CRS Report for Congress

Housing the Poor: Federal Housing Programs for Low-Income Families

October 20, 1998

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ABSTRACT

This report presents an overview of housing problems currently facing low-income families and individuals and trends that may accentuate or mitigate these problems. It describes the main federal housing assistance programs for low-income households and special populations like the elderly and the disabled. Attention is directed to the historical roots of programs like public housing and how changing circumstances or perspectives led to modifications and the shift in emphasis from project-based subsidies to tenant-based assistance. The way each program works is explained, along with a detailing of incomes, household composition, and other characteristics of families receiving benefits. Some facts are adduced on how programs have performed relative to their objectives. For additional information, see: CRS Report 97-169 E, *Housing Issues in the 105th Congress*, updated September 1, 1998, and other CRS products footnoted in this report.

Housing the Poor: Federal Housing Programs for Low-Income Families

Summary

Low-income families with housing problems are found in every section of the United States. They are located in large cities like Los Angeles and New York, but also in small towns and rural areas, in *colonias* on the border with Mexico, and on American Indian tribal areas of Arizona, New Mexico, and elsewhere. Long-term demographic and economic trends point to an increase in the number of low-income people with housing difficulties. Recent changes in welfare programs could accentuate these problems.

A medley of federal programs administered by the Departments of Housing and Urban Development, Agriculture, and other agencies are intended to address housing needs. New data indicate that the only housing programs—standing alone—that reach the poorest of the poor are public housing, HUD's Section 8 and USDA's Section 521 rental assistance programs. Programs such as low-income housing tax credits and HOME grants must be pieced together with other subsidies to provide housing affordable by poverty-level families. Families requiring less deep subsidies—broadly those with incomes between 30 percent and 80 percent of area median income—are being assisted through various renter and home buyer subsidies.

The thrust of current efforts is threefold: to induce assisted families to become more self-sufficient and thus reduce or eliminate need for housing subsidy; to give low-income beneficiaries a meaningful role in designing and managing their environments; and to help borderline-credit-risk renter households become homeowners.

Housing legislation in 1998 is consistent with these objectives. With regard to admission of tenants to public housing, local preferences would permanently replace federal preferences for those with the most severe problems. Another provision targets apartments to those with higher incomes than most current residents. Such measures reflect a shift in social policy from mitigating the lot of the most vulnerable to rewarding the efforts of strivers. Proponents believe that including more working families will result in healthier public housing communities.

These changes are occurring after years of constraint on spending for low-income housing in part due to efforts to reduce budget deficits. Budget authority for housing in recent years has been sufficient to sustain support for low-income families and units covered by earlier contracts, but with little room for expansion. However, the fiscal year 1999 appropriation provides funds for 50,000 incremental rental assistance vouchers targeted to welfare-to-work families. Increases are also included for housing for the elderly, persons with disabilities, the homeless, modernization of public housing, and other housing programs. Whether the 1999 funding increases mark a turn-around in long-term support for assisted housing programs remains to be seen.

ACKNOWLEDGMENTS

Colleagues at CRS who provided comments or information include Richard Bourdon, Eugene Boyd, Bruce Foote, William Jackson, Barbara Miles, Karen Spar, Jack Taylor, Susan Vanhorenbeck, and Tom Woodward. Charlotte B. Foote and Gloria Dixon helped with editing and production.

Thanks go to outside readers Ray James, attorney and expert in housing law and finance, Hanna L. Schussheim, former HUD field officer, and to the many people who provided information at the Department of Housing and Urban Development, the Department of Agriculture, Fannie Mae, Freddie Mac, the Neighborhood Reinvestment Corporation, and a number of private associations.

Finally, the author is greatly indebted to the research and analysis done by the late Grace Milgram, a CRS Specialist in housing.

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Housing Problems, Current and Emerging

Housing Problems

The quality of the nation's housing supply has markedly improved over the past half century. Most families live in houses in good condition, with ample space, and pay a reasonable amount for shelter. Two in three are homeowners. Amidst this well-housed population, however, commonly out of sight of the middle class, are families who cannot afford decent and adequate housing, those at the lowest rungs of the income distribution.

An estimated 600,000 individuals are homeless on any one night. Among those with some form of permanent shelter, 5.3 million very-low-income renter households (12.5 million people) have what the government defines as severe housing problems, typically a heavy rent payment that leaves less than half of remaining income for food and other essentials. And some families in both urban and rural areas are still without a private bathroom, fully-equipped kitchen, or other basic facilities. In rural areas, many homes are not connected to a safe water supply or waste treatment.

At this point, it is useful to define some terms. "Low-income" households for purposes of federal housing assistance are those with incomes at or below 80 percent of median income in the area, adjusted for number of persons in the household. "Very-low-income" households refer to those with incomes 50 percent or less of area median. Household incomes that determine eligibility for a housing benefit thus vary from area to area. Fifty percent of median household income in the Atlanta area is higher than in the Oklahoma City area ($21,515 vs.$15,430 in 1996), but so are shelter costs.

Very-low-incomes for housing programs are generally higher than "poverty" income. Poverty level thresholds are determined each year by the Bureau of the Census for the country as a whole. In 1997, the poverty thresholds for three- and four-person households were $12,803 and $16,404, respectively[1]. These thresholds were 30-35 percent of median area income for such households in a number of metropolitan areas.

[1]For operational purposes, the Department of Health and Human Services establishes poverty guidelines for participation in its low-income assistance programs. For 1998, the poverty guidelines for three-and four-person households were $13,650 and $16,450, respectively.

What Are the Main Housing Problems Besetting Some American Families?

One. A heavy housing cost burden is the most pervasive housing problem for very-low-income Americans. In 1995, more than 5 million unassisted renter households (over 12 million persons) with incomes at or below 50 percent of area median income spent half or more on shelter. They make up the bulk of what the Department of Housing and Urban Development (HUD) defines as "worst case" households in need of housing assistance.[2] The number of renter households in this situation increased by almost 700,000 between 1989 and 1995, a 15.8 percent increase, greater than the relative increase in very-low-income renters (8.8 percent). Some homeowners had similar cost burdens: 3.6 million owners with incomes at or below 50 percent of area median income spent half or more of income on housing and utilities in 1995. Technically, a high housing-to-income ratio can be viewed as an income problem, but we classify it as a housing problem because shelter cost is the largest of the necessities.

Two. Substandard housing. Overall, housing standards in the United States have markedly improved since 1950. Still, in 1995, 3.1 million renter families lived in dwellings without their own bathrooms or fully-equipped kitchens or had other severe or moderate physical deficiencies like bad electrical wiring, broken-down heating equipment, water leaks, and other evidence of poor upkeep. About 3.2 million owners had houses with similar deficiencies.[3]

Three. Crowding by the government's standards (more than 1 person per room per residence) is less of a general problem than earlier in the century as household size has declined and dwellings have become larger.[4] In 1995, 1.7 million renter

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[2]Data for 1995 are the latest available. HUD defines households with "worst case" needs as unassisted renters with incomes below 50 percent of the local median who pay half or more of their income for rent and utilities or live in severely substandard housing. Households in this situation numbered 5.3 million in 1995 and constituted 49 percent of the 10.8 million unassisted renter households with incomes at or below 50 percent of area median. *Rental Housing Assistance—The Crisis Continues*, The 1997 Report to Congress on Worst Case Housing Needs, U.S. Department of Housing and Urban Development, p. ix and Table A-6.

[3]Definition of "substandard housing" is to some extent a matter of judgment, both in the indicators used and in reporting whether a unit should be included as deficient by some indicator. Data obtained since the American Housing Surveys were initiated in 1974 by the Bureau of the Census and HUD presumably provide more detailed and objective data for determining substandardness. The numbers presented above may understate the problem, according to housing analyst-advocate Cushing Dolbeare. She states that a high percentage of dwellings with water leaks or open cracks in walls or floors or whose occupants reports signs of rats or insufficient heat are classified as "adequate" by HUD. See "Conditions and Trends in Rural Housing," *A Home in the Country: The Housing Challenges Facing Rural America*, Fannie Mae Office of Housing Research, October 1995.

[4]If we used earlier overcrowding standards of more than 1.5 persons per room, the problem would almost disappear relative to early in the century. The first decennial Census of Housing in 1940 revealed that 7 percent of all nonfarm households were overcrowded when measured

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households were crowded, 5 percent of all renter households (34.2 million). Crowding remains a problem for certain types of families and groups. Eighteen percent of worse-case renters with children (389,000 of 2.1 million families) were crowded. Among Hispanic families who rent, 18 percent were crowded.

Four. Neighborhood problems external to the dwelling itself seem to be a growing concern, not only in central cities but in some older suburbs. More than 13 million renter households report problems of crime, noise, traffic, litter, or housing deterioration nearby. Central city people cite crime most frequently, suburbanites worry most about traffic and noise. The Bureau of the Census and HUD collect and report information on these conditions, even though they are, at best, only rough indicators of neighborhood difficulties. In the worst neighborhoods, bad physical conditions coincide with deep social problems of concentrated poverty, joblessness, crime, drug abuse, and teenage pregnancy.[5]

Five. Homelessness is the lot of perhaps 600,000 persons on any given night.[6] Homelessness increased in the 1960s and later years when many cheap hotels and rooming houses were torn down as a result of urban renewal, highway construction, and private development. During the same period, with the introduction of drugs to treat psychotic patients, states began to shut down public hospitals for the mentally ill and place clients in the community. Some of the mentally ill persons made a successful transition, but others ended up on the streets or in jail. Homelessness also is attributed to an increase in substance abuse as cheap drugs like crack cocaine became available in the 1980s.

Six. Segregation. Ethnic and racial enclaves have a long history in the United States. There were Irish areas, Italian sections, Polish districts, Jewish clusters, and black ghettos. Involuntary segregation of European immigrants and their descendants has all but disappeared, although there are still ethnic concentrations in cities and suburbs. Within cities, low-income minority families remain heavily segregated. Some deconcentration of metropolitan black households occurred between 1970 and 1993—one third were living in suburbs in the latter year compared to one-fifth in the earlier.[7] However, Census data reveal that a majority of black movers into suburbs are renters rather than owners and live in black sections. While some dispersion has

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[4](...continued)
by a ratio of more than 1.5 persons per room. By 1950 housing analysts were using a density of 1.01 or more persons as an indicator of overcrowding; by that standard, 15 percent of occupied dwellings units were overcrowded.

[5]See *The State of the Cities 1998*, U.S. Department of Housing and Urban Development, p. vii. The report strikes a note of qualified optimism, but finds that "despite recent gains, cities still face the triple threat of concentrated poverty, shrinking populations, and middle-class flight that began two decades ago" (p. iv).

[6]Number of homeless persons estimated by the Urban Institute. Estimates of homeless persons range widely from 300,000 to more than one million.

[7]See Reynolds Farley and William H. Frey, "Changes in the Segregation of Whites from Blacks During the 1980s: Small Steps Toward a More Integrated Society," *American Sociological Review*, Vol. 59, No. 1, February 1994, pp. 23-45.

occurred, segregation continues to characterize living arrangements for the black population in both cities and suburbs.

Seven. Rural housing problems. About 3.6 million poor and near-poor rural renter households had significant housing problems in the early 1990s, along with three million poor owners.[8] As with urban households, the main housing problem is burdensome costs, but significant numbers continue to live in substandard houses or are crowded. The grim housing conditions of domestic farm workers, especially those who follow the crops, have been documented in congressional hearings and other surveys.[9] Native Americans in tribal areas occupy some of the worst houses in the country, many without basic plumbing.[10]

Current housing problems are likely to be exacerbated by long-term trends in population movements, rental housing markets, and changes in social legislation. According to the National Academy of Sciences, migration into the United States, particularly from Mexico and other Latin American countries, is expected to add substantial numbers to some cities and suburbs. Like earlier immigrants, many of these newcomers are finding their way into the labor force, paying their way, and benefitting the economy.[11] Still, many need special services and larger housing units than are generally available to those with entry-level wages.

Meanwhile, over a period of time, the supply of low-rent units has shrunk relative to the number of low-income households needing such rentals. Between 1974 and 1995, the number of "affordable" unsubsidized rental dwellings declined 42 percent from 7.8 million to 4.5 million units.[12] Between 1989 and 1995, the ratio of affordable and available rental units to extremely low-income renters declined from 48 per 100 to 44 per 100.[13]

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[8]Cushing Dolbeare, *The State of the Nation's Rural Housing in 1996*, Housing Assistance Council, Washington, D.C., December 1996.

[9]See, for example, *Migrant and Seasonal Farmworker Housing in the United States*, Hearing before the Subcommittee on Housing and Community Development of the Committee on Banking, Finance and Urban Affairs, House of Representatives, 97th Congress, September 1981-January 1982. The Subcommittee Chairman, Henry B. Gonzalez, cited a study finding a need for 1.2 million housing units for migrant and seasonal farmworkers; only one-third that number of decent units were actually available at the time.

[10]*Taking Stock of Rural Poverty and Housing for the 1990s*, The Housing Assistance Council, Washington, DC, 1994, p. 55.

[11]National Academy of Sciences, *The New Americans*, National Research Council, Washington DC, cited in The U.S. Department of Housing and Urban Development, *The State of the Cities 1998*, p. 62.

[12]"Affordable" defined as unsubsidized units with monthly rent and utilities less than $300 (1989 dollars). *The State of the Nation's Housing: 1997*, Joint Center for Housing Studies, Harvard University, Exhibit 28, based on data from *American Housing Surveys* for 1974, 1985, and 1995, Bureau of the Census and Department of Housing and Urban Development.

[13]"Extremely low-income renters" are those with incomes at or below 30 percent of area median income. Ratios calculated by HUD based on tabulations of American Housing

(continued...)

Changes in welfare legislation and state policies will also complicate efforts to meet housing needs of low-income people. Between 1994 and June 1998 the number of families receiving welfare assistance dropped from 5 million to just over 3 million (from 14.2 million persons to 8.4 million persons).[14] State agencies are supposed to keep track of families going off welfare, but little is known about their current housing circumstances. Under welfare reform enacted in 1996, working-age adults in welfare families are required to seek work. Those who fail to secure or hold jobs and lose some or all of their welfare checks will have difficulty paying their rent. Three in four welfare families do *not* receive housing assistance other than what is included in their welfare check for shelter. Some may have to move in with relatives or friends; others could become homeless. The low-end, privately-owned rentals occupied by welfare families (without rental assistance under HUD programs like Section 8) are commonly under-maintained. If families lose their income supports, owners of such houses will have even less incentive or ability to maintain them, and some properties may well be abandoned.[15]

There could be serious consequences, also, for welfare families in HUD-assisted public and private developments. In 1997, approximately 900,000 families receiving housing assistance were dependent upon welfare as their main source of income. Adult members, usually single mothers, are mandated to find jobs. A preliminary study by HUD notes that mandated residents are competing for entry-level jobs with non-welfare persons. They may live far from job centers. Success or failure will vary from one metropolitan area to another depending upon the demand for labor, the adequacy of transportation, or the possibility of moving closer to places of employment. Further, lack of job experience and under-education present major hurdles to successful transition from welfare to work.[16] However, a positive finding (not specific to HUD-assisted families) is that the rate of employment and incomes of families moving from welfare to work increased between 1996 and 1997.[17]

If a majority of public housing residents do succeed in getting and keeping jobs, their contributions to rent revenues of the public housing authority (PHA) might offset the lower rents paid by those who fail. But if the majority fail, public housing agencies will have to seek additional operating subsidies from the federal government

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[13](...continued)
Surveys. *Rental Housing Assistance--The Crisis Continues*, cited above, pp. 12-13.

[14]U.S. Department of Health and Human Services, *HHS News*, August 20, 1998; also, *Temporary Assistance for Needy Families (TANF): 1936-1996*, Updated January 1998, Administration for Children and Families, U.S. Department of Health and Human Services,http://www.acf.dhhs.gov/news/3697.htm. From 1962 to 1996, the program was called Aid to Families with Dependent Children (AFDC).

[15]See *The State of the Nation's Housing: 1997*, *op. cit.*, pp. 21-22.

[16]*Welfare Reform Impacts on the Public Housing Program: A Preliminary Forecast*, U.S. Department of Housing and Urban Development, 1998.

[17]*HHS News*, August 20, 1998, cited above. The First Annual Report to Congress on the Temporary Assistance to Needy Families program from the U.S. Department of Health and Human Services noted that 1.7 million adults on welfare in 1996 were working in 1997, a nearly 30 percent increase.

or state and local governments and/or reduce the number of such families receiving benefits. HUD reportedly has estimated that the drop in public housing rent receipts could approach $2.3 billion in five years.[18]

Current Low-Income Housing Programs

A medley of federal programs address low-income housing problems. The Department of Housing and Urban Development is the lead agency in these efforts in which a number of departments are also involved, including the Department of Agriculture and the Treasury Department's Internal Revenue Service (IRS), the latter through tax incentives. In 1998, about 4.8 million units were eligible for subsidy payments under HUD programs and up to one million low-income families were participating in rural housing programs of the Department of Agriculture. A low-income housing tax credit authorized in 1986, overseen by IRS and administered by state and local housing finance agencies, has provided equity capital for the construction or rehabilitation of an estimated 600,000 units. Block grants are being used by localities for a variety of purposes including rehabilitation and construction of housing affordable by low-income families.

What follows is a discussion of some of the main low-income housing programs—how they work, whom they serve, and issues associated with their operations and continuation. The programs are grouped by goals or means of carrying out goals. Some programs have several goals, so groupings are somewhat arbitrary. For example, the HOME program facilitates the construction or rehabilitation of housing; it also contributes to community improvement. Here, it is listed with construction and rehabilitation approaches.

Housing Construction and Rehabilitation Programs for Low-Income Households

Public Housing

This is the oldest low-income housing program. It has many problems: high average vacancy rates, many properties in need of overhaul, and locations in census tracts with relatively high concentrations of poor families. Tenants, lacking sufficient income to opt for market-priced housing, have little leverage over managers with regard to provision of services. These drawbacks are partially addressed by recent administrative policy changes and legislation, discussed below. But for all its

[18]Cited in *Critical Issues Pending in Public and Assisted Housing Reform Legislation: H.R. 2 and S. 462*, Revised November 6, 1997, jointly prepared by the Association of Community Organizations for Reform Now (ACORN) Center for Community Change, National Housing Law Project, and National Low Income Housing Coalition, http://www.nlihc.org/pubhsg.htm. Washington, DC.

problems, low-income persons continue to apply and join tens of thousands on long waiting lists.[19]

Initiated on a permanent basis by the United States Housing Act of 1937 (some projects had been constructed earlier by the Public Works Administration and the Farm Security Administration), public housing was intended to stimulate construction activity, clear slums, and provide low rent housing. The framers thought that most tenants would be working class and would move on when their economic situation improved. This, indeed, happened with many residents in the early years of public housing.

The housing is built and operated by local public housing authorities (PHAs) established under state enabling legislation. While nominally independent of local general governments, PHAs must get approval of building sites from the city council or county government. The local government helps to reduce rents by allowing the PHA to pay a small percentage of rent receipts instead of property taxes that would be levied on private landlords. The main support for public housing, however, comes from the federal government: contracts or grants cover development and modernization costs; subsidies also cover the bulk of operating expenses, something not contemplated in the original legislation. Because of the deep subsidies, local authorities are and have been closely regulated by the Department of Housing and Urban Development and its predecessor agencies. Today, 3,200 PHAs around the country manage 13,900 developments containing 1.3 million dwelling units and almost 3 million subsidized residents.

Who are served. Public housing now serves some of the poorest families in the nation. Resident households have an average income of $9,100. Families who derive most of their income from wages and/or business make up 24 percent of residents. Those mainly dependent upon welfare (TANF, formerly known as AFDC, or General Assistance from state or local governments) comprise 18 percent. Others report as the main income source pensions, Social Security, Supplemental Security Income, child support, unemployment benefits, or a mixture of sources.

One-parent families with one or more children occupy 39 percent of all accommodations and two-parent families with children 6 percent. Elderly households (62 or older), occupy about one-third of the units. A growing clientele are non-elderly persons with disabilities, who constitute 16 percent of all public housing households. Two-thirds of public housing families are minority, including 47 percent black and 19 percent Hispanic.[20]

Locations. From the beginning, public housing was opposed in many neighborhoods. Some if not all developments had to be located near railroad tracks, highways, and industrial zones, and almost always—in North and South—in racially

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[19] A big drawback of public housing, as seen by some economists, is lack of choice for tenants. Once they get assistance, it comes in the form of an apartment—period. The same criticism is made of other project-based assisted housing programs for low-income persons.

[20] *A Picture of Subsidized Households in the United States: United States Summaries*, by Paul Burke, U.S. Department of Housing and Urban Development, August 28, 1998.

separated parts of town. The scarcity of suitable sites and rigid cost limitations resulted in medium to high density developments recognizable in many localities as "the projects." In hindsight, critics have asked how the local officials in charge could have picked such bad locations. In no small measure, the explanation is that private owners, neighborhood groups, and their aldermen did not want public housing nearby.[21] Since 1970, however, almost all developments for families have been placed on sites with no more than 50 units; more than three-fourths of all family developments are now in medium- and low-rise structures. Developments for the elderly have encountered less neighborhood resistance, and tend to be better located and designed than family housing.

Tenant selection and preferences. In the early years, applicants were carefully screened for good housekeeping, conventional family relationships, and working class background. Standards were relaxed, however, during the 1950s and 1960s as public housing agencies came under pressure to admit families displaced by urban renewal and highway construction and to take in single-parent families with very low incomes.

With far more applicants than openings, policy has see-sawed between helping the neediest and having a wider mix of incomes. In general, occupancy is limited to households with incomes up to 80 percent of area median income, with a portion designated for "very-low-income" households, those with incomes of 50 percent or less than area median, with adjustments for smaller and larger families. Within these income limits, households occupying substandard housing or involuntarily displaced received preference under legislative amendments in 1979; those spending half or more of income for rent were given preference by federal law in 1983.

Since 1996, PHAs have been permitted, by language inserted into annual appropriation acts, to use local preferences for admission. A permanent delegation to local authorities is included in authorizing legislation enacted in 1998. To increase rent receipts and to limit the number of families that are most expensive to accommodate, local authorities may well select families with higher incomes than under earlier federal preferences.

Need for operating subsidies. Under the original funding formula, federal payments covered only service on bonds issued to build public housing. Rents collected from tenants were to cover all operating expenses; in time, this resulted in heavy rent payments for very low income families. In 1969, Congress amended the statute to limit rent to 25 percent of adjusted family income. The following year, legislators approved the payment of operating subsidies to keep the PHAs solvent.[22] Subsidies to cover the growing gap between operating costs and rent receipts have mounted over the years. Currently, most tenants pay 30 percent of income in rent, but

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[21]Coleman Woodbury, an early public housing advocate and one-time vice chairman of Chicago's public housing authority, offered this explanation in an oral history conducted by the writer in November 1993. *Pioneers in Housing*, Library of Congress, unpublished.

[22]The 1969 limitation on rent that could be charged tenants is known as the Brooke amendment. The 1970 authorization of operating subsidies was not the first; in 1961, such payments were approved in connection with units occupied by elderly households if required to maintain the solvency of a low-rent project.

rent collections cover, on average, less than 40 percent of operating and maintenance expenses. In 1998, rent and utilities paid by tenants averaged $193 per month. The Government's cost per unit for operating subsidies and modernization averaged $349 per month.[23]

Drug elimination. Low-income people are often victims of crime and drug operations wherever they live. Those in public housing are particularly vulnerable. Drug use and drug-associated crime rose alarmingly in the 1980s. Congress responded by authorizing a Drug Elimination Grant program in 1988. HUD has made more than 4,000 grants totaling $1.3 billion in the period 1989-1997. Two thirds of the money has been used for law enforcement and crime prevention activities; other funded activities are resident patrols to report on crime, physical improvements in or around the projects, and treatment of drug abusers. Grants are awarded on a competitive basis to public and Indian housing agencies with the most severe problems and a long-term strategy to deal with them. The fiscal year 1999 appropriation includes $310 million for drug elimination; $20 million is for a New Approach Anti-Drug program to augment security and hold down drug-related criminal activity.

Management difficulties. Effective management of public housing calls for the professional skills of private real estate managers and more. Public housing managers must see that heat is maintained and water leaks fixed but also must integrate social services, implement income checks and work requirements, deal with drug activity on the property, and provide security for the majority of law-abiding residents.

Most local authorities are performing up to standard, but not all. Following instructions by Congress, HUD established a list of troubled housing authorities based upon indicators of poor management performance. Among the indicators are high vacancy rates, uncollected rents, poor maintenance, delayed work orders, inadequate security, shortfalls in resident services and community building, lags in modernization, failure to make systematic inspection of units and heating and other systems, and inept financial management. In August 1998, 53 PHAs were on the troubled list, down from 82 in 1994. Still on the troubled list were housing agencies in New Haven, Connecticut, Atlanta, Georgia, Indianapolis, Indiana, St. Louis, Missouri, Biloxi, Mississippi, and San Francisco, California, among others. Housing authorities on the troubled list are closely monitored and may be placed into receivership.

In fact, some PHAs are being managed by court-appointed receivers with good results. A notable example is the District of Columbia's agency. Taking over a sick operation, a court-appointed receiver effected a remarkable turn-around over a four-year period that resulted in HUD removing the authority from the troubled list in April 1998.

Reforming public housing. A major overhaul of public housing is well under way. Under a program known as Hope VI, local agencies are trying to turn severely distressed projects into more livable communities by reducing densities and attracting families with incomes substantially higher than those of current residents. The idea

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[23] *A Picture of Subsidized Households in 1998*, cited above.

is to create mixed-income communities with more working families and role models for less functional families Some of the worst public housing developments are being demolished. A HUD goal is to approve "the demolition of 100,000 blighted or obsolete units by the year 2003, and [provide] essential replacement housing in their place."[24] Replacements would be either low-density developments or tenant-based vouchers to enable displaced residents to relocate elsewhere.

New legislation. The 1998 law, the Quality of Housing and Work Responsibility Act of 1998, authorizes HUD to deregulate PHAs performing at an acceptable level and reduces reporting requirements.[25] The new statute allows housing authorities to reserve up to 60 percent of units becoming available for families with incomes above 30 percent of area median income. Forty (40) percent would be designated for families with incomes below 30 percent of area median, the income group that predominates among current residents. As noted, the new law permanently rescinds federal occupancy preferences that targeted dwellings to some the neediest families; PHAs are permitted to set preferences based on local housing circumstances. The expectation is that working class families and values will be added to the population mix.

The 1998 legislation also enables PHAs to obtain police records to screen applicants and to evict residents who use drugs or abuse alcohol. Tenants could be evicted for criminal activities committed by a household member within or outside of public housing. A controversial provision in the law requires applicants to sign an authorization for the release of information by drug treatment centers about current use of illegal drugs.[26] The latter provision was opposed by health care providers on grounds that it violates the confidentiality of medical records.

Another new provision requires that able-bodied adults in public housing who are not employed or participating in a family self-sufficiency program contribute 8 hours each month to community service. Residents who fail to comply may have their lease terminated.

Most advocacy groups generally welcome provisions to increase resident participation in decision-making through resident advisory boards and a requirement that at least one resident be a member of the PHA's governing board.[27] Some are critical of the mandatory contribution of community service by unemployed public housing residents. Others note that the reservation of available dwellings for the lowest income group (30 percent of area median income) could be satisfied in some

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[24]*The FY 1999 Budget of the U.S. Department of Housing and Urban Development*, February 1998, p. 24.

[25]Enacted as Title V of H.R. 4194, Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1999.

[26]See CRS Report 98-443 E, Housing Authorization Bills: Overview of H.R. 2 and S. 462, by Susan Vanhorenbeck, May 8, 1998.

[27]*Critical Issues Pending in Public and Assisted Housing Reform Legislation: H.R. 2 and S. 462*, cited above.

metropolitan areas without reaching down to families living on a minimum wage or on welfare.[28]

Large housing authorities for the most part support the new approaches since they will have more discretion in operating their projects. They note, however, that it will take time to see positive results from deregulation. They have been urging a substantial increase in funds for operating subsidies and modernization.[29] The 1999 appropriation is responsive in providing $3 billion for public housing capital improvements, an increase of $500 million over 1998. The increase will be used in part to lower backlogs in necessary repairs, to build replacement units for demolished structures, and to continue assistance to displaced families. The 1999 appropriation for operating subsidies is set at $2.8 billion although carry-over funds may bring this to $2.9 billion, the level in 1998.

Current activities. Even before the new legislation, reform had begun in some cities. Densities are being lowered by selective demolition of buildings and replacement by townhouses and other types of structures that do not appear or function like "the projects." Some of the new construction is being provided by nonprofit organizations utilizing other types of financing such as the low-income tax credit (described below). Demolition and conversions to mixed-income developments are taking place in the Anacostia section of the District of Columbia and in scores of neighborhoods around the country.

Section 8 New Construction and Substantial Rehabilitation

Building new housing directly for low- and moderate-income residents was the standard approach prior to the 1970s. But as the general supply of housing expanded and doubts were raised about the cost effectiveness of new construction, lawmakers were attracted by the idea of utilizing existing housing to shelter the poor. A major overhaul of housing laws in 1974 included both approaches—a project-based new construction/substantial rehabilitation program and a rent certificate program for use in existing housing—both known as Section 8.

A substantial number of projects and units were built under this program before authority to undertake additional contracts was repealed as of October 1983. An exception was made for new housing developments for the elderly and persons with disabilities financed under a small program known as Section 202 (and later, for a similar but separately funded Section 811 program for persons with disabilities). In 1998 almost 900,000 units containing 1.4 million people were still under contract for Section 8 project-based assistance.

How the program works. HUD contracts directly for such developments with private owners or state or local agencies. The legislation authorized payment contracts with private owners for up to 20 years and 40 years for projects owned or

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[28]Deborah Austin and Nancy Bernstine, "Public Housing Unchained?" in *Shelterforce*, September/October 1997, #95.

[29]CLPHA News, March/April 1998, Washington, DC.

financed by a state or local agency. Payment contracts are adjusted periodically to allow for increases in cost of heat and other utilities, maintenance, and other operating expenses. Owners select applicants based on HUD admission criteria. Under 1998 legislation, 40 percent of units becoming available are targeted to households with extremely low incomes, under 30 percent of median area income.

Who are served. In 1998, 60 percent of residents were older persons (head of household or spouse age 62 or older). Disabled persons under 62 years of age occupied 15 percent of all units in this program. Thirty-five percent were African American or Hispanic, lower than the percentages in public housing (66 percent) and the Section 8 certificate/voucher program (55 percent). Fewer than one in four households contained children under 18 years of age.

Relatively few (7 percent) reported welfare as their main source of income, but many were probably receiving Social Security or Supplemental Security Income payments. Average household income was $9,100. Residents paid, on average, $196 a month for rent and utilities. The Government's expenditure per unit averaged $493 per month.

Issues. As noted, authority to subsidize new or substantially rehabilitated projects under this program was revoked in 1983 with the exception of a small volume of developments for elderly or disabled persons. Still, more than 15,000 projects were under contract in 1997 and required substantial amounts of outlay by the federal government.

Mark-to-Market Program. Over the years, rents in some projects have risen above going rents in the unsubsidized rental housing sector, due in part to virtually automatic rent adjustments by HUD. Since tenants paid a percentage of relatively fixed incomes, the increasing costs were largely borne by the Government. Some of these same projects have large mortgages insured by FHA. If the Section 8 subsidies were to be cut, owners might default on their mortgages, so savings in one program would be offset by losses in another. To address this situation, a mark-to-market program was approved in 1997 as part of the 1998 Appropriations Act. HUD estimates that ending excessive subsidies to private owners will save taxpayers almost $1.6 billion over five years.

Under mark-to-market, mortgage debt is to be written down on FHA-insured projects receiving Section 8 project-based subsidies to levels sustainable by market-rate rents; a low-interest rate (soft) second mortgage is provided for the difference between the old loan balance and the amount of the new or restructured first mortgage. Costs will be charged against an FHA fund. Owners must agree to participate, but the markdowns will not be available for properties that have seriously deteriorated due to mismanagement or where an owner has misused federal subsidies or engaged in fraud. In the case of poor maintenance, however, HUD could give an owner the chance to correct conditions or could even transfer the property to a qualified owner such as a tenant organization. The new owner would then be eligible to seek debt restructuring [30].

How many owners will volunteer to have their mortgages written down will partly depend upon tax considerations. Legislators recognized, when approving the program, that the tax code generally treats cancellation of debt as taxable income. Conferees called upon the tax-writing committees to consider changes in law to overcome owner reluctance to participate for tax reasons. This problem may now largely be resolved by a ruling of the Internal Revenue Service.[31]

HUD anticipates that some owners of well-located subsidized properties that can command going market rents for comparable apartments may choose to drop out of the program when their Section 8 contracts expire. Low-income tenants would be forced to move. The fiscal year 1999 appropriation includes $433.5 million that can be used to provide tenant-based vouchers and moving expenses to low-income households displaced from these and other subsidized developments.

The Low-Income Housing Tax Credit

While HUD's authority to provide assistance for new construction or substantial rehabilitation was essentially revoked in 1983, another window was opened in 1986 through the tax code. Under the Low-Income Housing Tax Credit program (LIHTC), tax credits are allocated to each state on the basis of population. State housing finance agencies award the credits on a competitive basis to sponsors of developments for low-income people. In turn, sponsors, working with syndicators and underwriters, sell tax credits to investors, both individuals and corporations, who may have no particular interest in housing *per se*. Investors apply these tax credits against unrelated income over a period of 10 years. For new construction, the tax credits provide 70 percent of the cost of development; for projects financed with tax-exempt bonds, 30 percent.

Proceeds from the sale of tax credits are used by sponsors as equity capital and to reduce the amount of long-term debt. Sponsors must arrange long-term financing through other sources, such as FHA-insured loans, Rural Housing Service loans at interest rates as low as 1 percent, or tax-exempt bonds issued by state or local housing finance agencies. Local jurisdictions may help reduce needed capital funds with federal funds received through community development block grants and HOME grant money. Rental subsidies to cover a portion of operating expenses have also been obtained through Section 8 (but are not currently available to newly built tax-credit developments). Local contributions by some jurisdictions may include real estate tax abatement.

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[30]See CRS Report 97-1002 E, *HUD Multifamily Housing Reform: Section 8 Restructuring*, November 10, 1997, by Susan Vanhorenbeck.

[31]A ruling by the Internal Revenue Service (98-34) issued July 21, 1998 holds that the Original Issue Discount (OID) rules will not apply to the use of soft second mortgages in the mark-to-market program, thus avoiding cancellation of indebtedness income because of OID. However, other tax pitfalls may still be present. See Housing and Development Reporter, *Current Developments*, July 27, 1998 p. 163

The tax credit alone lowers rents by 20 to 30 percent below market rents on new apartments. It takes one or more other subsidies along with the tax credit to bring the rents down to a level affordable by poverty-level families.

The LIHTC is under the general oversight of the Internal Revenue Service, which may retroactively revoke tax credits for projects where sponsors have failed to enforce tenant income limits or other requirements. Operating responsibility is vested in state and local housing finance agencies. These agencies receive an annual allocation of $1.25 per resident of the state. Thus, a state with a population of 5 million could get $6.25 million a year in tax credits to distribute to applicants. An association representing the housing finance agencies estimates that more than one million dwellings have been produced through this program from 1987 through 1997; others place the volume at about half a million. The revenue loss (tax expenditure) to the federal government in fiscal year 1998 is estimated at $3.2 billion; over five years 1998-2002, revenue forgone is projected at $19.6 billion.[32]

Who are served? The law provides that 20 percent of the units in a tax credit project be assigned to families with incomes at or below 50 percent of area median income or 40 percent of units to families with incomes at or below 60 percent of area median. In fact, most projects are occupied by quite low-income households. A study by the General Accounting Office reported that the average income in 1996 of families occupying tax-credit units in projects put in service between 1992 and 1994 was $13,300. Small households of one or two persons occupy about two-thirds of all units, but there were more young household heads (44 percent under age 35) than older heads (29 percent 55 or older). More than half were white households, one-third were black, 11 percent Hispanic.[33]

Issues. Analysts have raised questions about the efficiency of the program in lowering rents for low-income tenants. There are substantial front-end costs in the form of syndicating and underwriting fees, legal expenses, developers' fees and other charges that are paid out before the proceeds from the tax credit can be applied to rent reduction. These costs are thought to be coming down, but some professionals estimate syndication-related costs at 30 percent and total leakage at up to 40 percent when developers' profit is included. Some analysts contend that grants for housing development would be less expensive than a tax credit.

Because the subsidies are largely front-end, limited partners have less and less incentive to see that the property is properly maintained as their tax credits near expiration, despite the possibility that a portion of the credits may have to be paid back if the project is sold or fails to qualify for low-income use within 15 years.

[3232] *Estimates of Tax Expenditures for Fiscal Years 1998-2002*, Prepared for the House Committee on Ways and Means and the Senate Committee on Finance by the Staff of the Joint Committee on Taxation, December 15, 1997.

[33]*Tax Credits: Opportunities to Improve Oversight of the Low-Income Housing Program*, Report to the Chairman, Committee on Ways and Means; and the Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives, by the United States General Accounting Office, March 1997, pp. 38-42.

The General Accounting Office found that some state allocating agencies could do a better job in controlling project costs, including obtaining more reliable verification of cost and financing data submitted by developers, and monitoring projects for compliance with program requirements.[34]

Legislation. Advocacy groups backed a proposal, supported by the Clinton Administration, to raise the annual allocation from $1.25 to $1.75 per resident of each state. This would have made it possible to finance an additional 100,000 units a year in the country as a whole compared with 75,000 a year in recent years. It also would have raised the fiscal year 1999 cost in forgone revenues from $3.5 billion to perhaps $4.9 billion. The proposal was not enacted.

The HOME Investment Partnership

This program, authorized in 1990, focuses on rehabilitation, construction and acquisition of housing for low-income families, both renters and owners. Grants are distributed by formula to state and local governments. Participating jurisdictions must have HUD's approval of a plan that identifies housing needs and strategies to meet these needs. Jurisdictions must put up a matching grant of 25 percent for all of its activities. Local matching requirements may be partially or wholly waived by HUD for places with very high percentages of poverty or with severe fiscal distress.

For the most part, HOME funds are blended with funds from others sources such as low-income housing tax credits or community development block grants to bring homes or apartments within the means of assisted families. HUD staff views HOME funds as a form of "gap" assistance that makes feasible projects that need some additional subsidy. They estimate that each dollar committed through HOME has leveraged $1.80 from other sources.

HUD staff and others are optimistic about the potential of HOME in adding to, or upgrading, the supply of housing for low-income households. From 1992, when the program got under way, through September 1997, funds to produce or rehabilitate 280,000 units had been committed and 166,000 units completed. Almost three-fifths (57 percent) of the funds have been used for rehabilitation of housing, mostly rental units. Twenty-nine percent of the money has been allocated to new construction. Relatively little (3 percent) has gone for tenant-based rental assistance. Acquisition of existing housing accounted for the other 11 percent.

About one-sixth (17 percent) of HOME funds have been reserved for Community Housing Development Organizations. A progressive slowing of disbursements of funds reserved for these organizations suggests that they are having some difficulty putting the money to use.

In general, rental projects provided through HOME must have rents affordable (at 30 percent of income) by families with incomes at or below 60 percent of local median income. However, the rents are flat or fixed, and tenants pay the flat rent whatever their actual income.

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[34] *Ibid*, pp. 8-12.

The outcomes, in terms of rent burdens, are mixed. A preponderance of assisted renter families had incomes below 60 percent of median area income, and almost half had extremely low incomes (30 percent of area median or less). But most of the extremely low income renters without additional tenant-based rental assistance had rents greater than 30 percent of income, and more than two in five were paying over 50 percent.[35]

The HOME program has an appropriation of $1.6 billion for 1999. This will fund about 80,000 units of rehabilitated, newly built, or acquired houses for low-income families and provide tenant-based rental assistance to 11,000 low-income households.

Using the Existing Inventory of Housing

Section 8 Rent Certificates and Vouchers

Academic studies and field tests funded by Congress indicated that it would be less expensive and would widen choices for low-income consumers to use existing housing rather than to build new developments.[36] Needy families would get certificates which they could use to rent space in the private rental housing market. This approach, known as Section 8 rent certificates, was adopted in 1974. Rent certificates, and a variant called vouchers introduced in 1983, assist more families than any other housing program for low-income persons. In 1998, about 1.4 million households were receiving rent subsidies under this program. In addition, 108,000 households occupied moderately rehabilitated dwellings with the help of certificates or vouchers.

How the program works. The program is administered at the local level by the housing authority or another designated agency. The local agency is responsible for screening applicants and determining their eligibility, applying essentially the same criteria as for public housing applicants. Families receiving certificates or vouchers look for a place in the private rental market or may remain in place. In either case, the unit must be in acceptable condition as determined by an inspection. The family pays 30 percent of adjusted income for rent, the certificate covering the balance of the contract rent specified in the assistance payment contract signed by the property owner and the PHA. The contract rent cannot exceed a federally-determined fair market rent (FMR) for the area by more than 10 percent, 20 percent in certain circumstances. FMRs for each urban area are set periodically by HUD staff, and vary by number of bedrooms. The 1974 legislation authorized payment contracts with

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[35]Sources are unpublished data from the U.S. Department of Housing and Urban Development, Office of Community Planning and Development, dated 12/30/97, and *Rental Housing Assistance—The Crisis Continues*, cited earlier, pp. 28-29. For more information, see CRS Report 97-352 GOV, *The HOME Program in the 105th Congress*, March 1997, by Eugene Boyd.

[36]*The Experimental Housing Allowance Program: Conclusions, the 1980 Report*, U.S. Department of Housing and Urban Development. Government Printing Office, 1980.

owners of existing units for as long as 15 years. Currently, payment contracts are for one year.

In the case of vouchers, the family may pay more than 30 percent of income for rent to get a better dwelling, but the subsidy is never more than a "standard payment" which is based on the FMR at the initial date of the agreement. The PHA may allow annual rent adjustments (originally, only two rent increases to a landlord within a five year period). The PHA must find that the rent charged a tenant with a voucher is reasonable and that the family is spending a reasonable prrtion of its income for rent.

Who are served. Households served by the Section 8 certificate and voucher program are typically single parents with children under 18 years of age (56 percent). Elderly households (62 or older) comprise only one-sixth of recipients. Most participants have incomes below the poverty threshold; average household income is $9,600. Thirty-two percent report wages and/or business as their main source of income, while welfare (TANF formerly known as AFDC, and General Assistance) is the main source for 21 percent. For others, the main sources of income are pensions, Social Security, Supplemental Security Income (for disabled persons and some elderly), unemployment benefits, child support, or mixtures.

Rent and utility payments by these households averaged $217 per month in 1998; the federal expenditure on their behalf averaged $471 per month. The smaller Section 8 moderate rehabilitation program accommodates households with poverty-level incomes (average of $7,800), although more than one-fourth derive most of their income from wages. These families paid an average monthly rent of $167 and federal spending per unit averaged $547.

How much dispersion? One of the justifications for rent certificates and vouchers is that recipients can choose to live outside of heavy concentrations of poverty and in racially diversified neighborhoods. Data gathered and analyzed by HUD staff indicate that holders of certificates and vouchers typically live in modest neighborhoods (only 20 percent of households in surrounding census tracts are below the poverty line and 40 percent in these tracts are single-family owners) and where two-fifths of all residents in the census tracts are minority households. Dispersion of the poor and minority recipients through certificates and vouchers has occurred to a limited degree, in part because "some stayed in place [while] "others moved, but not far."[37]

Challenges to this program. Market-oriented economists and others prefer this form of in-kind assistance to project-based subsidies because, in theory at least, it comes closest to an income transfer in enabling recipients to function like unsubsidized consumers in the housing market. This may be observed in soft rental markets. In tight markets or submarkets, however, many property owners are unwilling to accept certificate or voucher holders because they do not want to discourage occupancy by households who can afford market rents without subsidy nor do they want to be monitored by government agencies. Moreover, the families themselves, over half of whom are African American (40 percent) or Hispanic (15

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[37]Paul Burke, *A Picture of Subsidized Households in 1998*, HUD, August 28, 1998.

percent), may find it difficult, or choose not, to move outside of familiar territory. Commonly, they find accommodations in properties owned by landlords who specialize in subsidized rentals and list with the housing authority.

This specialization may be partly due to the way the program has been administered under authorizing legislation. For one thing, landlords were subject to a rule of "take one—take all." If the owner of a multifamily building rented to one Section 8 tenant, he could not refuse to rent to other Section 8 applicants. Another factor was the "endless lease;" a landlord could not terminate a lease with a Section 8 certificate holder except for good cause. Both provisions were repealed by language inserted in appropriations acts each year beginning in FY 1996. These requirements are permanently removed by the 1998 law.

In any event, it is doubtful that the supply of standard, vacant rental dwellings in a number of housing market areas is sufficient to rehouse all renter families living in severely inadequate or crowded conditions, according to a simulation analysis by CRS.[38] Admittedly, this finding is based on a comparison of supply and need at one point in time, and tenant-based subsidies may set in motion actions that expand the available stock over time. Nevertheless, the study suggested that some additional assisted housing construction or rehabilitation may be necessary, particularly in tight housing markets and for special populations such as large families, the frail elderly, and the physically disabled or mentally ill in the community.

But funding levels for Section 8 vouchers are not likely to put unacceptable pressure on rental housing markets in most areas. No funds for incremental units were provided from 1995 to 1998. The Clinton Administration's request for 50,000 incremental units in fiscal year 1998 was denied. For 1999, the Clinton budget called for 103,000 incremental units, mostly for families making the shift from welfare to work and for homeless families. The appropriations act for 1999 provides $283 million for 50,000 incremental units.

Advocates have voiced concern that certificates or vouchers for those on the *current* rolls are being funded one year at a time. Without multiyear funding, contracts with private owners are limited to one year. This may discourage some property owners from participating; it also makes it more costly for local agencies to administer the program. But even with one-year funding, the cost (budget authority) of renewing all Section 8 contracts is projected to mount each year, from $8.6 billion in 1998 to $16.5 billion in 2003.[39]

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[38]A computer analysis of rental markets in 25 metropolitan areas indicated an insufficiency of dwellings. See CRS Report 87-81 E, *Existing Housing Resources vs. Need*, by Grace Milgram and Robert Bury, Congressional Research Service, January 30, 1987.

[39]The increased budget authority is for 1.7 million units under contracts expiring in 1998 and increasing to 2.8 million units in 2003. Renewals of contracts, in dollars and units, include not only Section 8 certificates and vouchers, which account for two-thirds of the funding requirements, but also Section 8 new construction and rehabilitation, moderate rehabilitation, loan management, property disposition, and preservation units. Source: *HUD Budget Justification for FY 1999*, Housing Certificate Fund (including contract renewals).

Homeownership and Opportunity for People Everywhere (HOPE)

The idea of enabling public housing tenants to become owners of their own apartments has found its way into legislation for at least 30 years. The Housing and Urban Development Act of 1968 permitted public housing authorities to buy leased properties with the purpose of reselling them to residents. Sales contracts were drawn on roughly 14,000 units, with final sales to about 2,000 families. A provision in the 1974 housing act permitted public housing authorities to sell projects to low-income tenants while continuing to receive annual payments to cover debt service on bonds issued to build the projects. Sales contracts were drawn on about 3,000 units. Legislation in 1987 authorized public housing authorities to help a resident council take steps toward acquiring a project for eventual ownership by tenants or other eligible low-income families. A leading proponent of this legislation was Representative Jack Kemp. He argued that as owners, residents of public housing would take better care of the properties, try to become more economically self-sufficient, and gain in self-esteem.

In 1990, as HUD Secretary in the Bush Administration, Mr. Kemp secured inclusion of this concept in the National Affordable Housing Act under the title Home Ownership and Opportunity for People Everywhere (HOPE). HOPE 1 was applicable to public and Indian housing projects. A similar program, called HOPE 2, was authorized for assisted or insured multifamily developments owned or held by HUD, USDA, and other government agencies or determined by HUD to be financially or physically troubled. HOPE 3 permitted the sale of government-owned single-family houses to low-income families. Both planning grants and implementation grants were authorized. Implementation grants could cover property rehabilitation costs as well as counseling and training of purchasers. Implementation grants had to be matched by recipients—25 percent in the case of HOPE 1—a requirement that could be reduced or waived by HUD under a 1992 amendment. HOPE 3 initially required a 33 percent match of the federal implementation grant amount from non-federal sources, but this was reduced to 25 percent for subsequent grantees in the final two years.

The sale of public housing to resident groups proved difficult to implement. Planning grants were made for 231 projects, implementation grants for 30 projects. Sales agreements cover an estimated 2,900 units. High rehabilitation costs relative to appraised values of dwellings drew media attention, as with a 480-unit project in Washington DC named Kenilworth-Parkside. Like other HOPE projects, Kenilworth-Parkside is still owned by a resident management corporation which has yet to transfer ownership to occupants. HOPE 1 was de-emphasized by the Clinton Administration. No funds were appropriated for this program after Fiscal year 1995.

HOPE 2 was also discontinued after several years. According to HUD records, 13 multifamily projects containing a total of 2,689 units were sold to low-income tenants under this provision. Administrators recall that the properties had to be held in inventory by HUD for lengthy planning periods, during which time the properties might have been sold to other bidders. Some question whether it was appropriate to encourage people with little experience in real estate ownership to buy apartments, especially those which had been poorly built to begin with or were poorly located.

The sale of government-repossessed single-family properties under HOPE 3 has also been cumbersome. The properties must first be sold to nonprofit groups which then sell them to eligible families, a time-consuming process. The last round of HOPE 3 grants was awarded in FY 1995. A total of 1,234 families became first-time homeowners through the program.

The HOPE programs were too short-lived to develop much of a track record. One assessment of HOPE 3 suggested mixed success in accomplishing its goals, including building non-profit capacity to deliver housing services and developing new sources of funding for housing development.[40]

Advocates promoted the approach in the belief that homeownership by itself brings a discernible, positive transformation in work and family behavior patterns of low-income renters and thereby benefits society. Empirical support for this view is lacking. In one recent study, analysts concluded: "The many arguments for extending homeownership opportunities to the poor that rest on claims that the extension will produce social benefits that will improve American society seem to us to rest on shaky grounds, if any."[41]

Housing for Special Populations

Housing for the Elderly and Disabled

In 1959, Congress authorized a *direct* loan program (Section 202) to construct or rehabilitate rental housing for elderly persons. The development could include dining facilities, community rooms, infirmaries, and other service facilities. Only nonprofit sponsors could avail themselves of the loans. The interest rate was set at 3 percent to reduce rents for those who might not be able to afford apartments built at market rents. (This rate was changed in 1974 to the Treasury borrowing rate plus an allowance for administrative costs and potential losses.) Loans could cover up to 100 percent of total development cost and have a pay-out term of up to 50 years. (An FHA market-rate program, Section 231, was also adopted in 1959 to insure loans for rental housing for elderly who could pay market-level rents.) Later, direct loans were replaced by a no-interest capital advance (in effect a grant) as the main source of financing development.

As utility and maintenance costs rose, while incomes of elderly residents lagged, it became necessary to provide an operating subsidy; Section 8 rental assistance was

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[40] *Evaluation of the HOPE 3 Program: Final Report*, Prepared for the U.S. Department of Housing and Urban Development by Abt Associates, Inc., New School for Social Research, TAG Associates, and Vernazza Wolfe Associates, August 1996, p. i.

[41] Peter H. Rossi and Eleanor Weber, "The Social Benefits of Homeownership: Empirical Evidence from National Surveys," Fannie Mae Annual Housing Conference, 1995.

made available in 1974. The 1990 housing law replaced Section 8 assistance for elderly tenants with a similar operating payment to projects for the elderly. Funds may now be used not only for constructing service facilities but supportive services within the facilities.[42]

Problems. The admission of persons with disabilities posed a difficulty. Lifestyles of the disabled, it became clear, differed from that of most elderly residents; in 1988 legislation, HUD was instructed to establish procedures for separating units for the disabled from apartments for the elderly. Two years later, Congress authorized a separate source of funds for persons with disabilities under Section 811 of the National Affordable Housing Act of 1990. Funding levels for both these programs are sufficient for only a small fraction of the populations eligible for such housing and services.

New legislation. HUD's 1999 budget includes $660 million for Section 202 housing for the elderly, to be used for capital advances, project rental assistance, and supportive services associated with the housing. For Section 811 housing for persons with disabilities, $194 million is provided for uses similar to those for elderly housing. Up to 25 percent of the funds for the disabled may be used for tenant-based assistance.

Housing for the Homeless

The plight of individuals and families living in temporary quarters, on the streets, or on the road is not a new phenomenon; it goes back to the colonial period. But in recent times, such individuals became more visible as state mental institutions began to place their clients in the community; concurrently, cheap hotels and single-room occupancies were being demolished and their occupants disgorged.

The problem drew a response from Congress in 1987 with passage of the Stewart B. McKinney Homeless Assistance Act of that year. Under this law, grants are made to states, local governments, and nonprofit groups who agree to provide shelter and care for those without permanent housing. Grants may be made for emergency shelters, supportive services in transitional housing to facilitate movement to independent living, and permanent housing for handicapped homeless individuals. Single-room occupancies can be funded for homeless persons under the Section 8 moderate rehabilitation program. Contracts with providers are generally for ten years and require equal matching grants.

A later amendment permitted funds provided for the emergency shelter program to be used to *prevent* homelessness of those facing loss of their homes due to a sudden drop in income. The landmark 1990 Housing Act added a shelter plus care program that permits HUD to provide rental assistance along with supportive services to homeless persons with mental disabilities, chronic drug or alcohol problems, or with AIDS. Help goes to units already assisted under Section 8 and other programs

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[42]For more detailed discussions, see CRS Report 93-645 E, *Evolution of Section 202: Housing for the Elderly*, by Susan Vanhorenbeck, revised June 23, 1993; and CRS Report 94-177 E, *Rental Assistance for the Disabled*, February 28, 1994, by Susan Vanhorenbeck.

for special populations (repealed in 1992 in connection with housing for the elderly, Section 202, and the disabled, Section 811).

Amendments in 1992 required recipients of McKinney Act funds to involve homeless individuals or families in arranging activities of the facility and to participate on the policy-making board. A "safe havens" program was established to provide shelter for mentally ill persons who are currently unable or unwilling to take part in mental health or substance abuse treatment programs.[43]

In 1994, HUD initiated a new "continuum of care" approach in the distribution of competitively awarded funds for the homeless. Each locality is encouraged to prepare a comprehensive plan to meet housing and service needs of the homeless in the community, with broad participation of homeless providers, advocates, homeless persons, business groups, and others. Taking account of local circumstances, the community's application must address four elements of need: prevention, emergency shelter, transitional housing with supportive services, and permanent housing.

Who are they? Homeless individuals and families are a diverse group but have in common a lack of any financial resources. While some have low level jobs, many are unable to cope in the labor force. Perhaps one-third of the homeless are mentally ill, persons who were "deinstitutionalized" from mental institutions or never in hospitals because they were not deemed a threat to themselves or others. Others are alcoholics or substance abusers. Still others simply are without means to pay rent. Most are single adults, but perhaps one-fifth are families with children.

Issues. Homelessness is lack of housing but more: a beyond-the-edge situation of many people who lack the skills or ability to take care of themselves. Social services are being provided along with housing in many places, but these services are costly and in some cases ineffective.

A continuing debate is over the priority to assign to such people. Should homeless families or individuals be put at the head of the line for housing assistance that many other poor families have been waiting to get for months or years? Under federal preferences until recently the homeless were placed at the head of the queue, but not all agree that this is fair. Indeed, for a family at the edge of homelessness, such a priority may create an incentive to become homeless.

New legislation. The 1999 appropriation to HUD for the homeless is $975 million, an 18 percent increase over 1998. The funds will be used for coordinated efforts to move homeless persons, including the mentally ill, through a continuum of care from temporary shelter to permanent housing and for substance abuse treatment, job training, and restoration of dignity necessary for a return to independent living.

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[43]For a more detailed account, see CRS Report 97-486 E, *Current Operation of HUD Homeless Assistance Programs*, April 24, 1997, by Pauline H. Smale; also, CRS Report 98-181 E, *H.R. 217: Homeless Housing Programs Consolidation and Flexibility Act*, March 2, 1998, by Pauline Smale.

Housing Opportunities for Persons with AIDS (HOPWA)

AIDS, acquired immunodeficiency syndrome, came to national attention in the 1980s. Through 1997, a cumulative total of more than 641,000 cases had been reported to the Centers for Disease Control. In 1997 alone, 60,634 new cases—adults, adolescents, and children—were reported.

A special housing program to alleviate this growing problem was established in 1990. Grants are made to states and local jurisdictions, 90 percent by formula, the balance by competitive application for special projects of national significance or other projects. Grantees may use the funds to provide information, for short-term rental assistance, and to develop community residences for persons with AIDS. Services may be provided both in the assisted facilities and independently of any housing activity. Services may include counseling, day care, nutritional services, and intensive care when required.

The assistance is designed to prevent homelessness of persons with AIDS and their families. Short-term rental assistance, whether project-based or tenant-based, is for low-income individuals, defined as those with incomes below 80 percent of area median income. No fees may be charged to low-income persons or families for any services provided with grant funds.

HUD's budget justification for this program noted that an increasing number of jurisdictions are eligible for this program and the number of new cases has grown—69,000 new cases reported in 1996. Thus, there is growing demand for HOPWA funds. For fiscal year 1999, $215 million has been appropriated, an increase over 1998's $204 million. This will support about 40,000 units of housing assistance and provide related services to about 72,000 individuals.

The conference report on HUD's appropriation expresses concern about the formula used to distribute money under the HOPWA program in light of growing demand and limited resources, and calls for the authorizing committees and support groups to reconsider the way in which funds are distributed.

Housing for Native Americans through HUD

Native Americans on tribal lands and Alaskan villagers constitute a special population in rural areas. The proportion of families living below the poverty line is three times that of rural whites, unemployment is high, and economic prospects bleak. For many, housing conditions are wretched: about 16 percent of households in Native American areas lack complete plumbing.

The Department of Housing and Urban Development administers an Indian housing program similar to public housing with about 73,000 units.[44] There are long waits for these units—41 months on average. A high proportion of residents are

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[44]The Bureau of Indian Affairs in the U.S. Department of the Interior is the lead agency with regard to programs for Native Americans. Its direct housing activities are limited to a small housing improvement program.

families with children (70 percent). Residents of Indian housing have higher average incomes than public housing tenants ($17,000 versus $9,100) and over half derive a majority of their income from wages or business.

Various aids to Native Americans were combined into a Native American Block Grant program in 1996. The rationale is that local discretion in use of the funds is indicated since conditions vary from one tribal area another. Grants to promote affordable housing may be used for new construction, rehabilitation of dwellings, operating subsidies, supportive services to residents, and counseling. The housing activities are expected to generate badly needed economic development. On the basis of plans prepared by tribal authorities, HUD began to make implementation grants in July 1998. Program accomplishments are still in the future. For 1999, Native American block grants are funded at $620 million, an increase of $20 million over 1998.

The underlying problem for Native Americans in tribal areas is unemployment and underemployment. Some people work on farms, others are employed by the government, and tourism has brought some jobs. But lack of infrastructure such as roads, telephone lines and utilities and the thinness of markets translate into a weak economic base. These limitations, in turn, deter banks and other lending institutions from making residential (and commercial) loans in Native American areas.

A further complication is that land is held in trust for the tribal community. Lenders cannot collateralize a home loan when it is on communal property. Lenders cannot foreclose on properties sited on tribal land in the event of default on mortgage loans. Moreover, Native American residents do not want to see tribal land taken by outsiders. HUD, USDA and other agencies are trying to deal with these difficulties.[45]

Rural Housing

Housing problems of families in nonmetropolitan areas receive relatively little attention from the national media. Yet some of the most grinding poverty and housing deficiencies are located outside of cities and suburbs. About 3.8 million households in nonmetropolitan areas live below the poverty line, including many female-headed families, children, and elderly.[46] Close to two million households in nonmetropolitan

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[45]These problems are detailed in *Taking Stock of Rural Poverty and Housing for the 1990s*, cited earlier, p. 50.

[46]Households below the poverty line from *American Housing Survey for the United States in 1995*, Bureau of the Census. Other information is drawn or updated from papers presented at a Fannie Mae Research Roundtable co-sponsored by the Housing Assistance Council and the California Coalition for Rural Housing Project, *A Home in the Country: The Housing Challenges Facing Rural America*, October 1995. The data presented in this section are for nonmetropolitan areas; if rural areas inside metropolitan areas were included, the numbers of households and dwellings would be substantially higher, as indicated by data cited by Dolbeare, above.

areas, including owners and renters, were paying 40 percent or more of income on shelter and utilities. More than a half million had water that is unsafe to drink.

Federal programs to deal with non-urban housing needs are administered by the Rural Housing Service (RHS)—formerly the Farmers Home Administration—of the U.S. Department of Agriculture (USDA). The Bankhead-Jones Farm Tenant Act of 1937 authorized USDA to make long-term, low-interest rate loans to farm tenants and sharecroppers for the purchase and repair of farms, including homes on the farm. A 1946 Act established the Farmers Home Administration and amended Bankhead-Jones to give preference to veterans in direct loans for the purchase or improvement of farms and the insurance of loans made by private institutions for the same purposes.

Authority for the Farmers Home Administration to make loans to rural residents other than farmers was enacted in 1961. "Rural areas" were defined by administrators as open country and places rural in character with up to 2,500 residents. Today, such loans may be made in places with up to 10,000 population and up to 20,000 if outside a metropolitan area when USDA and HUD find that the area has a serious lack of mortgage credit.

USDA home loans are intended to help families buy or repair modest houses. Applicants for direct loans must show that they have been unable to get loans elsewhere with their own resources or at reasonable terms. Direct loans to lower income families and individuals were authorized in 1968 (Section 502); loans could bear interest rates as low as one percent. Currently, such loans are targeted to families with incomes 80 percent of area median or less; within this group, 40 percent of the loans must go to those with very low-incomes (under 50 percent of area median income), 60 percent to families and individuals with incomes 50 percent to 80 percent of area median. A Section 502 loan guarantee for moderate-income home purchasers is also available and is increasingly emphasized as against direct loans. Families and individuals with incomes up to 115 percent of median income in the area are eligible to receive such loans.

USDA also is permitted to make loans for rental housing (Section 515) intended for lower income residents. Interest on loans for such projects may be as low as one percent. Project owners of some of these subsidized apartments sought to prepay their mortgages and put their apartments into the unsubsidized rental market. Inducements to keep the units for low-income tenants and restrictions on who could purchase these buildings were adopted in 1988. In October 1998, 452,000 units were available to lower income families at below-market rents made possible by the interest-reduced loans of the Section 515 rural housing program.

A rental assistance program (Section 521) similar to HUD's Section 8, discussed earlier, enables some very low-income families to afford USDA-financed rental housing. Some 245,000 households were getting these deep subsidies in October 1998. All of these rent-assisted families were lodged in multifamily housing financed by USDA under the Section 515 program. In addition, about 45,000 families in these USDA developments were receiving rental assistance through HUD's Section 8 program. All together, 64 percent of households in Section 515 apartments were benefitting from rental assistance.

Loans and grants can be made for low-rent housing for domestic farm labor, as authorized by Sections 514 and 516. Grants may cover up to two-thirds the costs of developing low-rent shelter for farm workers. However, activity under these programs has remained relatively small, perhaps because of reluctance of farm owners to assume responsibility. From 1950 to 1997, about 30,000 farm labor housing units have been provided with loans or combined loans and grants.

How the programs are administered. The rural housing loan programs are administered by 47 state offices and 807 local offices of USDA which provide direct services to applicants and borrowers. This extensive network can reach people in thinly populated areas, and partly explains why housing assistance in rural areas was shifted from HUD's predecessors to USDA.[47] USDA's field staff have been delegated authority to make loans without waiting for approvals up the chain of command and thus can provide prompt service. So deferential were rural residents to USDA's county supervisors, that the U.S. officials seemed, to one observer, to have the status of elected local officials.[48] At least one expert believes that administrative changes under the Clinton Administration's "reinventing government" initiatives have resulted in a weakened rural housing agency.[49]

Who gets housing assistance? Most of USDA's early housing assistance programs, with the exceptions of the farm labor and low-income repair loans, were targeted to moderate income borrowers who could not receive credit elsewhere on reasonable terms. Today, home loan borrowers who obtain interest-reduced loans from USDA have relatively low incomes. Average annual income of direct loan borrowers under the Section 502 program is about $17,000.

USDA's rental programs reach down to more deprived people. Almost nine in ten households in rental developments with interest-reduced loans (Section 515) have incomes below 50 percent of area median income. Adjusted annual income of Section 515 tenants in 1995 (the latest year available) averaged $7,300. Households headed by an elderly person comprised 41 percent of all households. Nonelderly families and individuals occupied 47 percent of the units; nonelderly disabled or handicapped persons had 12 percent. White non-Hispanic families comprised 77 percent of tenants, blacks had 15 percent, and Hispanics and others had about 8 percent.

Domestic farm workers accommodated by USDA's housing programs typically have incomes below the national poverty threshold. Home repair loans (Section 504) are limited to very low-income people—incomes of 50 percent of area median or less—and home repair grants (Section 504) to older persons with very low incomes.

Problems in rural housing programs. Over 80 percent of the elderly in rural areas are homeowners rather than renters. Some need help in maintaining and fixing

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[47] See Art Collings, "The Role of the Federal Rural Housing Programs," in Fannie Mae Roundtable, 1995, cited above.

[48] The author's impressions from a field tour of rural housing problems in the early 1960s as representative of the Housing and Home Finance Agency, HUD's predecessor agency.

[49] Art Collings, cited above.

their properties. USDA programs for homeowners, such as Section 502 loans and Section 504 grants, are not easily used by older households and many are reluctant or unable to take on long-term mortgage loan payments.

Reverse annuity mortgages, which enable older owners to convert home equity into monthly income while remaining in the property, are not very helpful to those with relatively low-valued properties, as would be the case with many low-income owners in rural areas.

Migrant farm workers have been described as the "working homeless." USDA can point to a number of success stories in housing and job training farm workers through assistance. If funds were available to replicate these successes in other places, USDA officials believe, a substantial dent could be made in the housing and social needs of such workers and their families.

Legislation. In general, there has been a tendency to reduce spending year by year for rural housing programs and to move away from direct lending. Still, appropriations to construct new housing for low income families needing assistance, both owners and renters, have been continued, while similar construction programs of HUD have been shut down. USDA's homeownership loan programs (Section 502) are being tilted toward loan guarantees as against direct loans from the department. For FY 1999, the appropriation for unsubsidized home loan guarantees is $3 billion, for subsidized direct loans, $965.3 million.

Reductions in recent years in funding for additional multifamily developments under USDA's rental housing assistance program (Section 515) continue. For fiscal year 1999, $114.3 million has been appropriated, compared with $150 million in Fiscal year 1998. The appropriation will make possible the construction of about 1,700 new units and the rehabilitation of 4,100 existing units. The rental assistance program (Section 521) will have $577.5 million in fiscal year 1999 to supplement the rent of very low-income families. Appropriations remain at modest levels for very-low-income homeowner repair loans and grants (Section 504) and for loans and grants for farm labor housing (Sections 514 and 516).

Community Development Block Grants (CDBG) and Other Programs

The Community Development Block Grant Program (CDBG)

Crime, noise, litter, and absence of adequate community facilities and services are leading complaints of residents in many deteriorating urban neighborhoods and rural areas. A HUD program that offers some help is the community development block grant, first authorized in 1974. States, cities, urban counties and other units of general local government are eligible to receive grants, and have wide discretion in use of such funds. However, seventy percent of CDBG grants must be spent on activities benefitting low- and moderate-income persons. There is no requirement for a local matching grant. Nine hundred and local jurisdictions receive an allocation of funds based on need and poverty rates.[50]

In larger places, approximately one-third of the money has been used to rehabilitate neighborhoods and to finance housing repairs. In tribal areas CDBG funds are being used to repair and weatherize houses.[51] In rural areas, the money is often directed to essential water and sewer facilities.

CDBG annual funding levels have ranged between four and five billion dollars in recent years. The appropriation for 1999 is $4.75 billion. Of this, substantial amounts are earmarked for specific activities and organizations, including $225 million for an Economic Development Initiative, $67 million for grants to Indian tribes, $55 million for a public and assisted housing self-sufficiency program, $42.5 million for the Youthbuild program, $29 million for the cost of guaranteeing loans which promote community development, and $25 million for neighborhood initiatives.

Social Services Block Grant Program

Administered by the Office of Community Services, Administration for Children and Families, in the Department of Health and Human Services, this program provides grants to states for certain services to vulnerable families to enable them to be self-sufficient. The federal funds are distributed to states by population and there is no requirement for matching funds. Services that may be provided include child day care, foster care services for children, home-care, and meal delivery. These social service activities help carry out goals of low-income housing programs of HUD and USDA. Housing and welfare experts now know that supportive social services must be combined with housing assistance if low-income families are to achieve self-sufficiency and family unification. The appropriation for 1999 is $1.9 billion, down from $2.3 billion in 1998. Its scheduled entitlement ceiling will be reduced to $1.7 billion starting in fiscal year 2001.[52]

The Neighborhood Reinvestment Corporation

This public nonprofit organization was established by Congress in 1978 to revitalize declining neighborhoods and to help provide adequate housing within the means of current residents. It uses federally-appropriated funds to charter and advise local resident-led partnerships that include business men and women and local officials. These local groups, active in 181 communities in 1998, receive operating and equity grants which may be use to establish revolving loans funds and to make contributions to homeowners and to renters seeking to buy homes. The Corporation provides technical assistance to its chartered local entities. The local groups, in turn, offer a variety of help to residents, from pre-purchase counseling and down payment

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[50]See CRS Report 96-503 GOV, *Community Development Block Grants: An Overview*, by Eugene Boyd.

[51]Ibid.

[52]For more information, see CRS Report 94-953 EPW, *Social Services Block Grants (Title XX of the Social Security Act)*, updated May 28, 1998, by Karen Spar.

assistance to neighborhood clean-up and beautification activities. In the five years preceding 1998, the Corporation's network assisted with home-repair services to 40,000 housing units. Its staff estimates that each dollar spent by the Corporation has leveraged 11 dollars of investments by banks, savings and loan associations, insurance companies, and local governments.[53]

Households benefitting in 1997 from loans by the Corporation's local network were predominantly (70 percent) those with incomes below 80 percent of median income in their area. Median income of assisted purchasers of single-family homes (1993-97) was approximately $25,000. A substantial proportion of loans were made to African American families (36 percent), Hispanics and other minorities (24 percent), and the balance (40 percent) to non-Hispanic white families.

For fiscal year 1999, the Corporation has an appropriation of $90 million, a substantial increase over the $60 million appropriated for 1998. The increase is mainly for an enhanced effort to help responsible renters to become homeowners.

Role of Government-Sponsored Enterprises: Fannie Mae and Freddie Mac

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) are congressionally chartered corporations that serve as secondary market facilities in the purchase and sale of residential mortgage loans and the guarantee of securities backed by pools of mortgage loans. These government-sponsored enterprises (GSEs) are now the largest suppliers of residential mortgage credit in the country. Both are mandated to place a significant portion of their investments in housing for low- and moderate income populations and in underserved areas.

In its previous life, the Federal National Mortgage Association was a federal agency within HUD and its predecessors. In 1968, it was partitioned into two entities, a private corporation, now referred to as Fannie Mae, to deal mainly with market-level mortgages, and an agency remaining within HUD known as Ginnie Mae to continue to support subsidized housing programs. Freddie Mac was established in 1970 at the urging of savings and loan associations which wanted "their own" secondary market facility.

Fannie Mae and Freddie Mac are for-profit corporations, but their perception by the capital markets as government-affiliated enables them to borrow funds at a lower rate than strictly private companies. They make a profit on the spread between the yields on their investment portfolio and their cost of borrowing. They also make

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[53]Based on information from the research department of the Neighborhood Reinvestment Corporation received October 14, 1998. Some economists might note that some of the leveraged funds could have been forthcoming in the absence of assistance from the Corporation.

substantial fees in guaranteeing timely payment of principal and interest to investors in Fannie Mae or Freddie Mac mortgage-backed securities issued against pools of mortgages. These securities find a ready market among non-mortgage oriented institutions such as pension funds and insurance companies, thus joining real estate lending with the general capital market.

Fannie Mae and Freddie Mac are supervised by the Office of Federal Housing Enterprise Oversight for safety and soundness. They must meet goals to increase access to credit by lower-income borrowers and those in underserved areas. These goals are set by HUD.

Benefits to home loan borrowers. The housing GSEs are a vehicle for subsidizing home borrowers and increasing the number of homeowners by passing on the interest savings they realize due to their government connection. They apparently do not pass through the entire saving to home borrowers; in a recent year they passed through about two-thirds of interest savings to borrowers and retained the balance, according to a study by the Congressional Budget Office.[54] Home borrowers save about one-third of a percentage point on GSE-involved loans.

Goals for low- and moderate-income borrowers. In the belief that the GSEs should make a larger contribution to social housing in light of the benefits conferred by their government charters, Congress, in 1992, authorized HUD to establish annual goals for these companies in the purchase of mortgages on housing for lower income families and underserved communities.[55] The 1998 lower income goal set for Freddie Mac and Fannie Mae on owner-occupied properties is to assist borrowers with incomes at or below 100 percent of area median income. Their goal for underserved areas is to take mortgages on properties located in urban census tracts with median income at or below 90 percent of area median, urban and rural areas with a minority concentration of 30 percent or greater and median income at or below 120 percent of the area. Targeted rural areas are counties with a median income at or below 95 percent of the state or national nonmetropolitan median income. Thus, the GSE goals can be satisfied with some loans to, or in behalf of, households with incomes higher than those eligible for participation in HUD and USDA assisted housing programs for "low-income" and "very- low-income" families.

How much risk are the GSEs taking? In financing home buying by low- and moderate-income families, the paramount question is who will take the credit risk—the chance of borrowers defaulting on their obligation to pay. With regard to home-purchase loans for lower-priced, FHA-eligible homes in metropolitan areas in 1994 (a rough proxy for lower-income borrowers), Fannie Mae and Freddie Mac together took 15 percent of the risk. Banks and other depository institutions and FHA as a group accepted 56 percent of the risk. Similarly, the two GSEs together

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[54]Congressional Budget Office, *Assessing the Public Costs and Benefits of Fannie Mae and Freddie Mac,* by Marvin Phaup, May 1996. CBO estimated that in 1995 the two corporations together saved $6.5 billion in interest costs due to government sponsorship and passed on $4.4 billion to home borrowers.

[55]Included in the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. These goals can be viewed as the Government imposing an in-kind fee on the GSEs.

accounted for 10 percent of such loans made to black and Hispanic borrowers; FHA, banks and other depositories took the risk on 60 percent of such loans.[56]

Who are being served? Fannie Mae reports that it is making a special effort to serve low- and moderate-families, minorities, new immigrants, and families who live in central cities, rural areas and other distressed places. Under a trillion dollar commitment made in 1994, the company has financed home loans for about six million families in the targeted groups through April 1998. The company exceeded its goals for low- and moderate-income housing and underserved areas in 1997.

In 1997, Fannie Mae acquired a total of 1,538,369 owner-occupied single-family mortgages. Of these, 75,500 loans (4.9 percent) went to borrowers with incomes no more than 50 percent of median income, and about 240,000 (15.6 percent) to those with incomes between 50 percent and 80 percent of median income. Borrowers with incomes between 80 percent and 120 percent of median got 421,000 loans (27.4 percent); and those with incomes higher than 120 percent of median accounted for 698,000 loans (45 percent).[57]

About 16 percent of Fannie Mae's single-family mortgage acquisitions identifiable by race or ethnic background of borrowers went to minority families. Hispanic families led with 72,000 loans, followed by African Americans with 57,000, Asian or Pacific Islanders with just under 57,000 loans, and borrowers or co-borrowers of different races 34,000 loans.[58]

In connection with multifamily rental housing, in 1997, Fannie Mae acquired 1,548 mortgages on properties containing 253,000 units. Of 226,000 units for which affordability data are available, 42,000 units (18.6 percent) had rents affordable by households with incomes less than 50 percent of median income; 159,000 (70.3 percent) affordable by those with incomes 50 percent to 80 percent of area median; and 18,000 units (8 percent) affordable to households with incomes 80 percent to 120 percent of area median.[59]

Freddie Mac states that it more than met HUD's regulatory targets for low- and moderate income housing and underserved areas in 1997.[60] The company financed a total of 1,053,720 single-family mortgages for owner-occupants. Of these, 42,000 (4 percent) were obtained by borrowers with incomes no more than 50 percent of area median; 166,000 (15.7 percent) by those with incomes between 50 percent and 80 percent of median; borrowers with incomes between 80 percent and 120 percent of

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[56] *Ibid.*, based on findings by Glenn B. Canner and Wayne Passmore, "Credit Risk and the Provision of Mortgages to Lower-Income and Minority Homebuyers," *Bulletin*, Board of Governors of the Federal Reserve System, November 1995, pp. 989-1016.

[57] Income information listed as missing for 6.8 percent. *Fannie Mae's 1997 Annual Activities Report*. March 16, 1998, Table 2.

[58] *Ibid*, Table 7.

[59] Ibid., Table 4.

[60] *We Open Doors for America's Families*, Freddie Mac's Annual Housing Activities Report for 1997, March 16, 1998, p. 2.

median got 311,000 loans (29.6 percent); and those with incomes higher than 120 percent of median obtained 520,000 loans (49.3 percent).[61]

The preponderance (88 percent) of Freddie Mac's single-family mortgage purchases in 1997 identifiable by race or ethnic background were obtained by white non-Hispanic families. Twelve percent went to minority households. Hispanic households obtained about 41,000 loans, Asian or Pacific Islanders got almost 30,000, and African Americans about 28,000 loans.[62]

In the multifamily rental sector, in 1997 Freddie Mac purchased 736 mortgages on properties containing 99,470 units. All qualified as "low- and moderate-income" under HUD's targets for GSEs. Fifteen percent had rents affordable by households with no more than 50 percent of area median, and 70 percent were affordable by renters with incomes between 50 percent and 80 percent of area median. Most of the remainder could be afforded by those with incomes between 80 percent and 100 percent of median area income.[63]

In addition, the company acquired about 60,000 single-family mortgages on properties intended for rental, two-thirds affordable by those with incomes no more than 80 percent of area median income.

Both Fannie Mae and Freddie Mac have invested substantially in low-income housing tax credits sold by developers of multifamily developments, but these are not counted toward GSE housing goals under HUD's rules.

The GSEs have been understandably wary of high credit risk in making or participating in loans for affordable rental properties. In the 1980s, Freddie Mac experimented with mortgage loans to facilitate rehabilitation of older apartment buildings in New York City and elsewhere, but widespread losses led to withdrawal from such activity and cautious exposure to the affordable rental market since 1993. Both Fannie Mae and Freddie Mac seek investment quality loans, but Fannie Mae has been willing to permit some lenders to originate multifamily project loans for sale to the company without prior approval of each loan.[64]

In sum. "There is room for further increases in purchases of affordable loans by Fannie Mae and, especially, Freddie Mac," according to studies by HUD's Office of Policy Development and Research.[65] But there are limits to what these for-profit

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[61] *Ibid.*, Appendix Table 2.

[62] *Ibid.*, Appendix Table 7.

[63] *Ibid.*, Appendix Table 4.

[64] See William Segal and Edward J. Szymanoski, *The Multifamily Secondary Mortgage Market: The Role of Government-Sponsored Enterprises*, Working Paper No. HF-002, Department of Housing and Urban Development, Office of Policy Development and Research, March 1997.

[65] *The GSEs' Funding of Affordable Loans*, Working Paper No. HF-001, Office of Policy Development and Research, Department of Housing and Urban Development, by Harold L. (continued...)

companies can do without violating their fiduciary responsibility to shareholders. They are not a vehicle for making deep and continuing housing subsidies for the poorest families, such as public housing and Section 8 rental assistance provide. They can—and do—participate in financing housing developments for lower-income renters and accept some of the credit risk on loans to marginal home buyers.

The Community Reinvestment Act

Banks and savings and loan associations are major suppliers of mortgage credit to home buyers. But in some areas, even where they may continue to accept deposits, they have tended to turn down applications for home loans on grounds that adverse neighborhood factors make such loans too risky. The alleged practice, known as "redlining," automatically denied home loan applications in areas predominantly occupied by lower-income families, especially blacks and Hispanics.

The 95th Congress responded by adopting the Community Reinvestment Act (CRA) in 1977. Its purpose is to encourage banks and other depository institutions to help meet the credit needs of all sections of the communities in which they are chartered, including low- and moderate-income neighborhoods. This sometimes conflicts with the requirement that such lending be "consistent with the safe and sound operation of such institutions." The statute was amended in 1996 to reduce reporting requirements for banks with assets of less than $250 million.

Implementation. Federal financial supervisory agencies assess the performance of the banks and savings institutions in complying with CRA during regular examinations. These assessments are considered whenever an institution seeks approval of a new or relocated branch, merger with, or acquisition of, another institution or its assets, or similar changes. A bank or savings institution that has a rating of less than satisfactory for compliance with CRA may be denied its request. Community groups may contest an institution's application if it believes their area has been underserved. Few applications have been denied, but the performance ratings are a matter of public record and no doubt influence lenders to make credit available in low- and moderate-income areas. Credit that qualifies includes not only home loans but small business loans, community development loans, and credit card lending.

Performance. Lending, investments, and services that meet the CRA criteria have aggregated to about $400 billion since inception to 1998, according to the Office of Comptroller of the Currency, one of the financial supervisory agencies. How much of this activity would have occurred without the law cannot be ascertained, and the incomes or other characteristics of households or businesses actually benefitting are not known. In practice, loans made to comply with CRA may reach few families with poverty-level incomes. Community groups strongly support CRA and call for stronger enforcement by the financial supervisory agencies. Groups representing the

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[65](...continued)
Bunce and Randall M. Scheessele, December 1996. Other papers in this HUD series come to similar conclusions, as does the CBO study by Marvin Phaup, cited above.

larger banks complain about the heavy paperwork costs and uncertainty about how to comply.

Outlook. The CRA has an active constituency and the support of the Clinton Administration. Modifications in the future by the regulators or lawmakers may reflect calls to lighten the paperwork burden on depository institutions and to review actions by financial supervisory agencies to shorten the processing period on protested applications for bank changes.[66]

The Home Mortgage Disclosure Act of 1975

This law directs banks and savings institutions which make federally-related housing loans to provide information on the number and dollar amount of loans made or purchased during the year. The information must be available to the public in a central repository of each metropolitan area and in the home office and a branch office in each metropolitan area in which the institution does business. The information must be provided by census tract, by FHA-, USDA-, and VA-insured or guaranteed programs and conventional loans, and grouped to reveal lending patterns by age of housing, income of households, and race and gender characteristics in the census tracts. The Federal Financial Institutions Examination Council has overall responsibility for this function.

The information is analyzed for compliance with the CRA and fair housing laws. Studies by the staff of the Federal Reserve Board comparing outcomes for black and white applicants of similar incomes and other characteristics have concluded that blacks are less likely than whites to receive home loans. Some analysts, while not denying that discrimination occurs, have cautioned against simple interpretations of HMDA data, noting, for example, that some variables such as credit histories of applicants and differences in net wealth may not be taken into account.[67]

The banking industry views the assembling and provision of such information as a costly chore with little gain. Some of the paperwork burden for very small banks was reduced by the regulatory relief provisions included in the omnibus appropriations act for 1997, (P.L. 104-208). Fair housing advocates insist that such information is vital in determining the degree of compliance with civil rights laws.

Conclusions

Earlier concerns about a persistent budget deficit led to slowing or reductions in spending on many social programs, including housing help for low-income families. Rental vouchers used in existing private housing, widely viewed as an efficient form

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[66]The CRA is the subject of CRS Report 97-19 E, *Community Reinvestment Act: New Regulation and Legislative Update*, December 19, 1996, by William Jackson.

[67]See CRS Report 94-708 E, *Discrimination in Mortgage Lending: What Do We Know?*, September 1, 1994, by Barbara L. Miles.

of subsidy, have not been funded for additional families since 1995. Operating subsidies for public housing have been funded below basic requirements, according to local housing authorities. Construction of housing for the elderly and disabled has been held to low levels in HUD's budget, and subsidized rural rental and home ownership programs of the Department of Agriculture pared back.

A growing view among officials and some lawmakers is that striving families, those who seek jobs or better-paying work, should be offered incentives. This is seen in the family self-sufficiency program, welfare reform, and recently enacted housing legislation to help moderate- to middle-income families. But with limited funding, it is possible that assistance is being shifted from the most vulnerable populations like the impoverished elderly, the disabled, and others who cannot enter the labor force or who make no more than the minimum wage. In effect, income redistribution may be occurring within the lower income population from the poorest to those with incomes closer to the median in the community.

A current theme is to enable as many lower-income renters as possible to become owners, despite absence of empirical support that homeownership by itself brings positive changes that benefit the rest of society. Much satisfaction is taken in the fact that the national rate of homeownership has risen to a near all-time high, and getting the rate even higher is a Clinton Administration goal. The downside is that some marginal families may be induced to purchase but ultimately lose their property and credit rating if incomes drop as a result of unemployment, illness, or other misfortune. In previous efforts along these lines, Government insurance funds have been lost and some families left by the wayside.

A sense that federal agencies are too inflexible and remote from local circumstances has given rise to the growth of block grants with broad discretion vested in state and local governments and well-managed public housing authorities. The federal agency role is increasingly reduced to allocating funds by formula and to after-the-fact monitoring of spending by recipients of funds. One consequence is that little is known about the results of such grants except the most general information about types of activities getting money. This appears to be the case with community development block grants, one of the most popular programs among mayors and other local officials because of the discretion they enjoy. The law requires that most of the money be spent in low- and moderate-income neighborhoods, but this still allows money to be spread among many wards by local officials. The HOME block grant seems to be better targeted to building or fixing housing for low-income families, with discernible results that fulfill the goal.

An associated approach in this search for "a third way" is to empower neighborhood associations to decide on changes to their neighborhoods. This is not new: under the old urban renewal program citizen participation was one of the prerequisites to securing federal money. What is new is the set-asides of HOME funds for nonprofit community development corporations and the increasing professionalism of those who run or advise these neighborhood associations under the HOME program.

There are many anecdotes of success, but it is difficult to evaluate actual performance of the newer approaches and overall results in relation to needs. Some nonprofit development organizations participate in the low-income tax credit program in partnership with corporate investors like Fannie Mae and also receive block grant funds. The piecing together of several subsidies is necessary to develop housing affordable by very low-income families when the low-income tax credit is the main vehicle.

The only housing programs standing alone which can reach the poorest families are public housing, HUD's Section 8 rent certificates and vouchers, and the Department of Agriculture's Section 521 rental assistance. By the same token, they are expensive and, unlike tax credits, stand out in the budget, so they have been curtailed in the process of reducing the budget deficit.

Budgetary constraints aside, many housing analysts believe that the most effective policy would be to rely primarily upon the existing private housing supply with vouchers, and to construct or rehabilitate where circumstances warrant. It may be necessary to build or rehabilitate structures for the elderly, persons with disabilities, and the homeless, and to add to the supply in local areas where rental housing markets are persistently tight.

Economic growth has raised the income and living standards of many Americans. But not all. The number of low-income families in need of housing help actually increased in the past decade, while the supply of affordable unsubsidized rental housing declined. Economic growth alone does not lift all boats when it comes to housing the poor.[68] If housing opportunities are to be extended to the disadvantaged and to newcomers, more must be done—by the federal government, the communities, and the poor families themselves.

[68] This is the conclusion of housing analysts at HUD and the Harvard Joint Center for Housing Studies, among others. *Rental Housing Assistance –The Crisis Continues: The 1997 Report to Congress on Worst Case Housing Needs*, U.S. Department of Housing and Urban Development, April 1998; *The State of the Nation's Housing 1997*, Harvard University Joint Center for Housing Studies, 1998.