoods, resulting in improved mental health measures for adults and children.[7]

Housing in the Community

In the modern economy, jurisdictional boundaries matter less and less; they are lines on a map that commuters cross on their way to work and back again. Increasingly, jurisdictional leadership consists not solely in managing a local budget, but in achieving cooperation with leaders in adjacent communities in order to develop plans and apply resources in a mutually beneficial manner.

As a nation of commuters, we know too well what can result when interjurisdictional cooperation on housing is weak. According to the Advisory Commission on Regulatory Barriers to Affordable Housing (the "Kemp Commission"), which issued its report in 1991, "workers who are forced to live far from their jobs commute long distances by car, which clogs roads and highways, contributes to air pollution, and results in significant losses in productivity."[8] In fact, the Transportation Research Board, a division of the National Research Council, reported in 1994 that traffic congestion "imposes economic costs in the 50 largest urban areas in excess of $70 billion annually."[9]

Businesses making locational decisions take such factors into account. Communities therefore need to pay attention to where housing is located relative to jobs, and whether it is affordable given wage levels. Communities that practice thoughtful interjurisdictional cooperation on housing may ultimately gain a competitive edge over communities that follow traditional land-use practices. What does "interjurisdictional cooperation on housing" mean? In the Chicago region, it means that nearly 300 metropolitan mayors are working together voluntarily to develop and adopt local land-use policies that accommodate workforce housing in areas experiencing job and population growth. In general terms, it means recognizing a number of things about the urban-suburban relationship:

- The health of the nation's cities has been undermined by policies that have contributed to the out-migration of moderate- and upper-income households, jobs, and services.

- Suburban zoning and subdivision regulations that preclude the production of affordable housing leave central cities with the responsibility for housing the nation's poor, making it virtually impossible to achieve an economically diverse residential base.

- Cities' inability to achieve an economically diverse residential base makes it difficult for them to attract commercial, retail, and business investment, and to offer improved public goods and services, including schools.

- The vitality of the nation's central cities is inextricably linked with the well-being of the suburban areas that surround them, and this urban-versus-suburban paradigm threatens to erode the quality of life of entire metropolitan areas.

Any discussion of the urban-suburban paradigm must include a thoughtful mention of race. It is a factor that is particularly relevant to a discussion of the urban-versus-suburban paradigm. Despite gains made in the nation's suburban areas during the 1990s, minorities still make up a disproportionate share of the central city population. African Americans, for example, represent 12.3 percent of the total US population, 8.2 percent of the suburban population, and 21.6 percent of the central city population. In these same categories, whites account for 69.1 percent, 74.8 percent, and 51.4 percent, respectively.[10] The problems plaguing the nation's cities therefore bear disproportionately on minority households. In addition, opposition to affordable housing often includes a prejudicial element, making interjurisdictional cooperation on housing that much more difficult to achieve.

The effects of the urban-versus-suburban paradigm and increasingly segregated residential living patterns are most troubling for children. It appears that such living patterns are contributing to the resegregation of public schools.[11] Thus the land-use and housing patterns associated with urban disinvestment have the potential to reverse years of hard-won progress, undermining minority access to the educational opportunities available to white children. Such trends create a public policy imperative—an imperative that has housing policy at its center.

The Importance of Housing to the Nation

Housing is important to family stability and childhood outcomes. It is essential to community vitality and the economic health of entire regions. When we consider the macroeconomic effects of housing, its importance to the nation becomes apparent. In 2003, housing-related activity contributed substantially to the national economy:

- Residential fixed investment (RFI) accounted for nearly one-tenth of gross domestic product (GDP).

- Overall investment in housing (RFI, housing consumption, and related spending) exceeded 20 percent of GDP, as it has since 1950.
- Commissions from home sales totaled approximately $80 billion.
- Consumer spending made possible by cash-out refinancings and realized capital gains exerted an additional effect on spending growth.

The production and rehabilitation of housing creates jobs. According to an economic impact model devised by the National Association of Home Builders, the construction of 100 units of single-family housing "supports about 250 full-time equivalent jobs and $11.6 million in wages," and the families occupying the homes "then bring an estimated $2.8 million in income and 65 jobs to the local economy."[12] With single-family home starts in 2003 setting a new record at 1.5 million units, the benefit to the nation of housing-related employment was certainly substantial—even more so in light of the otherwise "jobless recovery."

Recent housing activity also demonstrates the capacity of the nation's enviable system of housing finance. According to the Joint Center for Housing Studies of Harvard University, the nation's housing finance system attracted enough capital to originate one-half of the $6.8 trillion in home mortgage debt outstanding at the end of 2003. The low interest-rate environment also brought about the largest wave of mortgage financings in history. One-quarter of the home mortgages in the nation was refinanced in 2003, with many homeowners using a portion of their equity to pay down other, higher-rate debts.

These impressive figures reflect the influence of public policies intended to promote private investment in housing. Housing-related investment, spending, and jobs all find some basis in laws and regulations that provide a stable flow of capital into the housing sector. As we strive to meet the needs of those who lack decent housing, we can expect to realize an even greater return.

The importance of housing to the nation is perhaps best reflected in our desire to assure that every American has access to a decent home and a suitable living environment. The adoption of this policy goal in the Housing Act of 1949 and its reassertion in the Housing Act of 1968 underscores the fact that Americans recognize the link between decent housing and individual outcomes. We are a nation that understands and asserts the promise of individual opportunity, and we recognize that decent housing is a precursor to its realization. As we continue to strive toward decent housing for all, we assert and reassert that this nation remains a land of opportunity.

Housing is important not just because people need shelter, communities need a solid tax base, and the nation's productivity is enhanced by the production and consumption of homes. Decent housing in an environment with access to economic and social opportunity provides a starting point for individual progress. Communities that provide a thoughtful context for such housing enhance their economic competitiveness. A nation of individuals who have meaningful access to opportunity and live in thriving, dynamic communities is a nation of strength. A nation that invests in decent housing and supports the development of strong, thriving communities is a secure nation.

The housing successes of this nation result in one form or other from public policies intended to increase the supply of housing and to expand access to it. Both of these activities are critical. The mission of government at all levels, however, goes far beyond simply encouraging housing production and assuring its affordability. The mission of government—and indeed a central public value of our society—is to steer our national engines of liberty and enterprise so that they create opportunities for self-improvement for all Americans and create choices about the quality of our lives. Our housing policies must be assessed within this larger context. We must ask ourselves whether our housing policies and programs provide access to opportunity for all Americans or whether some have been effectively consigned—due to the physical, economic, and social circumstances of their daily lives—to a life with few meaningful choices.

We must recognize that housing is part of a larger public policy environment that includes education, wages and incomes, and health security. Decent housing is a precursor to learning, earning, and health. It supports individual efforts to obtain an education and a job—to escape poverty. It provides a means of transforming communities that are racially segregated into communities that are economically diverse.

Housing Gained: An extraordinary journey to homeownership

Tracey Bowens moved herself and her four year-old son to Atlanta, Georgia, in 1995. Her older son, then seven, went to live with grandparents. Bowens moved in with an elderly cousin, who needed help caring for another elderly relative.

"I started looking for work," Bowens says. Unable to find a full-time position, she accepted two part-time jobs. Based on her income, she still qualified for Welfare, food stamps, and Medicaid. She enrolled her son in Head Start. With the new school year approaching, she brought her older son to Atlanta. The three shared a twin bed. "I began to look for an apartment," she says.

In 1996, Bowens enrolled in a business course at the YMCA, dropping one job. Unable to find an affordable apartment, she signed up for public housing. She graduated from the YMCA program and "put applications in everywhere." It wasn't until she listed her volunteer work on her resume that she was offered employment. She started work with Hilton Atlanta in January 1997. At about the same time, she moved into public housing.

Bowens says she was determined not to settle. She put herself on the waiting list for a Section 8 voucher, and she began to save money. "I wanted a better life for my children," she says, pointing out that her kids were "very patient." She says she was constantly asking them to decide between "new shoes, new toys, or a house."

"We were in public housing for one-and-a-half years," Bowens says, "and we went without air conditioning or cable television or a car in order to save money." She eventually saved enough. Without any experience as a buyer, however, Bowens fell victim to a scheme that cost her $2,000. "After that," she says, "I gave up." A voucher became available six months later, and she took it.

"That's when I met Mrs. Mason and Mr. Mercedes," Bowens says. The two Atlanta Housing Authority employees introduced her to the Section 8 homeownership program. Soured by her earlier experience, Bowens says she was initially uninterested. Mercedes inspired her not to give up, though.

In May 2003, Bowens closed on her home. She chose a location in central Atlanta near her job. She could have bought further out, she says, but she decided that she wanted a house that was close to her work and her kids' schools. "If my kids need me, I want to be close by," Bowens says.

Now that she's been in the house for a while, Bowens says she's getting used to ownership. "I never had to pay utilities or taxes before," she says, "and I've had to rearrange my finances from time to time. Sometimes I feel overwhelmed."

Bowens says that the extreme sacrifices involved in saving were worth it. When the Section 8 assistance ends, Bowens says she'll still be able to pay the mortgage, and they'll simply make sacrifices as needed in order to get by. "Once I make more money, it'll be a smoother ride," she says.

Source: Interview with Ms. Bowens.

Housing Lost: The American dream foreclosed

In 1988, Edward Evans wrote a letter to former President Jimmy Carter, seeking "help in getting started." Evans, partially disabled, was about to lose his job. He and his wife Gail, a nurse, shared a cramped apartment in Memphis, Tennessee. "We are not asking for handouts," he wrote.

Evans's letter made its way to Habitat for Humanity of Greater Memphis. The couple was accepted into the program. Working with volunteers, they built the house that would become their home, signing a 20-year, $30,000, zero-interest mortgage. With taxes and insurance, their monthly payment came to $231.

Over the years, Edward, a landscaper, planted hedges and trees. The couple added a privacy fence and installed central air-conditioning. They raised their daughter, Joy, and helped to raise a niece. They hosted many family gatherings.

In March 1996, after receiving three mail solicitations and one phone solicitation from a local lender, the couple took out a 10-year, $20,125 second mortgage at 8.67 percent interest. "They said we had enough equity in our home to qualify for the loan," Edward says. They used the loan to pay off debts, make home improvements, and treat their college-bound daughter to a Florida vacation. "Our daughter was graduating from high school, and we wanted to celebrate," Edward says.

When Gail lost her job and Edward's landscaping business failed to thrive, their combined monthly housing payment of $484 was too much. They filed for bankruptcy but could not keep up with the court-ordered payments. In October 2000, their mortgage lender foreclosed. A yellow-and-red "For Sale" sign was posted in the front yard.The company that bought the house allowed Edward and Gail to remain in place as renters. The couple now pays $500 per month.

Including the Evanses, 15 Habitat owners have experienced such a loss. In a series of articles published in December 2003, the Memphis Commercial Appeal told the stories of several families who took on too much debt. Between 1984 and 2002, the owners of 92 of the 229 Habitat homes built in the area filed for bankruptcy after refinancing their zero-interest mortgage loans, taking out second mortgages, or assuming short-term loans with triple-digit interest rates. By 2003, the city led the nation in personal bankruptcies. In 2003 alone, it experienced $500 million in home foreclosures.

The newspaper's series did, however, include several Habitat success stories. Lucy Sanders's husband died in 1989, leaving her with five children. She became a Habitat owner and retains her home in part because of her financial savvy. "I never had a charge card in my life," she says. Sarah Stevenson, who was homeless for nine months before she became a Habitat owner, tells phone solicitors "I'm not stuck on stupid."

To help more of its owners understand the realities of debt, the local Habitat affiliate now provides enhanced financial training for owners who fall three or more months behind on their mortgage payments. In addition, all prospective homeowners must attend the FDIC's 10-part "Smart Money" class. Current owners are also encouraged to attend.

Source: Series written by Marc Perrusquia for the Memphis Commercial Appeal, December 2003.

V

Bipartisan RECOMMENDATIONS

It is time to reassert housing as a national priority. It is time for the federal government to assume its place at the table, partnering with states, localities, and both public- and private-sector organizations to address housing and human need in the nation's many varied communities.

Even in this era of limited resources, targeted dollars must be made available. In addition, the President and Members of Congress must provide leadership, affirming that housing should be woven into a seamless system that links individuals with opportunity, enabling them to develop their aptitudes and pursue their aspirations. Housing that cuts people off from opportunity—housing of last resort—should be a thing of the past.

The ideas presented below are about bringing housing resources to scale with need and increasing their flexibility. They are about providing individuals and communities with the opportunity to rise above poverty. And they are about encouraging the federal government to eliminate barriers to diversity. Our recommendations are pragmatic, plausible, and mutually reinforcing. Indeed, as the accompanying examples demonstrate, many of these programs and approaches are already being tried successfully at the local level. In concert, they represent a bipartisan effort to achieve common ground, and we believe that they will go a long way toward assuring a decent home, a suitable living environment, and access to opportunity for every American family.

1. End Chronic Homelessness.

The Administration of President George W. Bush established an early and unambiguous goal of ending chronic homelessness by bringing permanent supportive housing in line with need within 10 years. It placed responsibility for implementation with the United States Interagency Council on Homelessness (ICH). According to the ICH, there are approximately 150,000 chronically homeless people in need of permanent supportive housing.

We applaud the administration's goal to end chronic homelessness. To support the full attainment of this goal, we offer the following recommendations:

> **Continue to fund new units of permanent supportive housing.** Supportive housing provides accommodations and services to people who face chronic challenges such as drug addiction and mental illness. For the past several years, Congress in its annual HUD appropriations bill has set aside 30 percent of McKinney-Vento Homeless Assistance funding for supportive housing. Making this funding permanent could provide up to 15,000 new units of permanent supportive housing per year over the next 10 years.

> **Assure that renewal funding for the rental and operation of such units is secure.** The annual appropriations for the McKinney-Vento Homeless Assistance program will eventually fail to generate new units of permanent supportive housing, because current-year funding will be needed to sustain existing units. To continue to generate much-needed new units, the Administration and Congress must provide a separate source of renewal funding. The Millennial Housing Commission recommended transferring "renewal funding for expiring rent and operating subsidies...to HUD's Housing Certificate Fund."

> **Provide adequate funding for services.** Service funding should take into account the costs associated with outreach, which is so essential to bringing mentally ill and addicted homeless people in from the streets.

> **Assure the strategic use of resources.** While providing adequate funding for capital, operations, and services is a federal responsibility, states and localities are responsible for using such resources to produce demonstrable results. We support the adoption of a strategic planning model directed at the elimination of chronic homelessness. The model should be adopted by states and localities working in partnership with other public-sector agencies as well as private and nonprofit organizations. We note that the possibility of developing and implementing results-oriented plans is enhanced by the availability of data from the congressionally mandated "Homeless Management Information System."

Rationale

Chronically homeless individuals typically remain on the streets for a year or more, have problems ranging from drug addiction and mental illness to some form of physical or developmental disability, and have histories of hospitalization, unstable employment, and incarceration.[1] They tend to circulate among shelters, mental health facilities, hospitals, and prisons. Research conducted in the 1990s revealed that the chronically homeless make up approximately 10 percent of the overall homeless population, yet they consume nearly 50 percent of shelter resources. Compared with other models of service delivery, permanent supportive housing has been shown to be more cost effective and more successful in helping chronically homeless people to achieve stability.[2]

Community Shelter Board: Housing First!

The Community Shelter Board (CSB) was founded in 1986 to devise a comprehensive approach to ending homelessness in Columbus, Ohio. According to Barbara Poppe, CSB's executive director, " a local businessman and a woman involved in philanthropy were the leading proponents of the effort." The organization has since gained national recognition for its "nontraditional" approach to homelessness. Where previous models involved providing services to the chronically homeless to get them "ready" for housing, CSB puts housing first.

"In almost all cases," Poppe says, "we find that when people have housing, their ability to manage alcohol, substance abuse, and psychiatric problems improves measurably."

In its early years, CSB focused on coordinating funding sources and eliminating duplication of services. Beginning in 1989, shelters gathered basic data about users and thus able to better understand patterns of shelter utilization and to produce accurate counts of shelter users. In 1995 when two waterfront shelters were slated for demolition, CSB was asked to work with Franklin County and the United Way to develop a plan. They produced *Rebuilding Lives*, which focuses on prevention, the provision of emergency shelter, and permanent supportive housing.

CSB's prevention program provides a relocation and housing referral service. In addition, households receive rental assistance funded out of the state's housing trust fund or local CDBG dollars (housing vouchers are in short supply relative to the demand; only about half of those who would qualify actually receive assistance). For those who wind up in an emergency shelter, CSB offers assistance finding suitable short-term housing. Employment Resource Centers located in most of the shelters provide job preparation and placement services. Through permanent supportive housing, chronically homeless individuals gain access to shelter that is linked with substance abuse, mental health, employment, and other services.

The CSB raises approximately $1 million annually from the private sector. Still, the recent economic downturn has hurt. Last year, according to Poppe, Columbus experienced a 20 percent increase in family homelessness. The majority of the families needed emergency financial assistance to keep from losing their housing.

Poppe believes that federal sources of homeless assistance could be improved. She says that the Continuum of Care (CoC) program "provides critical funding for services and operating support," but she questions its implicit endorsement of transitional housing. "Transitional housing is time-limited, it's generally not as successful as permanent supportive housing, and it costs more," she says. Poppe believes that more than 30 percent of the CoC grant amount should be targeted to permanent supportive housing. "Targeted transitional services and permanent housing make mores sense," she asserts. To help bring the supply of such housing in line with need, Poppe calls for an expansion of the Housing Choice Voucher program. She also supports the full reauthorization of Temporary Assistance to Needy Families (TANF), given that "We rely on TANF funds as a source of emergency assistance to families who would likely otherwise become homeless."

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2. Redirect Public Housing Funding Streams.

The nation's public housing properties face a capital needs backlog on the order of $20 billion ($15,000 to $18,000 per unit).[3] Traditionally, capital funding has been made available by a formula allocation based on annual appropriations. Such appropriations have declined in real terms over the past decade and would need to be doubled to eliminate the backlog within the next decade. Some PHAs are now using privately obtained debt to finance capital improvements rather than relying on annual appropriations. In addition, a recent rulemaking session set in motion a series of changes that could align public housing administration and operations with widely accepted real estate and asset-management principles. To take best advantage of the new opportunities that these changes create while also minimizing the risks, we offer the following recommendations:

> **Merge the operating and capital fund streams, and assure the adequate funding of the combined operating subsidy.** The operating and capital fund streams should be combined. The amount of subsidy delivered under the combined funding should be based on two critical public policy goals: (1) preserving permanent affordability and (2) making provision for each property's eventual recapitalization. Among other things, underwriting standards should mandate adequate replacement reserves. Appropriations for the combined funding stream should be pegged to inflation. "Financing" should also be a permissible use of funds.[4]

> **Permit the flexible use of public housing subsidies.** With the shift to a cost-based system after 2009 (see Rationale), individual PHA properties will—for the first time—be considered for their value as assets. At the same time, public housing administrators will become asset managers. To protect and enhance the value of individual PHA properties, they will need greater flexibility in the use of subsidies. To provide such flexibility, we believe that the Administration and Congress should:

- Establish mechanisms to support development of mixed-income housing that includes public housing tenants. Some public housing properties are located in areas where the demand for affordable rental units is strong. We believe it should be possible for PHAs to upgrade such properties to attract some non-public housing residents, thereby creating mixed-income communities. To support this outcome, we recommend that (1) PHAs be permitted to "separate" public housing subsidies from a portion of units in a property and transfer them to other, unassisted units as part of a broader community-building strategy, and (2) the Administration and Congress establish a source of "capital gap" subsidy to assist PHAs that can finance only a portion of their upgrade at fair market rents.

- Establish a mechanism for the reallocation of public housing subsidies. Some public housing properties are vacant or have relatively high vacancy rates despite local housing need.

The reasons for this circumstance vary. Such units may be lost from the public housing stock when the switch to a cost-based system takes place. To preserve the subsidies attached to these units, we believe that the Administration and Congress should establish a mechanism for their reallocation. Specifically, we envision a system in which subsidies could be transferred, perhaps on a competitive basis, to a nonprofit housing organization or from one public housing agency to another.

> **Continue funding of HOPE VI.** A June 2004 report estimated that "at least 47,000 distressed public housing units remain that are not currently scheduled for demolition or replacement."[5] Congress should continue to fund HOPE VI until such conditions have been eliminated. Relocation and supportive services should be strengthened, and vouchers should be made available for families that wish to move into areas with good jobs and schools.

Rationale

In the Public Housing Reform Act of 1998,[6] Congress directed HUD to establish two funding streams for public housing: an operating fund and a capital fund. Congress further specified that HUD convene a negotiated rulemaking session to determine how fund monies should be allocated. The rulemaking committee could not complete its task, however, because it lacked data. Public housing has traditionally been funded at the agency level, while cost data at the individual property level are nonexistent.

To estimate what it costs to operate a well-run public housing property, Congress directed HUD to enter into a contract with the Harvard University Graduate School of Design (GSD). The GSO's Public Housing Operating Cost Study (PHOCS) drew upon individual property cost information from the FHA database to develop a proxy formula-funding model for public housing. In addition, it recommended that the budgeting, accounting, funding, and management of public housing be converted to the property-focused system found in the majority of rental housing.

With the PHOCS in hand, HUD reconvened the negotiated rulemaking committee, which wrapped up work in June 2004. Beginning in FY06, public housing will switch to a property-centric system. In FY 2006 through 2009, capital and operating funds will be allocated to individual properties based on the proxy formula-funding model. In 2009, HUD will convene a new negotiated rulemaking panel to consider the move to a pure cost-based system. From that point on, public housing property rents will likely be set according to local market conditions. Subsidies will make up the difference between rental incomes and operating costs. PHAs will be responsible for financing their capital needs.

An interim GSD report published in 2001 compared the overall cost of addressing the public housing capital backlog with appropriations or debt financing, concluding that the "long-term costs of converting to a debt-financing model would be significantly lower."[7] The study also found the feasibility of debt financing would depend on local market conditions and property characteristics. After the shift to a cost-based system, the viability of properties with minimal value will come into question.

King County Housing Authority: Innovation in resource allocation

The King County Housing Authority (KCHA) serves the area surrounding Seattle. It owns 3,293 units of public housing and administers 7,806 Section 8 subsidies. Stephen Norman, KCHA's executive director, explains that the authority also owns approximately 4,500 units of non-federally subsidized, multifamily housing, making it one of the county's largest landlords."Our state authorizing legislation allows us to issue tax-exempt bonds," Norman explains, "and we have used the proceeds for acquisition."

KCHA puts its unsubsidized inventory to work for extremely low-income households through its participation in HUD's Moving to Work (MtW) program. The MtW agreement that KCHA negotiated enables the authority "to more easily project-base rental subsidies in targeted locations." By applying Section 8 subsidy to certain units in its market-rate properties, KCHA has been able to move households with average earnings of 17 percent of AMI into relatively affluent communities where " service jobs are plentiful and the schools are great.

KCHA's acquisition pipeline supports its deconcentration strategy. "We look for properties in the high-income areas to the east of Seattle and the lower-income areas to its south," Norman says. In the more affluent suburbs, KCHA buys properties and maintains rent levels. "As property values increase," he adds, "these units become increasingly affordable." In declining areas of the county, the authority buys and rehabilitates some of the worst unsubsidized properties, preserving affordability despite significant capital investment through the use of tax-credit equity. KCHA also purchases expiring-use properties.

To encourage homeownership, KCHA operates an "incentive site." "We converted an old military base to a public housing development of single-family homes with on-site self-sufficiency services," Norman explains. The concept works in part because of KCHA's upwardly mobile tenant base, which consists of many immigrants and refugees. Public housing families that move to the site have three years to accumulate equity. "Of 27 households who participated in the first round of the program," Norman says, "17 have purchased homes."

Norman endorses the proposed move to a project-based property management system, explaining that, in addition to facilitating access to private capital markets if the cash flow is sufficient, it "will provide for better decisionmaking on issues such as maintenance and asset management." He calls for flexibility. "Our fee managers on the market-rate properties are the first to point out that if they can handle three or four properties, it's more efficient," Norman says, adding that his investors like the idea of pooling reserves, too. He also cautions against basing per-project subsidy levels solely on FHA data. "The need for services among public housing residents is simply greater," Norman says, "and the subsidies need to reflect that fact."

Norman's final point is that, if HUD went away, KCHA would still be one of the county's largest landlords, "but we would be unable to serve households in the 0- to 30-percent of area median income range." Without the public housing and Section 8 subsidies, Norman says, "properties intended to serve such households would accrue unsustainable operating losses and be unable to support necessary capital investments."

For further information, contact:
Stephen J. Norman, Executive Director, King County Housing Authority, at 206-574-1190.

3. Protect and Expand The Housing Choice Voucher Program.

The Housing Choice Voucher program currently serves 2.1 million households. Among voucher holders, 61 percent are families with children, 22 percent are disabled, and 16 percent are elderly.[8] The program also serves many families making the transition from welfare to work. The Millennial Housing Commission described the voucher program as "flexible, cost-effective, and successful in its mission." We believe that the Administration and Congress should:

> **Support consistent funding for the Housing Choice Voucher program.** The voucher program is essential to assuring that low-wage households have access to decent housing. Recent proposed cuts to the program threatened many such households with eviction and even homelessness.[9] Despite the current fiscal environment, the Administration and Congress must protect the program and the many families that depend upon it. We recognize that housing costs are likely to increase relative to the incomes of low-wage workers, and that program costs will therefore continue to grow. Nonetheless, the widening gap between incomes and rents deserves a thoughtful policy response that protects those who are most vulnerable.

> **Take into account the link between Housing Choice Voucher program funding and private-sector willingness to invest in workforce housing.** Many properties financed with Low Income Housing Tax Credits and the proceeds from tax-exempt bonds maintain their required affordability levels through the "layering-on" of voucher subsidy. Recent proposed cuts to the voucher program thus sent a shockwave through investor markets. By calling the availability and stability of vouchers into question, the proposed cuts raised concerns not only about the commitment of the Administration and Congress to addressing the nation's housing challenges, but also to the reliability of the public sector as a development partner.

> **Make mobility an explicit goal of the Housing Choice Voucher program.** The percentage of voucher recipients living in high-poverty neighborhoods is considerably lower than the percentage of public housing residents living in such neighborhoods.[10] Still, among voucher holders, African Americans and Hispanics are more likely than whites to live in high-poverty neighborhoods. Racial discrimination and administrative hurdles to voucher portability account for much of this outcome. To address racial discrimination, HUD must fulfill its responsibilities with regard to the nation's fair housing laws (see Recommendation 12). HUD should also evaluate and address obstacles to portability, including housing cost differentials between jurisdictions and the use of different forms and procedures among program administrators within the same housing market.

> **Establish regional housing centers.** The Housing Choice Voucher program is administered by local public housing agencies. Such agencies lack any incentive to learn about housing markets

beyond their own jurisdictions. Regional housing agencies would be more knowledgeable about broader housing markets and thus more likely to assist households in moving to low-poverty areas.

> **Enact a housing-to-schools demonstration program.** The educational outcomes of students who attend schools located in high-poverty neighborhoods are generally worse than those of students who attend better-resourced schools in better neighborhoods.[11] The Administration and Congress should authorize a housing-to-schools voucher demonstration program to offer a certain number of voucher-holding households with children the opportunity to move from high-poverty areas into better school districts. The program could be administered through the regional housing counseling centers described above.

Rationale

The Housing Choice Voucher program serves a number of important public policy goals. It makes existing housing affordable to low-wage, elderly, and disabled and other special-needs households. It encourages private investment in the production of new affordable workforce housing. Perhaps most important, however, the Housing Choice Voucher program makes mobility possible for poor families, providing mental and physical health benefits to those who are able to leave high-poverty neighborhoods for better housing in safer neighborhoods.

CHAC, Inc.: Successful mobility counseling

CHAC, Inc. is a private company that administers the Chicago Housing Authority's Housing Choice Voucher (HCV) program, employing an innovative mobility counseling program to assist families in moving from high-poverty to low-poverty neighborhoods.

Jennifer O'Neil is CHAC's deputy director. She notes that research on the benefits of moving from high- to low-poverty areas has demonstrated "improved mental health outcomes" for adults. She sees this with CHAC's clients, particularly those who have children. "People feel less worried about their children and better about the opportunities available to them," she says.

O'Neil explains how the voluntary program works. "We begin with an assessment interview with a counselor. Participants then sign an agreement to go through with the program. We follow with a credit check and offer credit counseling, as needed. We also require participants to attend two workshops, one on the rights and responsibilities of landlords and tenants and the other on budgeting and credit."

According to O'Neil, CHAC provides counseling to families who face obstacles "ranging from client presentation to having teenagers with drug problems or a history of gang involvement." It also advises clients who face obstacles related to landlord practices. "If someone encounters discrimination, we assist them with filing a complaint."

Once a family is ready to move, CHAC provides them with a "Ready-to-Rent" folder and referrals. The folder contains a letter of reference from CHAC, a certificate of completion of CHAC's "rights and responsibilities" workshop, a copy of their credit report, and an owner guide to the voucher program. Referrals may include a van tour of neighborhoods, transportation to view available units, or resources that assist families in completing the search on their own.

O'Neil identifies two basic issues in mobility counseling: "the availability of units owned by willing landlords and motivating and preparing families to be successful." Though landlord outreach is critical, in the current softened rental market, CHAC's priority is working with families. "We have a good basic program, which is important," O'Neil says, "and we have terrific counselors, which is equally critical." Families that commit to moving to low-poverty neighborhoods have an additional motivation: CHAC makes available an interest-free loan to use as a security deposit.

From 1999, when the mobility counseling program began, through June 30, 2004, 36 percent of all families who were counseled and entered into leases moved from high- to low-poverty neighborhoods. Of 21,234 families with children in the voucher program, 9,030 live in low-poverty areas, up from 3,000 at the beginning of 1997.

O'Neil comments that the Chicago Housing Authority (CHA) has made a strong commitment to the program. "We have been very fortunate," she says. "With the flexibility available through its participation in the Moving to Work Demonstration program, CHA has chosen to place a high priority on mobility counseling to ensure that families with vouchers are able to make informed choices." CHA has also created a fund to serve people with disabilities, making it possible to modify units to make them accessible and provide transportation for housing searches.

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4. Establish a National Housing Trust Fund.

In many markets across the nation, the supply of low-cost rental housing has not kept up with need or demand. Physical deterioration, gentrification, and the expiration of long-term contracts on many subsidized rental units threaten to reduce the supply even further. As Harvard's Joint Center for Housing Studies recently reported, "Government programs…are crucial to stave off further net losses."

We recognize the need for a source of capital for the production, preservation, and rehabilitation of housing affordable to low-income households. We therefore recommend that the Administration and Congress establish a national housing trust fund for this purpose. Specifically, trust fund monies should be:

> **Used to support the production, preservation, and rehabilitation of 1.5 million affordable housing units over the next 10 years**. At least 45 percent of trust fund monies should be used for housing affordable to extremely low-income households. Up to one-quarter of monies could be used to support homeownership for lower-income households. No household should pay more than 30 percent of its income for housing. Beyond these requirements, trust fund monies should be flexible to assure their compatibility with existing housing programs.

> **Allocated by states, regional consortia, and localities.** Allocations should be determined according to need and subject to a matching requirement. Matching funds from private sources should receive heavier weighting than funds from other sources. For housing in areas with relatively high per-unit costs (e.g., high-opportunity areas or neighborhoods where local regulatory barriers or resident opposition add to costs), matching requirements should be reduced in subsequent years. In all cases, funds should be allocated in a manner that promotes access of low-income households to economic opportunity.

Rationale

The challenges associated with adding to the affordable rental stock include regulatory barriers, local opposition, and high housing costs. Not surprisingly, the needs of the nation's poorest households are greatest. For example, it has been more than two decades since a federal housing production program specifically targeted extremely low–income households. Meanwhile, rising rents have affected such households disproportionately. A source of additional capital subsidy is needed not just to offset the declining supply of housing and increasing costs, but also to prevent further concentration of poor households in areas where housing costs are relatively low because of poor quality or because the market is depressed or declining. Wage and job trends, together with expected population and demographic changes, add to the urgency of providing more affordable housing for the neediest households.

The Double Bottom Line: Public-purpose capital

In May 2000, the California State Treasurer launched an initiative intended to "mobilize the power of the capital markets for public purpose." The initiative demonstrates how nontraditional sources of capital can be used to support public policy priorities such as affordable housing production. It included policies in the areas described below, which seek to drive investment capital into the state's struggling, emerging-market communities while also producing risk-adjusted, market-rate returns—a "double bottom line" investment strategy.

Public investment funds and investment pools. The initiative called upon "public pension funds and investment pools to seek out sound investments [that] meet their risk and return criteria and…provide equity and debt for real estate and business development in California's emerging markets." It laid out the criteria for such investments, including leveraging private capital, using existing delivery networks and enhancements, and seeking investment partners that have community revitalization as their mission. Such investments, the initiative asserted, should be viewed "as primary opportunities offering strong returns—not as investments of lesser worth agreed to as a matter of politics."

Public investment fund managers. "Institutional and cultural biases" have "inhibited the full exploration of investment opportunities" in emerging markets, according to the initiative. It called for "New Generation investment manager programs" intended to cultivate the knowledge, skills, and professional networks needed to support "the successful deployment of capital and the building of entrepreneurial enterprises in [emerging] markets."

Public financial resources and assets. Regarding the financial assistance that is distributed via states and localities, such as CDBG funds, the initiative called for a focus on "sectors, communities, and enterprises for which the lack of adequate capital is a reality." Such a focus is also intended to send a message to private investors, enhancing "the risk/return equation" and indicating the public sector's commitment to its stated policy goals.

Market research. The initiative called for a market research partnership among local governments, educational institutions, foundations, and the private sector to inform better decisionmaking with regard to investment in emerging market areas.

Private and nonprofit partnerships. Lastly, the initiative recognized that a coordinated approach was needed to respond at an appropriate scale to the challenges facing the state. It called for the private sector and foundation capital to "join in a commitment to 'double bottom line' investing."

As of March 31, 2004, the state's Pooled Money Investment Account (PMIA) had purchased $1.7 billion in Community Reinvestment Act-eligible home mortgages and $537 million in California Small Business Administration loans. The California Public Employees' Retirement System (CalPERS) had purchased $90 million in CRA-eligible home mortgage loans, and the California State Teachers' Retirement System (CalSTRS) had purchased $93 million. CalPERs and CalSTRS had committed $475 million and $350 million, respectively, to private equity investment in businesses in underserved areas, and more than $1.3 billion and $850 million, respectively, to urban infill ventures.

Sources: Office of the Treasurer of the State of California. The Double Bottom Line: Investing in California's Emerging Markets *(May 2000);* The Double Bottom Line: Investing in California's Emerging Markets: Investment Initiatives: Ideas to Action (March 31, 2004); Double Bottom Line Investment Returns *(March 31, 2004).*

5. Eliminate Regulatory Barriers to the Production of Workforce Housing.

Many communities use zoning and other regulations to preclude the production of workforce housing. We therefore recommend that the Administration and Congress:[12]

> **Link funding incentives within federal transportation programs and the HOME and CDBG programs to the production of workforce housing.** States that mandate land-use planning require localities to consider current and future workforce housing and transportation needs, and to target resources for fulfillment of such needs, should receive bonus funding under these current and proposed programs. All plans should be required to include a barrier-removal strategy. Localities that adopt aggressive plans—irrespective of state requirements—should also receive bonus funding. States and communities that work together voluntarily to address such needs should retain their individual bonuses. Bonuses should be funded before remaining program funds are allocated among the states and localities that do not pursue workforce housing strategies.

> **Recognize local and state efforts to eliminate regulatory barriers, and promote the formation of public, private, and nonprofit coalitions to facilitate barrier removal.** States can have a major impact on local regulatory reform in a variety of ways such as legislative action and judicial intervention to mandate performance. Declaring affordable housing as a state goal, performing an overall housing needs assessment, and establishing commissions or committees to work with local governments to identify regulatory barriers are other state actions that will promote barrier removal. At the local level, numerous actions are possible such as modifying zoning codes to increase densities, streamlining the building approval process, and providing public education about the value of affordable housing and regulatory reform. Finally, coalition building and collective action by a wide variety of public, private, and nonprofit stakeholders will be essential if long-term success is to be achieved.

> **Facilitate the assembly of urban land for housing and economic development purposes.** Investment in high-poverty areas can help to transform them into a more suitable living environment for current and prospective residents and provide fertile ground for the gradual restoration of economic and social opportunities. The challenges and costs associated with assembling urban land often preclude such investment, however. Local governments should work to assemble parcels of land for development or redevelopment. To support such efforts, the Administration and Congress should establish a source of funding to capitalize state-based revolving loan funds for the purpose of land assembly. Eligible[13] local units of government would then apply to states for low-interest loans for land acquisition.

> **Charge HUD with leading an interagency barrier-removal initiative.** The United States Interagency Council on Homelessness offers a useful model of interagency coordination in support of federal, state, and local planning efforts. A similar interagency effort is needed to address barriers to the production of workforce housing. The Administration and Congress should direct HUD to lead such an effort. At minimum, the interagency group should:

- Identify federal regulations that add directly or indirectly to housing costs; and
- Convene a public-private initiative to develop model state-enabling legislation and model local codes, and promote the adoption of the codes at the state and local levels.

Rationale

The federal government has a mandate to address regulatory barriers that cut so many households off from economic and social opportunities. The isolation of low-income and minority households in high-poverty areas is especially pernicious. To promote meaningful access to opportunity for such households, the federal government must find a means of encouraging communities to share in the responsibility of housing the nation's workforce.

Phoenix Communities: A "reurbanist" approach

On February 24, 2004, Mayor Kwame M. Kilpatrick announced the planned revitalization of a 1,200-acre plot of land on Detroit's east side. Two national companies—Kimball Hill Homes and American CityVista—will be involved, along with two local developers. One of the local firms, Phoenix Communities, helped to lay the groundwork for the project.

Mel Washington, president and CEO of Phoenix Communities, describes the firm as "a vertically integrated real estate development company that focuses on rebuilding urban neighborhoods." Phoenix looks for neighborhoods that show promise and then conducts a rigorous assessment of current land uses, preparing a color-coded land assembly map that indicates different types of ownership (private, city, county, state, and federal). "If too many plots are in private hands and subject to speculation," Washington explains, "then it may not make sense for us to proceed." If the ownership mix seems favorable, however, the firm will develop a neighborhood plan, siting housing according to existing amenities. It might propose multifamily housing for a site adjacent to a school or park, for example.

Once the plan has been completed, Phoenix prepares a pro forma for it and sits down with the relevant municipalities to come up with a land acquisition price. If the price is right, Phoenix buys the land and works through the relevant city agencies to request any needed zoning changes. It also works with the city to assure the neighborhood's infrastructure and public service needs are met. "When we sit down with the city, we talk about generating a tax base from land that is currently generating no local revenue," Washington says.

According to Washington, the ultimate goal of his firm is to stimulate economic development in the city. Its planning and implementation strategy is thus a precursor to market-rate housing development. To set the stage for such development, Phoenix may be the first firm to undertake development within the neighborhood, drawing on public subsidy. "The key," says Washington, "is to remember that you set your standard for the entire neighborhood with that first development." Washington says his firm focuses on quality, striving to develop subsidized units that have "market-rate appeal."

Once it has gained control of adequate land and set the standard for development, Phoenix issues requests for proposals to find developers who will build the housing and other elements called for in the neighborhood plan. The firm seeks to provide a mix of single-family and multifamily housing, as well as retail and commercial areas, recreational facilities, and public spaces. It doesn't simply tear down existing structures, but focuses—where feasible—on rehabilitation. It also strives to achieve economic diversity. "I call it 'reurbanism,'" Washington says, contrasting his firm's approach with that of the New Urbanism movement. "We are creating the same sort of neo-traditional neighborhoods that are being built on previously undeveloped land in accordance with new urbanist principles, but we're building them through revitalization and reinvestment. We're restoring the neighborhood feel that new urbanist designers seek to create in new communities."

For further information, contact:
Mel Washington, President and CEO, Phoenix Communities, 313-831-2855.

6. Enact a Federal Homeownership Tax Credit.

Many low-income households that are otherwise qualified to purchase homes face income and wealth constraints that prevent them from achieving the American Dream. Introduction of low- and zero-downpayment mortgage products and the use of Section 8 subsidies for homeownership have assisted many such households, as have the employer-assisted housing initiatives under way across the nation. We believe it is time for the federal government to bring such efforts to scale with need. We therefore recommend that Congress:

> **Establish a flexible homeownership tax credit.** The credit should be flexible in design so that it can be used to address the income and wealth constraints of low-income borrowers as well as broader community development needs. We believe that such a credit should be allocated to and administered by the states, using existing delivery systems. We note that some states have already enacted homeownership tax credits. A federal credit would help to expand on these successful efforts by making this much-needed new tool available to all local markets.

Rationale

The tax considerations that encourage households to choose homeownership over renting—the mortgage interest deduction, the real estate tax deduction, the exclusion of house price appreciation from capital gains taxes, and penalty-free Individual Retirement Account withdrawals for first-time homebuyers—primarily benefit households whose itemized deductions exceed the standard deductions. This group does not typically include lower-income borrowers. A carefully designed homeownership tax credit will address low-income borrowers' income and wealth constraints. In addition, it can contribute to broader neighborhood revitalization strategies.[14] In many urban areas of the country, the costs of rehabilitating homes for purchase would exceed the value of the completed home, making revitalization uneconomic. Because of this "appraisal gap," the rehabilitation of single-family homes may go undone, contributing to the further decline of neighborhoods that might otherwise be redeveloped.

Toward a Targeted Homeownership Tax Credit: Designing the program

In a 1998 working paper, researchers at the Joint Center for Housing Studies of Harvard University proposed a set of criteria for evaluating the effectiveness of homeownership tax credit proposals. Several of the proposals that had been advanced recognized the uneven tax benefits enjoyed by high-income versus low-income homeowners and the communities in which they live. As the Joint Center's paper pointed out, more than "90 percent of the total benefits of the mortgage interest deduction accrue to homebuyers with more than $40,000 in income" and "because so many higher-income owners live in the suburbs, the suburbs receive a disproportionate share of the tax benefits of homeownership."

Indicating that "a combination of wealth and income constraints" prevents the majority of low-income renters from being able to buy homes, the paper lays out the key factors to consider in designing an appropriate tax credit:

Does the credit assist with downpayment and closing costs, as well as mortgage payments? While noting that the mortgage industry was designing low- and zero-downpayment products to assist low-income renters facing wealth constraints, the paper also stated that "this strategy fails to reach the nearly two-thirds of renters who are unable to afford a home because of a combination of wealth and income constraints." For such renters, "lowering downpayment requirements only makes income constraints worse by adding to the mortgage amount and increasing mortgage insurance premiums."

Is the credit large enough? To avoid the need for mortgage insurance, the credit should assist buyers in bringing the first mortgage down to 80 percent of the home value.

How is the credit's funding level determined? To assure that it is predictable, funding should be capped and allocated on a per capita basis. It should also be indexed to inflation.

How is the credit delivered? Each homebuyer's annual tax return offers one means of delivering the credit, but inefficiencies with both refundable and nonrefundable credits undermine the effectiveness of this method. Allocation via state housing finance agencies is preferable. To simplify program administration, homeownership tax credits should be allocated to third-party investors who in turn provide mortgages that are affordable to low-income families.

How much of the credit helps targeted families? If the credits are allocated as described above, much of each credit goes to compensate lender risk. By bundling the subsidized loans into mortgage pools, however, risk could be spread—allowing the credit to retain much of its original value to the buyer. The credit could most usefully be applied to mortgage pools rather than individual loans.

What are the spatial impacts of the credit? Most homes that would be affordable to low-income buyers are located in metropolitan areas. Given the constraints on housing production, the stronger demand resulting from the tax credit could lead to higher prices. Localities may thus find they need to "layer-on" housing production subsidies to achieve the goals of the credit.

Source: J. Michael Collins, Eric S. Belsky, and Nicolas P. Retsinas, Toward a Targeted Homeownership Tax Credit, *Joint Center for Housing Studies of Harvard University (November 1998)*. Available at http://www.jchs.harvard.edu.

7. Create Incentives for Employers to Provide Housing Assistance.

In recent years, housing costs have risen faster than wages for most Americans. Federal funding for housing has not kept pace with increased costs or need. Employer-assisted housing offers the possibility of greater private-sector participation in meeting the housing needs of the nation's workforce. It can take many forms, from downpayment assistance and second mortgages to investments in affordable housing. We believe that the federal government should encourage such efforts through a series of incentives. Specifically, we recommend that Congress:

> **Enact tax incentives to support employer-assisted housing programs.** Housing assistance to low- and moderate-income employees should be a tax-free employee benefit. Cafeteria benefits packages should include housing assistance as a nontaxable benefit. To offset part of the cost to employers, a corporate tax credit should be established.

> **Expand existing federal programs to encourage employer-assisted housing.** Employer-assisted housing activities should be eligible for funding under both the CDBG and HOME programs. Employers should be able to issue tax-exempt bonds to finance the production and/or rehabilitation of affordable housing.

> **Encourage the government-sponsored enterprises to continue to tailor mortgage products to employer-assisted housing.** Both Fannie Mae and Freddie Mac already offer an array of mortgage products that promote employer-assisted housing. These efforts should be recognized, supported, and expanded.

Rationale

There is a spatial disparity between the location of jobs and the availability of affordable housing. Many families that reside in high job-growth areas must choose among paying too much for housing, living in substandard conditions (or both), or enduring a lengthy commute. The growing spatial divide is especially difficult for low- and moderate-income working families. Between 1999 and 2001 alone, the number of such families paying more than half of their incomes for housing or living in substandard conditions jumped by more than 25 percent.

The jobs-housing imbalance creates costs for employers, as well. Employee recruitment and retention are affected. Productivity can suffer as existing employees spend more and more time commuting. These factors may undermine a firm's competitiveness. Employers thus have a bottom-line stake in making housing more affordable to workers. From a broader point of view, employer-assisted housing programs can help to protect and promote the economic competitiveness of cities, entire regions, and even the nation as a whole.

Illinois Housing Development: A flexible state-level tax credit

On August 23, 2001, the Illinois Legislature enacted an Illinois Affordable Housing Tax Credit (IAHTC). As with the federal Low Income Housing Tax Credit program, funds may be used to support the production and preservation of rental housing. Unlike the federal program, the IAHTC program may also be used to support homeownership initiatives including employer-assisted housing.

Bryan Zises, director of public affairs for the Illinois Housing Development Authority (IHDA), explains how the program works. "Say an employer wants to make a $100,000 contribution to a nonprofit agency to administer an employer-assisted housing program on its behalf. The employer receives a $50,000 credit against its state income tax bill, and it can claim a $50,000 charitable deduction on its federal taxes, reducing its total cost by 65-70 percent. The nonprofit administers the program, providing pre-purchase counseling to eligible employees [those earning no more than 120 percent of area median income], and issuing loans and/or grants to assist employees with their downpayment and closing costs."

IHDA's executive director, Kelly King Dibble, notes that the program serves a community development purpose as well. "Employers and employees benefit when workers live near work. The new homeowners become invested in their community, spend less time commuting, and have a better quality of life. By encouraging homeownership in specific neighborhoods near employment, the program helps to stabilize the local real estate market and build stronger communities."

A May 1, 2004, article in the Chicago Tribune featured comments from one such employer. Mark Lusson, vice president of human resources at Northwest Community Hospital, said his organization began to participate in the program "after noticing that employees were driving long distances to work because of a lack of affordable housing." As a condition of participation, the hospital "requires employees to live within 10 miles of the hospital." It also offers a partially forgivable loan tied to employee tenure, which helps to improve retention and hold down training costs.

An additional benefit of the program is its transferability, according to Brian Hollenback, director of the Rock Island Economic Growth Corporation (RIEGC). RIEGC is an umbrella organization that includes a nonprofit Community Housing Development Organization (CHDO) and administers an employer-assisted housing program on behalf of 70 local companies—some with only a few employees. "Since some of the employers who contribute to the CHDO are exempt from state income taxes," Hollenback says, "they can't use the credits. They can, however, transfer the credits to the CHDO, which can then sell them to raise capital."

In its second full year of operation, the five-year pilot program had approved about 150 people for homes statewide. One secret to the program's success, according to Samantha DeKoven, a housing associate with the Metropolitan Planning Council, is that organizations such as RIEGC serve as administrators. "Making it easy for companies is a key goal," DeKoven told the Chicago Tribune, adding that "employers are not in the housing market, and they don't want to be."

For further information, contact:
Bryan E. Zises, Director of Public Affairs, or Charlotte Flickinger, Director of Tax Credit Programs, Illinois Housing Development Authority, 312-836-5200.

8. Preserve the Affordability of Privately Owned Multifamily Rental Housing.

The goals of our national housing preservation policy should be twofold: (1) to assure that current owners who wish to retain ownership for an extended affordability period have access to the tools that will enable them to do so, and (2) to eliminate obstacles to the transfer of ownership in cases where owners wish to sell to organizations committed to maintaining affordability. To support these goals, we recommend that the Administration and Congress:

> **Make existing modernization and recapitalization tools accessible to a broader array of federally assisted properties.** Incremental legislation enacted in response to particular preservation challenges has resulted in a variety of preservation tools, many of which are not available to all properties. Absent broader access to such tools, many affordable units are likely to be lost from the inventory. The Administration and Congress should adopt the following measures to help preserve these properties.

- Permit federally assisted properties to be eligible for Section 8 enhanced vouchers at mortgage maturity. Currently, enhanced vouchers (see Rationale) are available only to certain properties, under certain conditions, upon prepayment or opt-out. Owners thus have an incentive to pull their properties out of the affordable inventory earlier than they might otherwise.
- Extend Section 8 enhanced voucher eligibility to a broader set of federally assisted properties upon recapitalization. Currently, such vouchers are available primarily to owners who seek to terminate affordability rather than renew it.
- Expand the criteria under which Section 8 project-based rents can be marked up to market. The narrow criteria that govern use of the Section 8 Mark Up to Market program (see Rationale) prevent many owners from obtaining financing to fund needed improvements.

> **Provide exit tax relief to private owners of federally assisted and conventionally financed multifamily rental housing who sell to nonprofit organizations, public housing agencies, or other parties committed to long-term affordability.** The purchasing agency should be required to demonstrate how its acquisition of the property will (1) enhance or preserve the supply of housing affordable to low-income households, and (2) support a strategic approach to the deconcentration of poverty. Exit tax relief (ETR) should be capped and allocated by states. ETR should also be calculated according to the number of units that will be preserved as affordable for low-income households. In their allocation of ETR, states should be required to give preference to properties that will be preserved as mixed-income and are located near good-quality jobs and schools.

> **Establish rehabilitation grant assistance.** Current property owners who commit to continued affordability should be eligible for grants to pay for nonrecurring maintenance and capital

improvements. Nonprofit purchasers of affordable properties should also be eligible to apply for assistance to cover direct costs (other than the purchase price) incurred in the transaction.

Rationale

In its 2002 report to Congress, the Millennial Housing Commission noted that 10 percent of the units affordable to low-income households in 1999 were provided by the privately owned, federally assisted inventory. That same year, the conventionally financed inventory provided more than 60 percent of the units affordable to extremely low-income households and nearly 87 percent of units affordable to very low-income households. Many of these units are at risk of loss from the affordable stock with the expiration of affordability restrictions and the strengthening of markets. Still others, located in weak or declining markets, face continued deterioration and eventual loss. For a variety of reasons, the owners of such properties might be willing either to maintain ownership for an extended affordability period or to sell to organizations that would preserve the units as affordable. They are deterred from doing so, however, by the lack of access to preservation tools and resources in the former case, or by tax-on-sale considerations in the latter. Existing preservation tools, such as Enhanced Vouchers and the Mark Up to Market program, make it possible for owners to upgrade properties while providing important tenant protections.

Many federally assisted and conventionally financed properties provide decent, affordable housing that meets a critical need. The purposeful application of incremental resources to preserve such housing makes much more sense than allowing these units to be lost from the affordable stock—particularly given the challenges associated with producing new affordable housing.

Mission and the Marketplace: Nonprofit preservation initiatives

Between 2004 and 2025, the mortgages on 2,611 privately owned, federally subsidized properties will reach maturity, putting nearly 289,000 units at risk of loss from the affordable inventory.[15] To prevent such an outcome, several national nonprofit organizations have in recent years launched preservation initiatives. The John D. and Catherine T. MacArthur Foundation has pledged $50 million to support their work.

Preservation of Affordable Housing, Inc. (POAH), and Mercy Housing, Inc. (MHI), are two such organizations. POAH focuses exclusively on preservation. Since 2001, it has acquired some 20 properties, preserving more than 2,500 units. Amy Anthony is the organization's executive director and president. MHI, which has been developing affordable housing since the 1980s, launched a preservation initiative in 2000, hiring Chuck Wehrwein to oversee it. MHI has preserved approximately 1,500 units.

According to Anthony and Wehrwein, nonprofits could preserve even more units if not for mission-related factors that put them at a disadvantage when competing with profit-motivated purchasers. "For example," Anthony explains, "to maintain affordability, we need HUD subsidy. Whenever we deal with HUD, time becomes an issue. We become less competitive." Anthony believes HUD should develop a special "window" for its preservation procedures. Anthony and Wehrwein agree that exit tax relief for owners who sell to nonprofits would help to level the playing field.

According to Wehrwein, nonprofits' mission focus also "eliminates a back-end benefit that our competitors enjoy." He explains that "for-profits have more equity, and they are willing to put it at risk, because they assume a short time horizon." In other words, they plan to sell or refinance within seven to ten years. Nonprofits have less equity and a long time horizon. "We're typically seeking borrowed money to acquire a property," Wehrwein says, "which takes time."

Nonprofits' mission focus also affects rehabilitation costs. "We typically find ourselves proposing a greater level of rehab per unit than profit-motivated purchasers," Wehrwein says, adding that "unless we can come up with soft sources of financing, which takes time, we tend to lose—especially when we're dealing with a broker."

Given nonprofits' long time horizon and desire to hold properties to a high quality standard, Anthony believes they should not be subject to the dividend limits placed on for-profit owners. "Nonprofits should be able to use 'excess' cash flow to support their preservation mission," she says.

Anthony thinks it's especially important to preserve properties in suburban locations. "HUD money for development put properties in some pretty marginal areas," she says, "but now these areas have improved. As a result, it's difficult to develop new properties there. Meanwhile, more and more jobs have been created in suburban areas, and it's that much more important to preserve existing affordability." Wehrwein comments on the challenges of preserving rural properties. "These are areas that are losing population," he says, "and we have to keep rents very low in order to meet needs." This is made difficult because the properties financed under Section 515 offer no resident protections, such as Enhanced Vouchers.

For further information, contact:
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Chuck Wehrwein, Senior Vice President, Real Estate Developments, Mercy Housing, 303-830-3368 or cwehrwein@mercyhousing.org.

9. Redefine the Affordable Housing Mission for the Government-Sponsored Enterprises.

Fannie Mae, Freddie Mac, and the Federal Home Loan Banks—the three government-sponsored enterprises (GSEs)—play an enormously valuable role in the nation's housing finance system. They help to assure the liquidity and stability of mortgage credit by linking the US housing finance system with national and international capital markets. This role should be preserved and protected.

A 1992 Act of Congress formalized the Secretary of HUD as the mission regulator for Fannie Mae and Freddie Mac. It also established affordable housing goals to be implemented by HUD as the mission regulator. The goals focus on three areas—low and moderate income, special affordable housing, and underserved areas—and outline a "percent-of-business" to be met in each area. However, housing markets and needs have changed significantly since 1992, and there are limits to what can be accomplished through "percent-of-business" goals.

The Federal Housing Finance Board regulates the nation's 12 Federal Home Loan Banks (FHLBanks). The FHLBanks are authorized to purchase certain mortgage assets from member institutions. The purchases are not subject to affordable housing goals. Each FHLBank is, however, required to contribute a set percentage of its annual net earnings to its "Affordable Housing Program," through which capital is made available to sponsors of affordable housing.

We believe the Administration and Congress should establish a new mission paradigm for the government-sponsored enterprises. The recommendations below outline a menu of ideas that should be considered as a part of this new paradigm.

> **Focus Fannie Mae and Freddie Mac on homeownership and affordable rental housing by removing single-family refinancings from the calculations for affordable housing goals.** Removing single-family refinancings would emphasize purchase-money mortgages to increase homeownership for lower-income and minority families.

> **Link Fannie Mae's and Freddie Mac's affordable housing mission goals with market opportunities by providing incentives for investing in priority mission areas.** Until recently, HUD employed a system of bonus points that granted Fannie Mae and Freddie Mac bonus credit toward the purchase of particular types of loans. We believe that a system of incentives/bonus points should be reinstated to encourage market leadership by the two corporations on key public policy priorities. Among the targets for bonus purchase incentives are small multifamily properties, loans for first-time and minority homebuyers, single-family refinancings by low-income borrowers, high-cost loans that meet the standards established by Congress (see Recommendation 10), small PHAs with limited capital needs, employer-assisted housing initiatives, and/or Community Development Financial Institutions.

- > **Require Fannie Mae and Freddie Mac to set aside a percentage of their annual net profits as a source of capital for sponsors of affordable housing.** As with the Federal Home Loan Banks, a percentage of Fannie Mae's and Freddie Mac's annual net earnings could be set aside each year to serve as a source of capital for sponsors of affordable housing. Alternatively, the corporations could set aside part of their operating budgets each year based on previous year earnings. The set-asides should be established at a level that contributes to affordability yet assures the continued liquidity and stability of mortgage credit.

- > **Align the GSEs' affordable housing goals with those of the lending industry.** By matching the income definitions that guide the GSEs' percent-of-business goals to those of CRA-motivated lenders, the Administration and Congress would be aligning the affordable housing incentives of the primary and secondary markets. Such a modification would encourage the GSEs to purchase more CRA loans, reinforcing the positive community development impact of CRA lending.

- > **Provide qualitative goals for Fannie Mae and Freddie Mac by adding CRA-like investment and service standards.** The 1992 statute calls on Fannie Mae and Freddie Mac to "lead the industry," but leadership means more than purchasing loans. For example, they could be asked to report on what they are doing to improve efficiencies and raise acceptance rates through consumer education and outreach, investments, and enhancements in mortgage technology. Investments or initiatives with external groups designed to enhance homeownership opportunities or access to credit could be reported, as well.

- > **Establish affordable housing goals for the Federal Home Loan Banks' Mortgage Partnership Finance and Mortgage Purchase Programs.** Each of the 12 Federal Home Loan Banks is authorized to purchase single-family mortgage assets from member institutions. Such purchases should become subject to affordable housing goals similar to those applied to Fannie Mae and Freddie Mac.

Rationale

While we recognize that percent-of-business goals have helped to assure the distribution of benefits to low- and moderate-income households and the communities in which they live, it has also become clear this approach has weaknesses. First, as Fannie Mae and Freddie Mac have grown, their percent-of-business goals—which include loans for purchasing as well as refinancing homes have become less aligned with the targeted housing needs of the nation. Second, to the extent that the goals are inconsistent with the levels of affordable housing lending in the broader marketplace, they may create incentives for the two corporations to invest in ways that distort the market. For example, the percent-of-business goals may result in Fannie Mae and Freddie Mac over-investing in certain market segments, reducing access to their lower-cost credit for families who are not "targeted" by the goals.

By establishing an approach that focuses the two corporations on priority mission areas and better aligns their affordable housing goals with those of the lending industry, the Administration and Congress will encourage the ongoing flow of capital into the affordable lending marketplace and help assure that Fannie Mae and Freddie Mac continue to meet the needs of hard-to-reach market segments. By asking all three of the GSEs to capitalize an affordable housing fund and to achieve affordable housing goals in their mortgage purchase programs, we can both level the playing field and advance an affordable housing agenda that does not rely exclusively on direct government subsidies.

Freddie Mac: Outreach to first-time homebuyers

Freddie Mac's approach to serving first-time homebuyers has changed in recent years. First, automated underwriting expanded the pool of potential borrowers; at the same time, the firm's method of outreach evolved, taking on a more grassroots quality.

According to Jim Kurtzke, a Freddie Mac communications director who has marketed the company's automated underwriting service, "automated underwriting replaced a system of manual underwriting that relied on strict standards, typically requiring large downpayments and mortgage payments no higher than 28 percent of monthly income." Kurtzke says the statistical analyses made possible by automated underwriting enabled the firm to better assess overall risk. For example, he says "the higher risk of low downpayments or high debt ratios could be offset by strong credit." As a result, underwriting standards are now more flexible, "with downpayments as low as zero and debt-to-income ratios as high as 50 percent—all without sacrificing credit quality." In addition, Kurtzke says, "approvals are now up to about 85 percent, where they used to run below 50 percent."

Patricia McClung, Freddie Mac's vice president of housing and community investment, says that many potential borrowers were unaware of the changes brought about by automated underwriting. "They didn't realize that they might qualify for a loan even without a 20-percent downpayment or perfect credit," she says. To address these misconceptions, the firm's outreach activities evolved. "It used to be that we'd work with lenders to develop mortgage products, and the lenders would work with potential borrowers. These were borrowers who were comfortable seeking out a lender," she adds. "As we did research to better understand homeownership gaps between minority and nonminority households, it became apparent that organizations other than lenders—churches and credit counselors, for example—could serve as trusted intermediaries." Now Freddie Mac partners with lenders to reach potential borrowers where they "work, live, play, and pray," helping to link lenders with the nonprofit and private- and public-sector organizations that are already familiar to potential borrowers.

Recently, the firm equipped buses with networked computers, creating "mobile homeownership centers." A school, church, or community can arrange for one of the buses to be present during a local event. In addition to providing information about homeownership, center staff can direct people with impaired credit to counseling agencies. McClung says the firm is also "working to create tools for counselors that they can use to help prepare people for the formal application process and to promote a stronger relationship between counselors and servicers so that buyers who get into trouble will feel comfortable working with a counselor before their situation gets dire."

McClung says the message of recent years is that "technology is important, but that it doesn't serve all potential borrowers equally well—one size does not fit all." She says Freddie Mac works continually to develop new ways of reaching out to borrowers. "We need to continue to broaden our approach," she says, "and to recognize that both technology and outreach are necessary to keep up with the needs of modern borrowers."

For further information, contact:
Sharon McHale, Director of Public Relations, Freddie Mac, 703-903-2000.

10. Prohibit Predatory Lending.

Predatory lending involves such abusive practices as making a mortgage loan to an individual who does not have the income to repay it or repeatedly refinancing a mortgage and charging excessive points and fees. The lenders who use these tactics often target our most vulnerable populations. We believe that it is time for federal legislation to clearly define predatory lending and impose strict penalties on those who engage in these harmful practices, while at the same time preserving access to subprime credit for underserved borrowers. At a minimum, federal legislation must:

> **Distinguish legitimate subprime lending from predatory lending.** Legislation should differentiate between legitimate subprime and predatory lending, making clear that the predatory practices involve lending with no demonstrable benefit to the borrower, no consideration of the borrower's ability to repay, and steering of "prime" borrowers to subprime products.

> **Eliminate lending practices as:**
- Asset-based lending. The loan amount should be based on the borrower's ability to repay, not solely on the value of the home.
- The repeated refinancing of loans within a short time period with no demonstrable benefit to the borrower ("loan flipping").
- The financing of single-premium credit insurance that benefits the lender but not the borrower.

> **Define high-cost loans.** Loans that exceed thresholds established by Congress for points, fees, and interest rates should be defined as "high-cost." The thresholds should be set at levels that protect consumers from predatory practices while preserving access to subprime credit.

> **Establish clear standards for high-cost loans.** The financing of points and fees should be limited. Mandatory arbitration clauses should be subject to rigorous standards that protect the interests of consumers. Counseling from an accredited counseling service should be offered and provided upon request to any borrower entering into a high-cost loan agreement. After two years, prepayment penalties should be prohibited. During the first year, any prepayment penalty should not exceed two percent of the loan balance outstanding during that year; during the second year, it should not exceed one percent of the loan balance outstanding.

> **Prohibit the Federal Home Loan Banks from accepting predatory loans as collateral.** Lenders benefiting from Federal Home Loan Bank advances should not be allowed to hold predatory loans in their portfolios.

Rationale

There are a number of reasons why federal anti-predatory lending legislation is needed. First, as of January 2004, 25 states, 11 localities, and the District of Columbia had enacted anti-predatory lending legislation. Other states are considering such legislation. Such measures create safe havens for some borrowers, but they do not eliminate the problem of abusive lending practices. Instead, they threaten to push such practices into unregulated states.

Second, the ability of federal regulatory agencies to supervise subprime lending is limited. Most subprime loans are originated from mortgage and consumer finance companies. Even in cases where such companies are owned by financial or bank holding companies, the Federal Trade Commission is charged merely with enforcement responsibilities and not with the routine monitoring of transactions. The Board of Governors of the Federal Reserve System, which, according to the US General Accounting Office (GAO), "may be better equipped to monitor and examine these subsidiaries' compliance with federal consumer protection laws,"[16] lacks the clear authority to do so.

Third, federal legislation will provide consistency for lenders and assure a steady flow of capital to underserved areas and underserved households. Local regulations can, and often do, inhibit access to capital. State and local laws may also unintentionally restrict the access of credit-impaired borrowers to legitimate subprime loans.

Fourth, the only piece of federal legislation specifically intended to deal with predatory lending—the Home Owners Equity Protection Act (HOEPA)—covers only a limited portion of subprime loans. Some states that have enacted predatory lending legislation have established lower thresholds than the rate and fees triggers spelled out in HOEPA in order to cover more loans.

Finally, despite the number of consumer education initiatives under way, the complexity of mortgage transactions and the difficulty of reaching borrowers who are targeted by predatory lenders limits their effectiveness. Controlling for risk, African American borrowers are more likely than whites to receive a subprime loan.[17] This means that they are also more likely to fall victim to predatory lending practices. There is some evidence that elderly homeowners are also frequent targets of predatory lending, in part because they may have substantial equity in their homes yet be living on limited incomes, making them especially susceptible to quick-cash-out offers.

Don't Borrow Trouble: Combating predatory lending.

"There is good subprime lending," according to Bill Cotter, deputy director of Boston's Department of Neighborhood Development, "but the market has been overwhelmed by predatory lenders." Cotter is part of a consumer awareness campaign known as "Don't Borrow Trouble," which was launched in Boston in 1999 and has since expanded to 26 cities with support from Freddie Mac.

Cotter explains how the initiative started: "When Mayor [Thomas M.] Menino was on the city council, a home rehabilitation scheme swept through the city. There were foreclosures in several neighborhoods." Menino knocked on the doors of people who had been foreclosed on, and their stories led him to put forth a plan for prevention through consumer education.

"Don't Borrow Trouble" is part of the city's one-stop shop for homeownership activities. People who contact the campaign receive free counseling services to help them avoid abusive lending practices.

Cotter explains some of the factors that make predatory lending such a tough issue. "First, there is no way for a consumer with impaired credit to know what they should be charged, because there are no standards in the subprime market. Second, there are no disincentives for unscrupulous lenders to get into this business," he says. According to Cotter, the city had already taken steps to deal with the issue before it launched "Don't Borrow Trouble." "We use HUD funds to assist with downpayment and closing costs," Cotter says, "and we found that some borrowers refinanced on unfavorable terms. So, we started to apply a 10-year forgivable mortgage whenever city funds were used, which gave us a junior lien and a chance to evaluate refinancings."

An anti-predatory lending bill is now under consideration by the Massachusetts legislature. Cotter explains that the bill will do three important things: define a high-cost loan, prohibit certain practices if a loan fits the definition of high-cost, and give borrowers legal recourse through assignee liability. "This may sound simplistic," Cotter says, "but one of the most significant things the law will do is mandate that lenders consider a borrower's ability to repay." Cotter explains that predatory lenders tend otherwise to make loans based on a property's value. "There is no risk to them if the borrower defaults, because they can seize the property," Cotter says, adding that most lenders sell the loans anyhow, and some of them close up shop afterward and disappear. That's where assignee liability comes in. "If investors know that they can be held liable on these loans," Cotter explains, "predatory lenders may have trouble obtaining investors—it may make it harder for them to do business."

Cotter sees a need for federal legislation. "If Massachusetts enacts this bill, it'll be a signal to the predators. Maybe they'll close up shop. It's more likely that they'll take their business elsewhere." His one concern is that financial groups could have an impact on the final form of any federal legislation, watering it down. "We wouldn't want our state laws to be pre-empted by a weaker federal law," Cotter says.

For further information, contact:
Bill Cotter, Deputy Director, Department of Neighborhood Development, City of Boston, 617-635-0458 or bcotter.dnd@CI.BOSTON.MA.US.

11. Institute University-Based Programs to Train the Nation's Housing Professionals.

The field of housing and community development has become increasingly complicated over the past several decades. To do their jobs well, housing professionals must understand investor motivations and the operation of the capital markets, how to use public subsidy to leverage capital, the complicated laws and regulations that govern the use of public subsidy, nontraditional investment alternatives, factors that contribute to and mitigate risk, and federal, state, and local planning processes. We believe it is time to recognize the degree of expertise necessitated by such a complicated system and to make provision for professional training and career development opportunities. Specifically, the Administration and Congress should:

> **Support development of a model masters-level curriculum in housing and community development.** The two-year curriculum should be rigorous and replicable. HUD's Office of University Partnerships should be charged with overseeing this initiative.

> **Support development of a semester-long executive career development program.** Such a program might be offered at one or more of the nation's leading universities. Its development—again, through HUD's Office of University Partnerships—would offer mid-career professionals the opportunity to acquire new skills.

> **Provide annual funding for an urban fellows program.** Scholarships would help to assure broad and equitable access to the two initiatives described above.

Rationale

This nation benefits from the expertise of housing and community development professionals who understand the dynamics of metropolitan markets. Through their work, such professionals make a difference in the daily lives of literally thousands of people. They protect our quality of life and the value of our community-based assets, and even our individual homes. They help to restore opportunity to those who have been sidelined.

Just as we promote our national security by offering rigorous training at places such as West Point, we should be safeguarding our quality of life through an equally rigorous program in housing and community development.

Atlanta Housing Authority: Vision, expertise, and principles in action

In 1995, Renée Glover became the executive director of the Atlanta Housing Authority (AHA). During her tenure, the authority has taken a comprehensive redevelopment approach that replaces high-poverty public housing properties with mixed-income, market-rate units. Subsidies applied to a portion of the units enable public housing tenants to reside in better housing, in better neighborhoods.

Glover has received numerous awards. In 2002, Governing magazine named her "Public Official of the Year," and she received the distinguished "Women in Government Award." In recognition of her success, she has been called upon repeatedly to testify before Congress.Glover's innovative approach to urban poverty entails five principles.

"As a policy matter," Glover says, "we should **abandon the practice of concentrating the poor.**" The socioeconomic environment that results is bad enough, she says. What is worse is that it leads to poor schools, and "poverty becomes a multigenerational phenomenon." Glover says that the same principle that drives AHA's property revitalization strategy—"market-rate buildings with a seamless affordable component"—informs her thinking about education: "We must deconcentrate the poor in our neighborhoods and in the learning environment."

To achieve social and economic sustainability, Glover says that it is critical to **engage the private development community and apply market principles.** "When you layer housing subsidies and private resources, you achieve a multiplier effect," Glover says. "Residents' disposable income attracts retail and commercial activity, and the overall environment contributes to a culture of work."

Glover insists that a **comprehensive approach to urban poverty** is critical. "Otherwise," she says, "you never get beyond crisis management." She calls for the thoughtful application of health, housing, employment, transportation, and education resources and believes that programs should focus on meaningful outcomes. "The number of people served is not as important as the positive changes in their lives," Glover says, adding "these are the types of returns we should expect from our investment of tax dollars."

Outreach to landlords is an important part of AHA's philosophy. Glover talks of the need to be strategic in working with private-sector landlords, many of whom provide housing through the authority's Section 8 program. AHA holds an annual symposium to educate landlords about its program and new investment opportunities. "We look on landlords as business partners," Glover says.

Finally, Glover evaluates "our entire policy structure" with regard to poverty. "What should we require of families that benefit from public subsidy?" she asks. Glover believes in a **work requirement for nonelderly, able-bodied tenants.** "This is about matriculating people into the mainstream society," she says. "Not to require work sends a very bad signal. It's as if we are saying 'you don't have to play by the rules as long as you keep to yourself.'"

"Urban revitalization is not just about restoring the development potential of land," Glover says, "it's also about restoring human potential." Glover's success in doing just that is evidenced by outcomes in the neighborhood surrounding one of the authority's redeveloped properties: median income has risen 174 percent, and workforce participation is up 94 percent.

For further information, contact:
Renée Glover, Executive Director, 404-817-7201 or renee.glover@atlantahousing.org.

12. Vigorously Enforce the Nation's Fair Housing and Fair Lending Laws

In its 2004 Fair Housing Trends Report, the National Fair Housing Alliance stated that "housing choice plays a crucial role in determining one's ability to access critical social and economic functions: quality schools, jobs, health care services, recreational facilities, public services, and transportation."[18] We agree. This nation cannot have a housing policy that promotes equality of opportunity without addressing prejudices that limit individual access to safe and decent housing and a suitable living environment. To promote such a policy, the Administration and Congress must:

> **Assure that fair housing enforcement and education are adequately funded.** A recent nationwide study found that African Americans and Hispanics still face "significant levels of discrimination" in both the rental and homebuying markets.[19] As the study noted, such discrimination "raises the costs of the search for housing, creates barriers to homeownership and housing choice, and contributes to the perpetuation of racial and ethnic segregation." To eliminate individual instances as well as patterns and practices of housing discrimination, HUD and the Justice Department must work collaboratively with private fair housing agencies and state and local agencies to assure the nation's fair housing laws are enforced and renters and buyers are educated about their legal protections. The federal, state, local, and private agencies that make up the nation's fair housing investigation and enforcement network must be funded at a level that is adequate to these tasks.

> **Direct the General Accounting Office (GAO) to evaluate the link between project-based housing subsidies and high-poverty, high-minority neighborhoods.** Public housing, privately owned federally assisted housing, and housing funded with Low Income Housing Tax Credits have all been found to concentrate residents in high-poverty, high-minority neighborhoods.[20] Racial discrimination explains much of this pattern of segregation. Other factors also come into play, including market dynamics, program statutes, and rules and regulations. All of these factors influence where subsidized housing is built and therefore whether residents have access to the opportunities presented by good schools and quality jobs. The GAO should be directed to evaluate these factors and propose measures to break the link between project-based subsidies and high-poverty, high-minority neighborhoods.

> **Take steps to assure that credit information accurately reflects borrower risk.** Regular payments for expenses such as rent and utilities are not traditionally reported to credit bureaus and are therefore not included in a consumer's credit history. The consequences of such incomplete payment information are greatest for minority and low-income households.[21] Fair and accurate credit reporting, which is essential to the practice and enforcement of fair lending, thus has implications for fair housing as well. The Administration and

Congress should take measures to assure that consumer payment histories are accurate and complete. Such measures might include:

- Requiring electric, gas, and water utilities, cable and telephone companies to report customers' payment histories to credit bureaus,
- Supporting consumer efforts to self-report such payments through nontraditional means, and
- Assuring the right of any renter to an accurate, signed lease and a payment option that generates a paper trail or electronic receipt.

Rationale

In the Civil Rights Act of 1968, the link between access to housing and access to opportunity was affirmed. Still, discrimination affects millions of people each year by limiting access to both rental housing and homeownership. The federal government has a mandate to address both overt discrimination and practices that contribute to the concentration of minority households in high-poverty neighborhoods. The will to do so is essential to assuring that all Americans enjoy access to a safe and decent home and a suitable living environment.

Pay Rent, Build Credit: A nontraditional approach to credit

Traditional credit bureaus obtain payment information from mortgage lenders, credit card companies, and others that report voluntarily. Intermediate companies use this information to develop credit scores, which are then used to determine the availability and cost of credit to consumers. Credit scores may also be used by landlords, employers, and insurance companies in evaluating whether to offer housing, employment, or coverage—and at what price.

Pay Rent, Build Credit, Inc. (PRBC) is a new national credit bureau that employs technology to gather nontraditional credit information. Michael Nathans, PRBC's founder and CEO, explains how it works. "Consumers use a secure Internet connection to log on to PRBC's website. They set up payment accounts for their rent and other regular expenses, such as utilities and childcare." Users can list up to 36 months of prior payments. PRBC does not charge consumers for this service, nor does it sell mailing lists. It makes money by selling credit reports for permissible purposes to organizations such as CitiMortgage. Fannie Mae is interested in using PRBC's data for research and modeling.

PRBC's most important innovation is in making it possible for renters to demonstrate their creditworthiness. Aggregated data from PRBC could ultimately be used to develop new loan products. It could change how investors evaluate rental housing. It could influence the pricing of mortgages and insurance. In the meantime, Nathans points out, consumers who use PRBC have "reliable and portable credit histories that any lender or insurance company can score for permissible purposes under the Fair Credit Reporting Act." Nathans says "this is about enabling individuals who are simply assumed to be high-risk to demonstrate otherwise."

In a February 2004 article in the *Washington Post*, columnist Michelle Singletary observed that PRBC "would especially benefit black and Hispanic consumers, who lag significantly behind whites in homeownership but often have rent-paying histories that are not included in credit-scoring models."

PRBC recently announced its own scoring products, Bill Payment Scorecard (BPS) and the PRBC Achievers 100+ scale. BPS "allocates points based on the timeliness of recurring payments over the past 36 months." The scorecard allots greater weight to larger payments such as rent and mortgage, and lesser weight to smaller payments. Payments for child support, remittances, and student loans get greater weight than those for utilities, phone, and cable, an order of priority that Nathans describes as an attempt to "encourage desirable outcomes." PRBC Achievers 100+ scale allocates points for such things as owning an insured bank or credit union account, participating in financial and homeownership education, and paying bills electronically. Both products make it possible for consumers who have a low credit score—or no score at all—to demonstrate their fiscal responsibility without going into debt.

Participation in the PRBC service qualifies as a "community development service" under the Community Reinvestment Act. Recognizing the broader potential of PRBC's work, the Ford Foundation recently granted the for-profit company $250,000 to work with local housing organizations to expand access to the network.

For further information, contact:
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In presenting these 12 recommendations, we have articulated a bipartisan vision for a new national housing policy. We offer it to the business community, which has voiced its concerns about housing our workforce. We offer it to the nation's many governors and mayors, who face the task of planning for and managing growth with ever-shrinking budgets. We offer it to housing professionals, whose expertise and participation are vital to the affordable housing agenda. We offer it to the many Americans who struggle daily to provide shelter, stability, safety, and opportunity for their families. Finally, we offer it to the President and the Members of Congress. May we all come together in appreciating that housing policy is at the core of many of the toughest challenges facing this nation, and may we find a means of advancing housing legislation that will promote our common progress.

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Henry G. Cisneros is chairman of American CityVista, a homebuilding enterprise focused on "villages within the city" in the central neighborhoods of metropolitan areas. Cisneros served as Secretary of the US Department of Housing and Urban Development during the first Clinton Administration. In 1981, Cisneros became the first Hispanic American mayor of a major US city, San Antonio, Texas.

Jack F. Kemp is co-director of Empower America, a public policy and advocacy organization he co-founded in 1993. In 1996, Jack Kemp gained even further prominence in the national spotlight when Senator Bob Dole named him as the Republican Party's vice presidential candidate. Prior to founding Empower America, Mr. Kemp served as Secretary of the US Department of Housing and Urban Development during the George H. Bush Administration.

Kent W. Colton, PhD, is president of K Colton LLC and a senior scholar at Harvard University's Joint Center for Housing Studies. He is the author of *Housing in the Twenty-First Century: Achieving Common Ground* (Harvard Press, 2003). Colton was the CEO of the National Association of Home Builders from 1984 to 1999. He also served as an executive vice president of Freddie Mac and on the faculties of Brigham Young University and MIT.

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