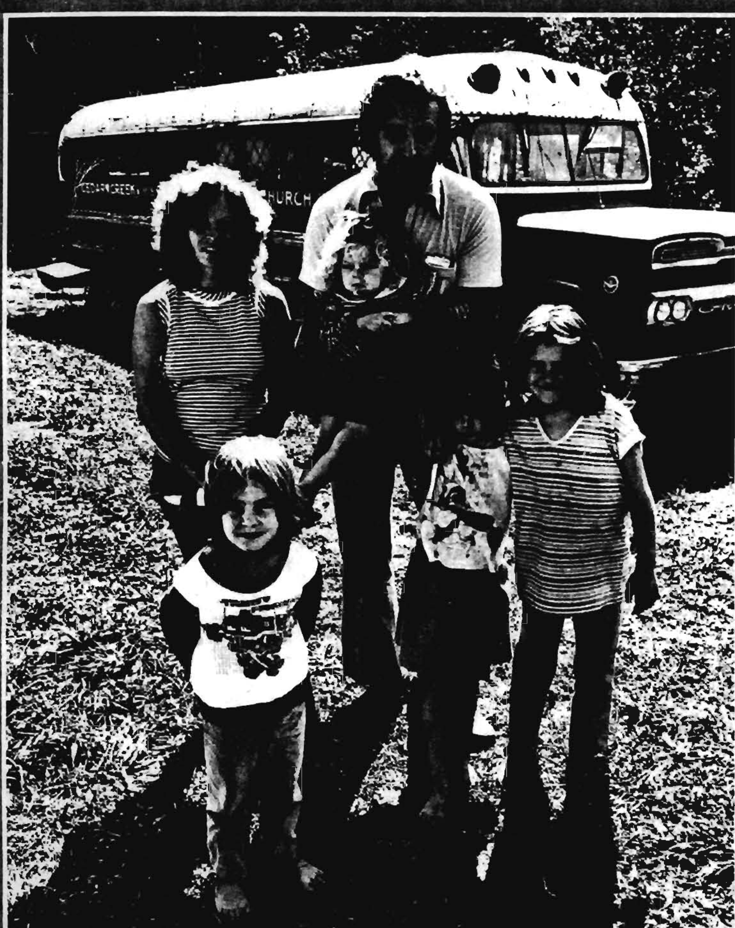
A DECENT PLACE TO LIVE

The Report of the National Housing Task Force

March 1988



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The National Housing Task Force

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James W. Rouse *Chairman and Chief Executive Officer, The Enterprise Foundation*

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Members of the Task Force participated as individuals, not as representatives of their respective organizations or positions.

The Task Force and Its Purpose

The National Housing Task Force was established in September 1987, as part of a Congressional effort to reexamine America's housing policy. Privately initiated and funded, the Task Force was comprised of 26 individuals who have diverse experience in housing policy, production and finance. Drawn from business, banking, community service, and state and local government, the nonpartisan group was led by James W. Rouse, as chairman, Chairman and Chief Executive Officer of The Enterprise Foundation; and David O. Maxwell, as vice chairman, Chairman and Chief Executive Officer of the Federal National Mortgage Association (Fannie Mae).

The Task Force was organized to help set a new national housing agenda, aimed at assuring all Americans access to fit, livable and affordable housing; and to recommend how to combine public and private policies and resources most effectively toward that end. In the course of carrying out this charge, the Task Force had the benefit of the ideas and analyses of many individuals and organizations.

The efforts of Congressional leaders—particularly Senators Alan Cranston and Alfonse M. D'Amato, the Chairman and Ranking Member, respectively, of the Senate Subcommittee on Housing and Urban Affairs—to undertake a comprehensive review of housing policy led to the creation of the National Housing Task Force. During its deliberations, the group reviewed position papers on housing policy from 72 interest groups and other commentators, submitted to the House and Senate Banking Committees. These were valuable sources of information, concepts and viewpoints.

Also important in the Task Force's evaluation was a series of 20 draft reports prepared by scholars and practitioners under the direction of Professors Langley C. Keyes and Denise DiPasquale of the Massachusetts Institute of Technology. Each of the papers was examined, and several authors appeared as speakers before the Task Force.

An organizational meeting was held on September 21, 1987. The Task Force then met almost every week in a series of two-day sessions through early December. There were several additional meetings during the first quarter of 1988 to review the drafts of this report.

Discussions were augmented by the observations of outside experts who joined the meetings and by review of extensive written materials. A further broadening of information and opinions came through the National Housing Policy Advisory Panel, established by the Task Force and co-chaired by Leland Brendsel, President of the Federal Home Loan Mortgage Corporation (Freddie Mac), and Ira Gribin, President-Elect of the National Association of Realtors. The Panel's 42 members contributed useful ideas to the Task Force in a meeting and other communications.

Numerous individuals, agencies and institutions assisted the Task Force in completing its work. The contributions of information and insight by Dr.

Morton J. Schussheim of the Library of Congress were highly valuable. Jill Khadduri of the U.S. Department of Housing and Urban Development also offered essential information and helpful comments. Doug Bibby, Chris Duerksen, Roy Kahn and Carol T. Robbins gave invaluable assistance in writing the final report. The Urban Institute acted as fiscal agent, provided meeting space and generally made it possible for the Task Force to function.

The Task Force received financial support from many institutions. Particular gratitude is due the Charles Stewart Mott Foundation, without whose assistance the Task Force could not have conducted its work.

While not every statement nor the wording of every recommendation is endorsed by each member of the Task Force, consensus was reached on the nature of America's housing needs and the basic steps that should be taken to respond to that challenge.

The Task Force believes that, as we enter the last decade of this century, we are at the beginning of a great national debate about the course of American society. We offer here our best collective thoughts on the directions to take to achieve an old promise and an ever-present dream—that all Americans be decently and affordably housed and able to live in safe, sound and vital communities. We hope this report will contribute to reaching that goal. ■

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COVER
Top left: ***First-time home buyers—New Orleans.***
Bottom left: ***This family lived in a bus last winter because it could not find fit and affordable housing—Big Stone Gap, Virginia.***
Right: ***After being abandoned by the owner in 1983, this house is still occupied by a family in 1985, despite lack of heat and water—Newark, New Jersey.***

Requests for additional copies of this report should be made to the Task Force Staff at 1625 Eye Street, N.W., Suite 1015, Washington, D.C. 20006.

Call to Action

Americans today are the best-housed people in history.

U.S. President's Commission on Housing
November 1982

Cots were set up last night in Washington's city hall, 14 blocks from the Capitol, to provide the homeless with an alternative to sleeping on subway grates and in other makeshift accommodations during this week of record-breaking cold temperatures.

National News Reports
January 6, 1988

This is the paradox of housing in America. For most, housing is a dream fulfilled; but for too many others, housing is unavailable, unaffordable or unfit.

The progress that has been made in recent decades is indisputable and a matter of pride for the nation and its policy makers. By coupling the best of private and public efforts, we have raised the standards of housing in which our people live, alleviated much of the overcrowding and unfit conditions, and increased the rate of ownership. The promise of "a decent home and a suitable living environment," set forth by the Housing Act of 1949, has become a reality for most of our citizens.

But the 1949 commitment was "for every American family." And for millions of our families, we have not only fallen short but are losing ground. Across the country, civic, political, business, labor and religious leaders are speaking out about the increasing numbers of people who live so miserably alongside those of us who live so well.

We care as a nation. We care for and are deeply troubled by:

- people huddled on grates or wrapped in cardboard boxes—the "homeless,"
- mothers, fathers and children without a place to live—tens of thousands of families forced to the streets—the "new homeless,"
- families who owe rent they cannot afford and may not be able to pay,

who live with no cushion between a setback and the street—the "near homeless,"

- children growing up in terrorized neighborhoods, made captive to drug dealing and other crime,

- and families living in shacks in rural areas without plumbing, running water or protection from the elements.

We care, too, about young families struggling to meet current expenses, seeing their dream of acquiring a home becoming ever more distant in the face of rising prices, declining savings and heavy debt burdens.

This does not represent the character, the heart and soul of our great country. More and more of us are aroused by what we see and the challenge we feel.

There was deep concern among the members of the Task Force of 26 men and women—bankers, public officials, lawyers, home builders, housing professionals, real estate people. As we explored the conditions and searched for answers, determination mounted among us that we cannot tolerate the suffering to which more and more of our people are consigned . . . that there must be answers, and that as a nation we must find them.

The time has come to raise these conditions to a compelling level of concern—to the highest priority of attention and commitment—not just of the federal government but of state and local governments, for-profit and nonprofit housing developers, businesses, religious institutions, civic groups and individuals. Housing must not be a partisan issue; it transcends party or faction. This must be a true national program. We must halt the spread of a separated culture, both urban and rural, before continuing deterioration results in severe, and potentially irresolvable, frustration and division.

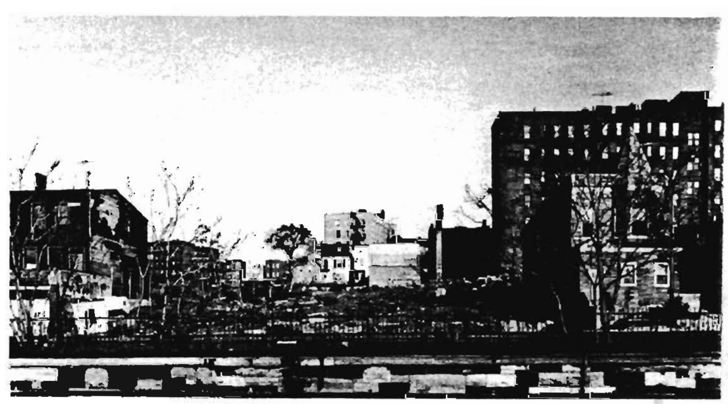
Our report outlines a 10-point program to provide housing opportunity for all Americans.

The program must be commenced rapidly and carried forward vigorously. It should be marked for completion by the year 2000—in 12 years. We must fire up the energy and fulfill the legitimate expectations of decent housing for all our people.

The Task Force knows that fit and affordable housing alone will not solve all the problems of the poor. Education, training, jobs and health care are also part of our national concern and must be provided for on the national agenda. The plague of drug use and drug dealing must be confronted.

But, a decent place for a family to live becomes a platform for dignity and self-respect and a base for hope and improvement. A decent home allows people to take advantage of opportunities in education, health and employment—the means to get ahead in our society. A decent home is the important beginning point for growth into the mainstream of American life.

South Bronx, New York, in 1979, 1981, 1982 and 1985—the cycle of housing decay, abandonment and demolition in a neighborhood.



As a nation, we have recognized the vital role that housing plays in human and community development. Our commitment of the past, most notably that of the federal government, has contributed to the housing that most American families enjoy today. An efficient, highly competitive home building industry has produced more and better housing than that of any other country in history. A resourceful and flexible housing finance system has combined private and government insurance and guarantees with a thrift industry and secondary market to make homeownership a reality for middle-income as well as upper-income Americans.

But, while our progress has been great, much remains to be done.

The rate of ownership has suffered a prolonged decline for the first time since the Second World War, particularly among the younger population groups that traditionally are first-time buyers. Relying primarily upon market-based mechanisms, the Task Force believes there are steps that can and should be taken to overcome obstacles to homeownership.

The housing problems of the poor, however, are beyond solution by the market system alone and have fallen outside the focused attention of our society. Many of the poor are unseen or unnoticed by the majority of Americans. Their difficulties seldom touch us. But none of us can fail to be moved by the sight of the homeless, whose growing presence in our streets is a daily reminder of their plight.

The problems of the homeless are merely the tip of the iceberg, a manifestation of a graver and more pervasive condition: the large number of poor people and the decline in the supply of housing they can afford. Many units that once housed them have been lost as a result of demolition, abandonment, rehabilitation for higher-income residents and conversion to non-housing use. The supply of new affordable housing does not nearly match these losses.

These are the conditions that led to the creation of a National Housing Task Force and lead us to propose immediate action to address America's acute housing needs.

This is the wealthiest nation in the world, with superlative problem-solving capacity. Surely we can match our resources to our deep concern for the dignity and well-being of our people. We can provide the opportunity for fit, livable and affordable housing for all Americans.

This is our challenge. This is our responsibility. ■

The Housing Needs of Americans

This report is about America's most pressing housing needs. In this context, the reader will not find much space devoted to the "good news" about our housing. Other reports point to the achievements we enjoy in housing the majority of Americans.

Indeed, for most people in the United States, particularly middle- and upper-income families, housing has been one of our country's most visible success stories. Until the 1980s, we experienced uninterrupted growth in our homeownership rate, from a post-Depression starting point of 44 percent in 1938 to an all-time high of 65.6 percent in 1980. In 1987, the United States housing supply reached one hundred million dwelling units, an illustrious housing production achievement.

Ironically, the very progress we've made, the remarkable resilience of both our housing finance and production systems, and the satisfaction most Americans feel with their housing have helped obscure the very real problems that exist. And this, in turn, has weakened the resolve of the political system to attack these shortcomings. Yet the problems are severe and growing.

The Number of Poor People Seeking Housing Remains High[1]

We are a rich nation, but most of our households are not wealthy. Of the 241 million people who lived in the United States in 1986, one in seven, over 32 million people, lived below the poverty line ($11,203 for a family of four; $5,572 for an individual).[2] Almost a third of all households earned less than $15,000.

Those who struggle with modest or minimal incomes represent a cross section of America. They are young, middle-aged, elderly, disabled. They are single parents and intact families. They are working. In 1986, one quarter of all full-time jobs, 24 million positions, did not pay enough to raise a family of four above the poverty line. In that year, 15 percent of those over 14 years old living in poverty had full-time jobs. Most of the poor are white, though disproportionate numbers of blacks and Hispanics are poor.

The primary financial problem for most of these households is paying for housing. Those above the poverty line, whose incomes have not kept pace with rising rents, face the same problem.

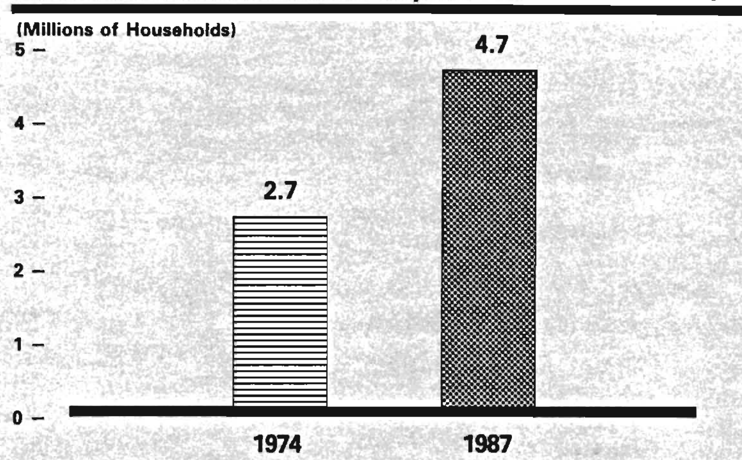
The majority of poor people are renters. In 1987, 63 percent of all poverty-level households were living in rental housing. And in the battle to keep incomes and housing expenses in balance, renters face the greatest hardships. As a group, they are significantly poorer than homeowners and are becoming increasingly poor as the better-off among them make the leap to ownership.

The median income for all renters (in 1986 dollars) was $18,000 in 1972. By 1986, it had declined to $15,300 and was one half the median income of homeowners. The decline in income was particularly severe for younger households, with income of renter households aged 25 to 34 declining 18.5 percent. From 1974 to 1987, the number of renter households with incomes under $5,000 (1986 dollars) grew substantially, from 2.7 million to 4.7 million.

The Supply of Affordable Rental Housing Is Dwindling

For many decades, the private housing market met the needs of low-income renters, at least in part, through the so-called "trickle down" process. As

Renter Households with Annual Incomes Under $5,000 — (1986 Dollars)



Joint Center for Housing Studies of Harvard University Tabulations of U.S. Department of Housing and Urban Development Annual Housing Survey, 1974 and U.S. Department of Commerce, Current Population Survey, March 1987.

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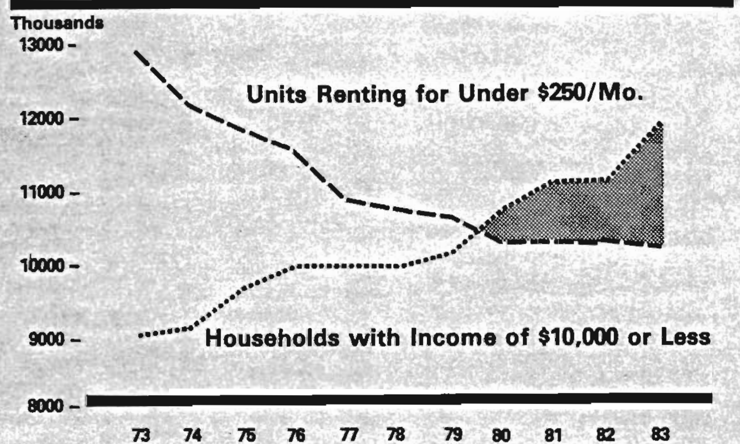
[1] Unless otherwise indicated or apparent from the context, data on housing characteristics are taken from the 1983 American Housing Survey, which is the most recent available. The Housing Surveys from 1973 through 1983 utilized the same sample of units, but an entirely new sample of units was used in the 1985 Survey and the 1985 data, to be released this summer, may not be comparable to the data from the earlier surveys.

[2] When used in this report, the term "poor" refers to a person or household below the poverty line; the term "low income" refers to a household with an income below the very-low-income limit established by the U.S. Department of Housing and Urban Development (HUD), which is generally at 50 percent of the median income for the area, adjusted for household size; and the term "lower income" refers to a household with an income below the lower-income limit established by HUD, which is generally at 80 percent of the median income for the area.

units aged, they became available to renters farther down the income scale. In recent years, evidence suggests that the trickle has slowed considerably. From 1973 to 1983, for example, 4.5 million units were permanently removed from the housing stock through either demolitions or structural conversions; almost half of those units are estimated to have been occupied by low-income households.

In addition to this loss of low-income housing, rental rehabilitation expenditures, which remained at a constant annual level in real terms from 1970 to 1982, more than doubled between 1982 and 1986. Unfortunately, where subsidies were not available to protect low-income tenants, these expenditures for upgrading properties often put housing that once was affordable to the poor out of their reach.

Low-Income Rental Housing Shortfall (1983 Dollars)



U.S. Department of Housing and Urban Development, Annual Housing Surveys, 1973 to 1983.

Demolitions, conversions, renovations and increased rents have all played a role in the decline in the number of affordable private-market units. In 1980, the number of low-income renter households (earning $10,000 or less) seeking affordable housing (below $250 a month, constant 1983 dollars) had outstripped the supply theoretically available to them. Moreover, since low-income households compete with other renters in the housing market, only 54 percent of those affordable units were actually occupied by low-income renters in 1983.

Current production efforts offer little hope of relief. From 1976 to 1982 more than a million new, federally subsidized units of lower-income housing were added to the supply. In recent years, fewer than 25,000 units have been produced annually. And the private sector, without subsidy, cannot produce housing for low-income households. In 1986, only 7.5 percent (30,600 units) of the private sector's new unsubsidized, multifamily production rented for less than $300 a month. In the first half of 1987, more than 40 percent of these new apartment units rented at rates affordable only to people with annual incomes above $22,000.

Housing for low-income households is further threatened by the potential loss of more than one million units of federally assisted but privately owned housing, through the termination of low-income restrictions or the expiration of subsidy contracts.

Rent Burdens Are Heaviest on the Poor

The portion of income that poor families must allocate to housing has escalated dramatically. Between 1970 and 1983, median rents increased at about twice the rate of median incomes. And most poor people do not live in subsidized housing where costs and incomes are kept in affordable proportions. In 1983, of the 12.9 million low-income renter households, only 28 percent benefited from federal housing programs.

The growing disparity between rents and incomes has translated to increasing rent burdens for poor people. In 1975, 3.7 million low-income renter households paid more than 50 percent of their incomes for rent. By 1983, that number had grown to 6 million, or almost half of the universe of low-income renters, paying more than half of their incomes for rent.

Rent burdens have become more severe for younger people, both married couples and single heads of households. From 1973 to 1986, the real income of young renter couples fell by 14 percent. And from 1974 to 1987, the income of young single-parent renter households fell by 34 percent, from $10,965 to $7,271. Not surprisingly, the rent burden for these single-parent families increased from 35 percent in 1974 to 58 percent in 1987.

The level of rental assistance has not kept pace with the need. In 1974, 2.2 million renter households with incomes under $5,000 received no rental assistance. By 1987, this pool of income-eligible but non-subsidized renter households had grown to 3.2 million. Among households with incomes in the $5,000 to $10,000 range, the number not receiving rental assistance grew from 3.8 to 4.5 million. Nationally, there are an estimated 1.0 million families on waiting lists for public housing. Some lists have been closed to new applicants.

Housing Conditions: A Double-Edged Sword for the Poor

Twenty years ago, the Kaiser Commission's report on housing highlighted the extensive physical inadequacies of a substantial part of America's housing stock. For example, the Commission, citing the 1960 Census, found that nearly one quarter of the nation's housing stock lacked complete plumbing facilities or was "dilapidated" or "deteriorated." By 1983, due to intensive public and private efforts, only 3 percent of the housing stock lacked plumbing, and the incidence of severe deficiencies was similarly reduced.

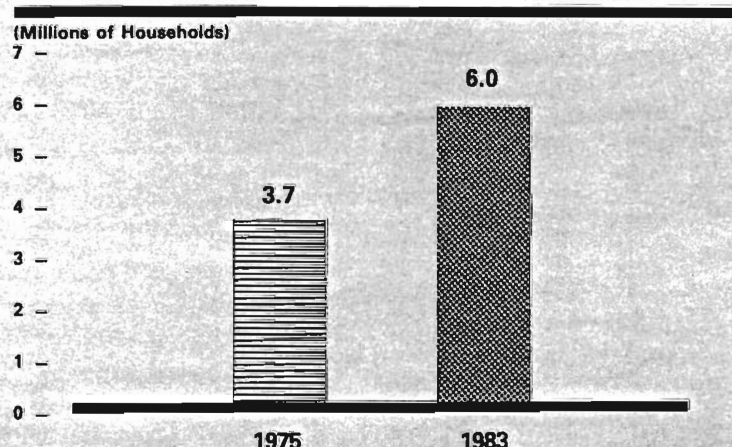
However, in 1983, there still were 7.6 million occupied substandard units in the United States; 5.5 million of these units were occupied by lower-income renters and homeowners who were forced to deal with deficiencies such as no kitchens or toilets, or combinations of defects including heating or electrical breakdowns. Substandard housing is particularly prevalent in rural areas, which have 44 percent of the nation's inventory of substandard units.

We can expect to see continued progress in reducing physical inadequacies of the nation's housing stock. But there will be a price to be paid for this improvement: low-income households will need more income or assistance to be able to pay market rents for the improved housing, or subsidies to owners will be needed to lower rental costs.

Lower-Income Homeowners: Economic and Physical Troubles Persist

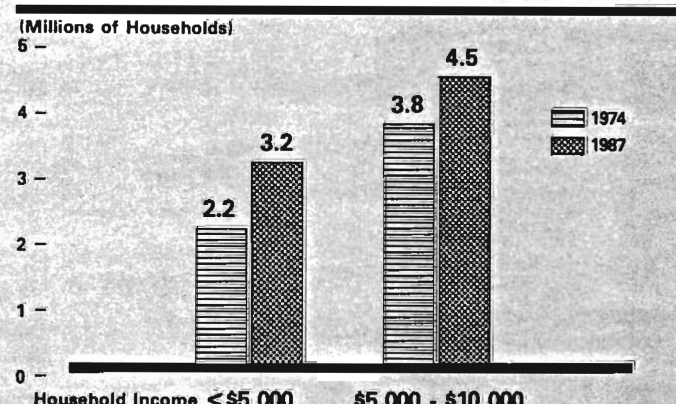
In 1983, there were almost as many lower-income homeowners as lower-income renters (19 million homeowners and 19.4 million renters). Approximately 47 percent of these homeowners were elderly, and about 39 percent of lower-income homeowners lived in non-metropolitan areas.

Low-Income Households Paying More Than 50 Percent of Income for Rent



U.S. Department of Housing and Development, Annual Housing Surveys, 1975 and 1983.

Non-Subsidized Low-Income Renter Households



Joint Center for Housing Studies of Harvard University Tabulations of U.S. Department of Housing and Urban Development Annual Housing Survey, 1974 and U.S. Department of Commerce, Current Population Survey, March 1987.

Although the housing problems of lower-income homeowners are not as pronounced as those of renters, they still are significant. For example, poor rural homeowners tended, far more than their urban counterparts, to have physically substandard dwellings.

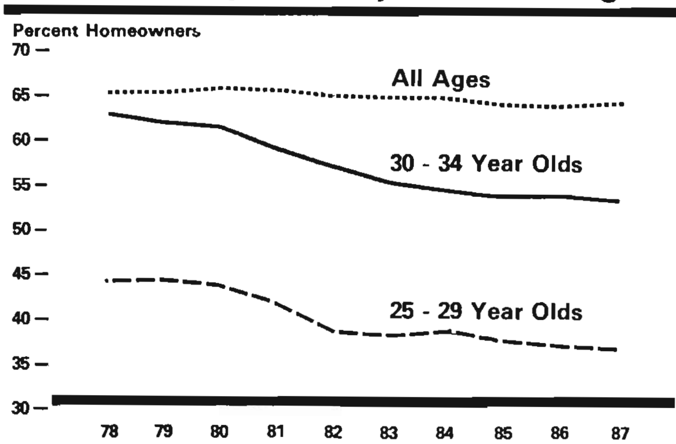
First-Time Home Buyers: The Dream Is Fading

In the past few years, homeownership opportunities have expanded as interest rates have declined. "Affordability" is up in some widely circulated indices. Yet all is not well for the American home buyer.

Hundreds of thousands of young American families who hope to purchase a home, as did their parents and grandparents before them, are seeing that dream deferred. Others fear that homeownership will remain forever out of reach.

Reversing a 40-year trend, the period from 1980 through 1986 saw a steady decline in the nation's homeownership rate. While the percentage of decline appears small—from 65.6 percent of households as homeowners to 63.8 percent—it means that nearly 2 million fewer families own homes today than would have, had the prior rate been sustained. The impact was particularly great on young families—precisely the people who look toward buying their first home. The homeownership rate for 25 to 29 year olds has dropped from a peak of 44 percent in 1979 to 36.2 percent in 1987. The group of people between the ages of 30 to 34 has experienced a similar decline. Moreover, the decline was concentrated particularly among young families with incomes below the 1987 national median of approximately $30,000.

Homeownership Rates by Household Age



Bureau of the Census, Population Division Data, 1978 to 1980 and Bureau of the Census, Housing Vacancy Survey, Unpublished Tabulations, 1981 to 1987.

Homeownership is becoming a fading dream as a result of high real mortgage rates, rising home prices and down payment requirements. On an after-tax basis, today's home buyer pays a substantially greater proportion of income for housing than did the buyer of 10 to 15 years ago. As a result, young wage earners entering the housing market are less able to both secure and carry a mortgage, given current interest rates and housing prices.

Where high carrying costs do not discourage potential first-time home buyers, down payment requirements do. Responding to high default experience in the early 1980's, private lenders have tightened underwriting standards and increased down payment requirements. Static incomes, high living costs and substantial levels of student debt leave young families with little room to accumulate down payments.

Regional economic conditions result in even more severe problems for first-time purchasers in particular areas. For example, a purchaser of a median-priced home in mid-1987 in the Boston area needed to bring $22,854 to closing (including a cash down payment of $17,580) and needed an income of nearly $65,000 a year in order to qualify for the mortgage. The example is predicated on a 10-percent down payment, which constitutes an extraordinary burden for most first-time home buyers—particularly since high rents make it very difficult to save the money needed. Moreover, low down payment loans are harder to come by and can carry higher mortgage interest rates than those with higher down payments. ■

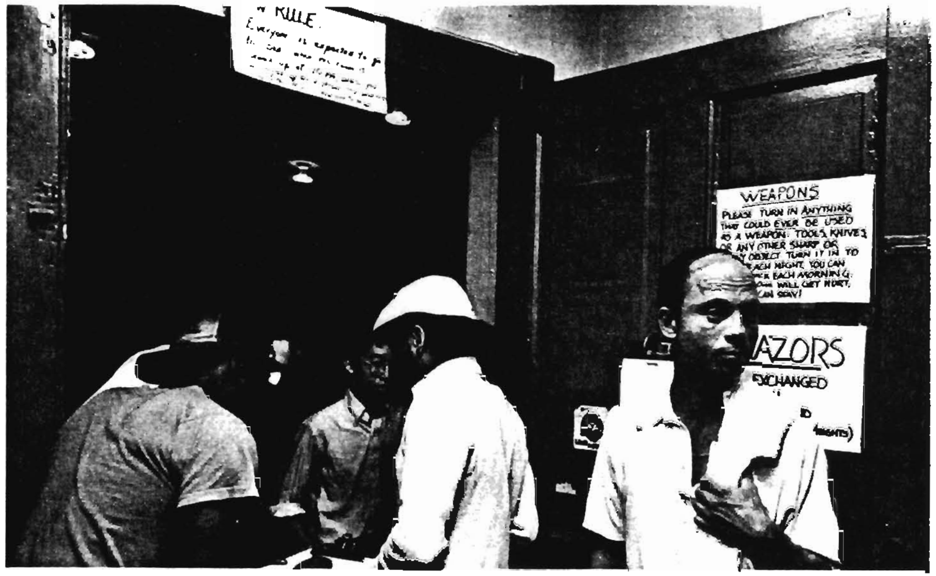
Renewing the Nation's Commitment

Recognition of the housing conditions and needs of the American people must be followed by action. The Task Force has found that there is no single solution, but rather a series of concrete actions to be taken that, over time, will decisively attain the goal of fit, livable and affordable housing for all Americans.

The first step is commitment. The federal government must reaffirm its role as a leader in finding solutions to the country's housing problems. The federal government must shape the national housing agenda—draw attention to needs, set goals, establish standards for performance, provide funding and stimulate additional investment from state and local governments and the private sector.

We would not have come as far as we have in meeting our housing needs if the federal government had not exercised this responsibility. In the past 50 years, federal involvement has been manifested in a variety of ways, sometimes with great creativity and imagination. The simple device of pledging the full faith and credit of the federal government revolutionized the nation's housing system by making possible long-term mortgages at a fixed cost with low down payments—turning America into a nation of homeowners.

Today, we need a renewed federal commitment to capitalize on the private sector's growing body of experience in producing and rehabilitating low-income housing through its partnership with the public sector. This experience has been evolving for over two decades and is reflective of the clear understanding that housing for poor people cannot be produced by the private sector acting alone. In fact, prior federal investment in these private-public partnerships created over 3 million units of affordable housing.



The rules posted in this Milwaukee shelter indicate that violence can be the result of frayed nerves and frustration. Families, the chronically mentally ill, veterans and substance abusers live side by side.

A Problem That Won't Wait: THE HOMELESS

While there is honest disagreement over the number of homeless Americans, we know that the homeless population is growing and that this is intolerable in a nation whose standard of living is the envy of the world.

Homelessness is a problem of many dimensions. Some of our homeless citizens have chronic mental and physical difficulties; they need not only housing but often medical and social services. Others have only recently become homeless; they may require job training or employment assistance, but their primary need is housing they can afford. An estimated 20 percent of the homeless hold full- or part-time jobs. Families with children are increasingly among those in our shelters or on the streets: they comprise an estimated one-third of our homeless population.

The recently passed McKinney Homeless Assistance Act makes a start toward providing much-needed federal help for the homeless. HUD should continue and indeed step up implementation of this important legislation. But it is only a start. It is too limited in its scope; it is too categorical in its approach.

Because homelessness is a many-faceted problem and varies widely from city to city, the Task Force believes solutions are best designed at the local level. We recommend that additional funds be made available in 1988 to states

(continued on page 10)

and communities to buttress their efforts to deal with the problem. Not only must they address the immediate need of those already homeless, but also devise ways to prevent more families and individuals from losing their homes. For example, a number of states and localities are already providing direct grants to prevent evictions of families who temporarily cannot afford their rent, as a cheaper and better alternative to welfare hotels.

We urge Congress to consider ways of funding local coalitions formed to combat and alleviate homelessness. These partnerships of local government, the private sector and nonprofit institutions offer great potential for effective action. They can develop and carry out the housing programs—along with emergency assistance, counseling, job training and social services—needed to create a comprehensive system of assistance for the homeless.

In the long run, the recommendations of the Task Force are intended to ensure that all our citizens will be able to find affordable and fit housing. That is the central goal of this report. Clearly, an essential beginning is to shelter our homeless in dignity and security and start as many of them as possible toward a better life. ■

A Problem That Won't Wait: DOMESTIC TERRORISM

For more than a decade, our country has understandably focused on the threat to our citizens posed by international terrorism. No one could doubt this matter commanded a high priority among our leaders.

This Task Force has no quarrel with the attention paid to international terrorism. But we ask this question: What is life in many poor, urban neighborhoods but terrorism at home? This domestic terrorism has destroyed families. It has crushed people's lives—more American lives by far than foreign terrorism.

In some urban neighborhoods, housing projects—both public and private—have been reduced to contested turf, dominated by battles between gangs, between drug pushers, between any two people with a gripe and weapons. Children walk to school in fear of being shot; they are recruited to serve as drug dealers and prostitutes.

What is to be done?

The Task Force discussed this situation at length. We believe it is generally beyond our charter and competence to

The nation has at hand the knowledge, skill and determination to provide housing affordable to low- and moderate-income households. This capacity can be used to develop new alliances among the public, private and community sectors to produce and preserve affordable housing.

The public partners are the federal government, state and local governments—including state and local housing finance agencies and the more than 3,000 public housing authorities around the country.

The private partners are developers, builders, managers, financial institutions, businesses and investors who would create and maintain housing for low- and moderate-income people if public investment were available.

The community partners are civic and religious groups and national and local nonprofit organizations that would help facilitate the delivery of housing opportunity to those who need it.

The combination of effort by these public and private entities constitutes a "new wave" of initiative and resourcefulness in meeting our critical housing needs. Vigorous and diverse, it raises new possibilities and new hope for housing low- and moderate-income families.

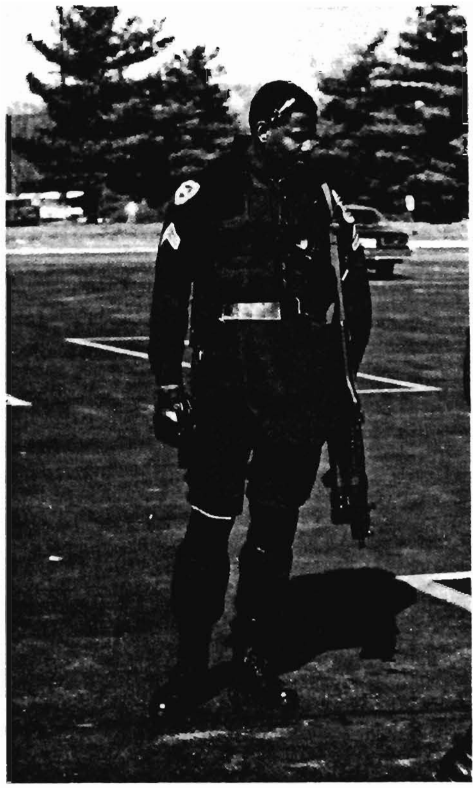
What is missing is adequate participation by the federal partner.

The 80 percent decline in HUD funds for new housing commitments over the past decade has hindered the growth of this new system to deliver affordable housing. The retrenchment of national housing policy and federal funding in recent years has kept the impact of the system small and the geographic coverage spotty.

This new system offers the opportunity to reaffirm the federal commitment in ways that will build on and build up local and state efforts throughout urban and rural America. The principal recommendation of this Task Force is to solidify and further that new partnership.

- It is based on the conviction that the federal government is the pivotal force in meeting housing needs and must be the principal source of funding.
- It is based on the understanding that government closest to the people is best situated to identify and respond to needs and conditions—especially the conditions of local housing markets.
- It requires states to provide and attract new non-federal funds for affordable housing in return for additional federal investment. The principle of using federal funds to leverage other investment is key to the new partnership and a new element in federal housing policy.
- It fosters a variety of housing delivery systems—public, private and nonprofit.
- It combines and balances different forms of public investment to increase the supply of new low-income housing, preserve existing stock and provide rental assistance to low-income households.
- It requires that housing assistance be directed to those most in need and focuses on increasing share of the housing supply dedicated to low-income use.
- It recognizes that improvements in housing conditions are linked with the physical and economic revitalization of neighborhoods and improvements in the delivery of services by local governments.

We have learned, over the last quarter century, that housing problems are varied and complex. To be effective, housing assistance must assume different forms. These include direct expenditures in the form of loans and grants to reduce the capital cost of housing; rental assistance to help pay the cost of decent housing on the private market or meet the irreducible cost of expenses in housing provided through public-private partnership; tax incentives to reduce housing costs and attract private investment; and federal insurance and guarantees.



Domestic terrorism: a police officer prepares for battle in a poor, urban neighborhood.

recommend the range of anti-drug, law enforcement and related actions that must be taken to stop the violence.

However, to the extent these conditions exist in a handful of public housing projects in a few cities, we recommend that control of these projects be removed from local authorities that have proven unable to deal with them. HUD should assume responsibility for project management, and Congress should appropriate whatever funds are necessary to enable HUD or an appointed receiver to do an effective job.

Just as a national task force to combat terrorism was convened in 1985 when 23 Americans lost their lives and 160 others were wounded in terrorist attacks abroad, a similar high-level effort against domestic terrorism is needed today. The commission should be composed of representatives of concerned federal, state and local agencies as well as distinguished private citizens. This commission should be charged to develop a comprehensive plan of attack on domestic terrorism, with specific recommendations for appropriate legislation and other actions at the federal, state and local levels. Legislative bodies should move to enact such legislation as promptly as possible.

By 1989, our nation should be united in a massive drive to eliminate the scourge of domestic terrorism from our cities. There is no greater priority than ensuring a safe and decent environment in which our people live and our children grow up. ■

When these tools are combined in a federal housing policy, they can be employed by state and local governments, adding their own resources, to address the issues and conditions in their individual cities, towns and rural communities. New affordable housing can be built where shortages exist; moderate and substantial rehabilitation can be carried out where the appropriate stock is available; low-cost loans can be made to homeowners or landlords to preserve a supply of housing without inflating its cost.

Past housing programs and policy also have left us with a valuable legacy—affordable, assisted public and private housing, which must be preserved. In conserving the stock of public housing, the federal government and housing authorities should begin a new era of cooperation, thoughtful evaluation and work to restore and revitalize this resource. A new spirit of cooperation also should arise between the federal government and private owners of assisted housing in order to preserve this housing for low-income residents.

The Task Force's recommendations emphasize building on past accomplishments as well as the opportunities for creating a new housing delivery system. The proposals provide a combination of approaches that together will produce the results we seek: fit, livable and affordable housing for all our citizens by the year 2000. The challenge to Congress, the President and the American people is to provide the resources and tools to make that goal attainable. The challenge to our states and communities is to augment and effectively use the resources, so that the goal is achieved. ■

Summary of Recommendations

I. A New System for Delivering Affordable Housing (Page 18)

<u>RECOMMENDATION:</u> **The federal government should create and invest in a "Housing Opportunity Program" (HOP) designed to foster and stimulate state and local initiatives to develop, renovate and conserve low-income housing.** (Page 18)

The proposed Housing Opportunity Program (HOP) will provide federal funds at the state and local levels to support and stimulate the delivery of low-income housing. With a first-year appropriation of $3 billion, HOP will be responsive to local needs and will induce significant new resources to build, renovate, repair or acquire 150,000 to 200,000 units of fit and affordable housing.

<u>RECOMMENDATION:</u> **HOP should induce substantial new state and local support for housing and should encourage the recycling of federal funds.** (Page 19)

HOP will require that state and local governments provide substantial funds for housing to match federal funds. Half of the HOP funds will be allocated by formula to the states for distribution to localities, contingent upon the generation of new state and local resources for housing. Recapturing and recycling federal money at the local level will be encouraged.

<u>RECOMMENDATION:</u> **The federal government should make a long-range commitment to increasing the supply of long-term, low-income housing through HOP.** (Page 20)

Because of the country's critical housing needs and the multi-year nature of effective housing efforts, the federal government must make a substantial, long-term commitment to HOP. Moreover, to ensure local governments a more stable, predictable flow of housing assistance, one half of the HOP funds will be distributed to communities according to a formula on the basis of need, with no matching requirement.

RECOMMENDATION: HOP funds should be provided with maximum flexibility and minimum regulation. (Page 21)

To tailor responses to local housing needs, state and local governments will be able to use HOP funds for a wide range of housing activities, subject to certain income targeting and performance requirements. HOP will be the primary vehicle for channeling new federal housing production funds.

RECOMMENDATION: HOP should place a shared burden of responsibility on state and local governments to create effective approaches to meeting national goals and addressing special needs. (Page 21)

Federal funds must be used to meet important national goals, such as helping low-income households where the need is greatest, combating housing discrimination, reducing housing costs, serving groups with special housing needs and preserving and improving urban neighborhoods and rural communities. State and local governments must show tangible progress toward meeting these goals.

RECOMMENDATION: The federal government must ensure the availability of adequate housing data. (Page 24)

The flow of comprehensive information regarding housing has been curtailed drastically by recent decisions of the federal government. If state and local governments and housing providers are to respond effectively to housing needs, they need accurate data. The federal government must invest sufficient funds and resources to ensure this information is available.

II. New Sources of Capital and a New Institution for Low-Income Housing (Page 26)

RECOMMENDATION: The federal government should support benevolent loan funds and community development banks and should create a new national corporation to support local housing delivery systems. (Page 26)

RECOMMENDATION: The federal government should provide standby support to "benevolent lending." (Page 26)

With limited federal support, substantial new capital can be attracted to low-income housing through the establishment of Benevolent Loan Funds. These funds accept deposits at low interest rates from socially motivated investors and lend that money at below-market rates to low-income housing developers and low-income home buyers.

RECOMMENDATION: The federal government should promote community development banks. (Page 30)

Federal seed money should be provided to help establish a small number of privately owned, local community development banks to fund affordable housing activities.

RECOMMENDATION: The federal government should create a national corporation to support the new housing delivery system. (Page 31)

The federal government should establish and fund a "Housing Opportunity Corporation of America" to support and advance low-income housing initiatives at the state and local levels, to stimulate Benevolent Lending and community development banks, to gather and distribute information about successful efforts, and to report to Congress and the President on the progress and problems of the new housing delivery system.

III. The Nation's Existing Low-Income Housing Stock
(Page 32)

__RECOMMENDATION:__ **Federal, state and local housing efforts must place greater emphasis on preserving and improving existing low-income housing.** (Page 32)

__RECOMMENDATION:__ **The federal government must take immediate steps to maintain the supply of federally assisted housing.** (Page 33)

Hundreds of thousands of units of federally assisted housing are threatened by early withdrawal from federal programs through advance payments of assisted mortgages and by the expiration of rental subsidy contracts. Expiring contracts must be extended. Moreover, a balance must be struck that protects the interests of both owners of assisted housing and their tenants.

__RECOMMENDATION:__ **State and local governments should use HOP as an important tool in efforts to preserve privately owned, unsubsidized low-income housing.** (Page 34)

The great majority of poor people live in privately owned housing. Typically, renovation and maintenance of such property cannot be supported by the rents the poor can afford to pay. HOP funds should be used to support preservation and renovation programs that keep existing housing fit and affordable for low-income people.

IV. Public Housing (Page 36)

__RECOMMENDATION:__ **The federal government should support the restoration and revitalization of public housing.** (Page 36)

The nation's most valuable low-income housing resource and some of its most visible housing failures can be found in the public housing program. The Task Force recommends immediate as well as long-range measures to improve public housing.

__RECOMMENDATION:__ **HUD must identify and remedy the most seriously troubled projects.** (Page 36)

The worst housing projects must be targeted for immediate action. Where state and local governments and local housing authorities do not act, HUD must consider federal control or judicial receivership.

__RECOMMENDATION:__ **The federal government must commit to completing modernization of the public housing inventory.** (Page 37)

Public housing provides decent, affordable housing for most of its 1.4 million families, but thousands of units are in need of immediate renovation. The federal government must commit itself to a long-term program to renovate and maintain this valuable resource.

__RECOMMENDATION:__ **The federal government, in partnership with state and local governments, must take steps to strengthen housing authority management.** (Page 37)

__RECOMMENDATION:__ **HUD and local authorities should continue efforts to involve tenants in project management.** (Page 38)

__RECOMMENDATION:__ **HUD and local housing authorities should explore carefully special situations for homeownership and sales of projects to tenants.** (Page 38)

__RECOMMENDATION:__ **The federal government should allow public housing authorities to produce housing, within budgetary constraints.** (Page 39)

Congress should allow the many competent housing authorities to continue to develop public housing units where needed, at a level consistent with budgetary constraints.

V. Tax Policy and Low-Income Housing (Page 39)

RECOMMENDATION: While preserving the essential reforms of the Tax Reform Act of 1986, the federal government should use tax policy to support low-income housing. (Page 39)

RECOMMENDATION: The federal government should expand the availability of tax-exempt financing for low-income rental housing. (Page 40)

While the basic targeting of tax-exempt financing would be retained, its availability should be expanded and its value increased through certain changes in the tax laws.

RECOMMENDATION: The federal government should provide favorable tax treatment for low-income housing. (Page 41)

In order to enable HOP to realize its full potential, specific tax policies would be required to attract private investors to rental housing serving low- and moderate-income households.

RECOMMENDATION: The federal government should improve and extend the low-income housing tax credit. (Page 41)

The low-income housing tax credit program must be extended beyond its 1989 sunset date, and certain technical changes should be made to allow it to reach its full potential.

RECOMMENDATION: The federal government should provide incentives for the donation of assisted housing to nonprofit organizations, low-income tenant cooperatives and public agencies. (Page 43)

VI. The Gap Between Housing Costs and Income (Page 43)

RECOMMENDATION: The federal government should commit to an adequate rental assistance program to complement production and preservation efforts. (Page 43)

Rental assistance is an essential complement to the Task Force's recommendations to increase the supply of affordable housing. Only through a combination of increased supply and rental assistance can the goal of fit and affordable housing for all Americans be met by the year 2000.

RECOMMENDATION: A more flexible definition of reasonable rent burden should be adopted. (Page 44)

To more closely reflect tenants' ability to pay, the Task Force recommends that Congress consider requiring a sliding scale of rent payments based upon family size and income.

RECOMMENDATION: Rental assistance should be tied to federal housing quality standards. (Page 44)

VII. Homeownership (Page 45)

RECOMMENDATION: The federal government should adopt a series of low-cost measures to expand opportunities for homeownership. (Page 45)

As it has done for a half century, the federal government should work to expand homeownership opportunities, particularly for first-time buyers. The Task Force recommends measures to reduce down payments and lower carrying costs.

RECOMMENDATION: The federal government should increase access to FHA mortgage insurance and the VA program. (Page 46)

The federal government should adopt measures to expand the availability of FHA adjustable-rate mortgages (ARMs), raise maximum FHA mortgage limits, reduce FHA down payments and update the VA program.

RECOMMENDATION: The federal government should take steps to ease down payment difficulties for first-time home buyers by allowing the use of IRA and other self-funded benefit plan monies. (Page 48)

RECOMMENDATION: The federal government should continue mortgage revenue bond programs for low- and moderate-income home buyers. (Page 48)

The Task Force recommends continuation of mortgage revenue bond programs for first-time home buyers, for targeted development efforts and for rehabilitation loans. Mortgage Credit Certificate programs should be used as an alternative to revenue bonds, where appropriate.

RECOMMENDATION: State and local governments should use HOP to assist low-income home buyers and homeowners. (Page 49)

RECOMMENDATION: Congress and HUD should explore the potential of employer-sponsored and employer-assisted housing. (Page 50)

RECOMMENDATION: States and localities should actively explore means of reducing regulatory constraints on the production of affordable housing. (Page 50)

VIII. The Housing Finance System (Page 51)

RECOMMENDATION: Congress should support the current housing finance system and not impose on it additional costs or other burdens. (Page 51)

The current housing finance system has shown remarkable resilience and has enabled millions of citizens to become homeowners by providing access to sources of capital. While the Task Force has recommended a number of modifications, Congress should continue to resist efforts to impose additional costs and restrictions on this successful system.

RECOMMENDATION: Bank and thrift regulators should consider the Community Reinvestment Act as a powerful incentive to encourage institutions to invest in low-income housing and community development. (Page 52)

The Community Reinvestment Act (CRA) has led to many productive local partnerships. The Task Force believes the CRA has even greater potential that can be realized through a combination of improved compliance review by regulators and incentives for good performance.

IX. Fair Housing (Page 53)

RECOMMENDATION: The federal government must renew its commitment to enforcing the laws against discrimination in housing. (Page 53)

The federal government must exercise leadership and concentrate on fighting housing discrimination, particularly against minorities and families with children, whether in publicly assisted or privately owned housing. Expanded fair housing efforts must be a fundamental component of national housing policy.

RECOMMENDATION: The federal government must increase the enforcement of fair housing laws. (Page 53)

RECOMMENDATION: Discrimination against families with children should be prohibited. (Page 54)

RECOMMENDATION: State and local governments should use HOP funds and rental assistance to counter housing discrimination. (Page 54)

X. Housing in Rural America (Page 54)

RECOMMENDATION: Current federal rural housing programs should be used, consistent with budget priorities, to improve housing conditions in rural areas. (Page 54)

A framework of federal housing programs, administered by the Farmers Home Administration FmHA, is currently in place that can, if expanded and adequately funded, improve housing conditions in rural America.

RECOMMENDATION: The Housing Corporation of America and the Farmers Home Administration should help build the capacity of rural nonprofit development organizations. (Page 55)

RECOMMENDATION: The federal and state governments should take steps to increase rural homeownership and to upgrade substandard housing. (Page 55)

RECOMMENDATION: FmHA and HUD should place greater emphasis on housing for farm workers and Native Americans, and HOP funds should be used to meet the special needs of these groups. (Page 56)

Reaching Our Housing Goals: THE NEXT STEPS

We believe setting a goal of fit, livable and affordable housing for all Americans by the year 2000 will focus and drive federal, state and local action to make housing a priority and provide a measure for progress toward reaching that goal. Our recommendations, which combine production, preservation, tax incentives and rental assistance, are intended to set forth the means by which our nation can achieve the goal. If we are to hope to do this by the year 2000, we must start now, even though federal spending choices are severely limited.

To begin, we recommend first-year funding of $3 billion for the Housing Opportunity Program described in Recommendation I. This program will require state and local governments to match one half of the federal funding, or $1.5 billion, providing a total of $4.5 billion for low-income housing production, preservation and repair and other housing activities. We believe these funds can be used to add to or preserve 150,000 to 200,000 units of long-term affordable housing.

In addition, the 1989 federal budget calls for an increase of 100,000 units in the HUD rental assistance program. We believe this should be doubled to 200,000, at an incremental cost of approximately $380 million annually.

The combination of these programs, taking into account the fact that they will be used together in some areas, will produce, preserve or assist at least 300,000 additional affordable units.

In 1989, federal outlays for HUD housing programs are expected to be about $13.6 billion. An increase of $3.38 billion would represent less than a 25 percent increase in total expenditures for HUD housing programs, which would then equal approximately 1.5 percent of the total federal budget. If steps also are taken to preserve the existing federally assisted low-income housing stock, this can be an important start toward meeting our goal.

Housing production and preservation require planning and lead time, persistence and predictability of resources. They require the building of local capacity and taking action to create housing opportunities, which can only be done in anticipation of a long-term commitment. Sites must be acquired, plans drawn, financing obtained, infrastructure built. Such steps can be taken only with the steady and consistent commitment of a national policy and significant funding. The federal government should make that basic commitment—and make it now.

We believe that, with minor adjustments to the housing delivery system and with a modest cost to the federal government, homeownership opportunities can be expanded for hundreds of thousands of potential first-time home buyers. There is no impediment to immediate action on our recommendations with respect to homeownership.

We understand that the coming decade will present difficult choices for our nation. We have a $4 trillion economy, a marvel and monument to our productivity, ingenuity and freedom. It is subject to complex and varied national and international forces. In truth, no one can explain how it works—what combination of public and private effort will encourage greater productivity and prosperity. In making choices, we must be guided by our values and judge whether our system produces the results we want: decent housing, healthy and well-educated citizens, peaceful neighborhoods, safe roads and bridges, clean air and water, productive work and a more secure world.

We must choose whether and how to accomplish these results, as only a free people can. We believe that Americans have the strength, vision and common sense to choose wisely. ■

The Recommendations

I. A New System for Delivering Affordable Housing

<u>RECOMMENDATION:</u> The federal government should create and invest in a "Housing Opportunity Program" (HOP) designed to foster and stimulate state and local initiatives to develop, renovate and conserve low-income housing.

Rehabilitation of inner-city houses in Pittsburgh by non-profit organizations increases the supply of housing available to low-income people.

To meet the growing need for housing affordable to low-income Americans, the Task Force recommends a significant increase in the supply through new construction, rehabilitation, preservation and acquisition of existing stock. To begin this supply initiative, the Task Force calls for a major new federal production and preservation program with first-year funding of $3 billion.

This renewed direct federal support to increase the supply of affordable housing is essential; however, both budget realities and past experience under categorical federal housing programs dictate that such assistance be provided in a new way. Even with a $3 billion increase in federal housing assistance, the supply gap could not be filled. Thus, any new federal program must be designed to induce substantial new money for housing from state and local governments and the private sector.

It is clear from past federal housing efforts that there is no single, national solution to widely diverse local housing problems. Housing markets are local, and the federal government is not as well-equipped as local governments to understand those markets, assess needs and develop tailored responses. If more federal money is to be invested in low-income housing, it must be used efficiently and assure long-term, low-income use.

The Task Force is greatly encouraged that a new delivery system that satisfies these needs has taken root and has grown over the last decade. It has emerged from the community level in response to local needs and dwindling federal support. It is marked by vigorous new efforts by state and local governments and nonprofit developers and has enlisted the strength and experience of private, for-profit developers. Local financial institutions, the business community and religious organizations are all important players in this "new wave" of local initiatives.

The new wave is characterized by new sources of money, new ways to cut construction costs and new techniques to reduce barriers to affordable housing. It is close to the people it serves, committed to low-income residents on a long-term basis and dedicated to overall community revitalization. It is sensitive to the need for good management and maintenance and is vested with the political skills to marshall support. It works in hundreds of different ways in hundreds of different places.

As illustrated by the examples on pages 24 to 29, the new delivery system is showing impressive potential. While encouraging, the rise of this new system could not have happened without substantial federal assistance, the common feature of practically all of today's local housing initiatives. The federal government has been an essential partner—sometimes a silent partner—by providing low-income tax credits, tax-exempt financing, rental assistance and below-market-rate loans that make projects feasible and affordable to poor people.

Based on the promise of hundreds of these state and community efforts, the Task Force recommends the creation of a new federal "Housing Opportunity Program" (HOP). HOP would be the primary vehicle for delivering new federal funds to increase the supply of low-income housing.

HOP is designed to induce substantial new funds and resources from state and local governments and the private sector. One half of the HOP monies will go to the states for state housing programs and for distribution to localities. These will require matching funds or equivalent resources from state and local governments, thereby producing an additional $1.5 billion for low-income housing, based on the recommended first-year funding of $3 billion. The other half of HOP funds, to be distributed directly to local governments, will be allocated according to a needs formula to provide the continuity and certainty so essential for effective multi-year housing efforts.

The U.S. Department of Housing and Urban Development (HUD) will administer the Housing Opportunity Program, but HUD will distribute funds to state and local governments with a minimum of regulation and maximum of flexibility to meet distinctive local housing needs. Federal regulations would grant great leeway in the methods and amounts of assistance, while requiring that the funds serve low-income people and that at least 10 percent of the funds be set aside to encourage nonprofit community-based housing developers. If used effectively, HOP can add 150,000 to 200,000 affordable units annually through new construction and rehabilitation as well as through the preservation and acquisition of existing housing.

The essentials of the Housing Opportunity Program are outlined here. In some instances, individual elements of the program are detailed, but the Task Force recognizes there are other reasonable variations in working out its major themes.

<u>RECOMMENDATION:</u> HOP should induce substantial new state and local support for housing and should encourage the recycling of federal funds.

The Task Force recommends that state and local recipients of HOP funds provide substantial amounts of new money (or its equivalent) for housing to match the federal assistance they receive. Given our tremendous housing needs and pressing federal budget constraints, federal dollars must be used to draw in and support new partners who can play significant roles in housing delivery.

To accomplish this, HUD will allocate by formula one half of the funds available through HOP—$1.5 billion—to the states for state housing programs and for distribution to localities contingent on the generation of equivalent new state and local resources for housing. These new resources could come from tax revenues, private charitable contributions, state housing agency reserves, local tax abatements, land donations and other sources. They would have to represent new, "hard" dollars that actually increase the funds available for housing. Federal funds of any type could not count toward the state contribution.

Once a state meets the matching requirement, it will distribute the funds in accordance with state-developed criteria. While freed of many traditional restrictions in spending HOP funds, state and local governments will be required to show that they are targeting their programs to assist low-income residents and are meeting other performance standards, as discussed later in this section.

Because HOP is aimed at strengthening the capacity of providers of housing for the poor, the Task Force intends that at least 10 percent of each locality's allocation be set aside specifically for use by community-based nonprofit organizations. To encourage maximum participation by all sectors of the housing delivery system, including private and nonprofit developers, public housing authorities should be permitted to use up to 25 percent of HOP funds.

Many states and localities already have demonstrated the will and capacity to participate in the type of initiatives encouraged by HOP. A few jurisdictions, because of high levels of poverty and poor housing conditions, may be unable to respond immediately. In some circumstances, consideration should be given to phasing in the matching requirement over a period of three or four years.

Despite these relief valves, it is possible that a handful of states may choose not to participate in this incentive portion of the Housing Opportunity Program. In that case, HOP funds not allocated would go into a discretionary fund administered by HUD. HUD would distribute these funds by a competitive process to public and private nonprofit and for-profit developers. The incentive criteria suggested above—particularly the contribution of local funds—would be used in selecting recipients of these discretionary HOP funds.

Recycling of HOP funds at the local level will be another hallmark of this program. Other federal community revitalization and housing programs have had impressive success with local governments recapturing federal subsidies after they have served their purpose and then recycling them back into the community. Under the Urban Development Action Grant (UDAG) program, for example, it is estimated that repayments to local governments in 1987 of federal funds loaned by cities to developers exceeded the 1987 $225 million appropriation for UDAG.

HOP will encourage a similar recapture and recycling of funds by local governments, insofar as that is feasible in a program of which the overriding goal is to house low-income people. Housing programs offer particular promise for repayments, since they often involve loans at very low interest rates that are paid back over time. Repayments could create substantial local trust funds for housing that would supplement continued federal and local funding in the future.

<u>RECOMMENDATION:</u> The federal government should make a long-range commitment to increasing the supply of long-term, low-income housing through HOP.

The Task Force calls on the federal government to make a long-range commitment to the Housing Opportunity Program, amounting to at least $3 billion annually through the end of the century. While funding would be appropriated annually, the long-term commitment is essential if state and local governments, private developers and the nonprofit sector are to increase their capacity to solve our housing problems. Housing is built for the long term, and the federal government must view it as a long-term investment. The country cannot afford another cycle of on-again, off-again federal housing programs.

The Task Force recommends that

the half of the $3 billion HOP funds not allocated to the states for the program's incentive portion be delivered to local governments in a predictable manner to ensure continuity in their programs. Thus, this $1.5 billion will be distributed directly to communities on the basis of a needs formula that takes into account such factors as population, vacancy rates, poverty, growth in housing demand and incidence of housing distress. No matching or additional contribution would be required. The Task Force recommends that funds go directly to larger cities and towns, and that an appropriate share be directed via the states to small towns and rural areas. (Past programs have allocated 25 to 30 percent to non-metropolitan areas.)

If a city or state fails to participate in or qualify for this part of HOP, the funds will be allocated for use in that jurisdiction by local private developers, nonprofits and others for eligible program activities. This will ensure that those truly in need will not be penalized for living in a nonperforming or recalcitrant jurisdiction. HUD would review applications directly under this phase of the program.

<u>RECOMMENDATION:</u> HOP funds should be provided with maximum flexibility and minimum regulation.

A primary goal of HOP is to provide federal funds for local housing efforts with a minimum of regulations and maximum flexibility to meet distinctive local needs. HOP funds will be channeled through state and local governments for a wide variety of purposes including, among other things: moderate rehabilitation of rental housing; code enforcement programs combined with the funding required to make repairs; building the capacity of locally based community development organizations; acquisition of housing; neighborhood preservation efforts; new housing development near employment centers; low-income homeownership; homeless assistance; and meeting the special needs of elderly and handicapped persons. Assistance could be provided in the form of grants, loans, interest reduction subsidies, operating support, or any other mechanisms the state or local government found appropriate and effective.

The Housing Opportunity Program will be the primary vehicle for new federal funding of efforts to increase housing supply. HOP will replace some major existing (or recently terminated) categorical housing programs, including rental rehabilitation grants, housing development grants, Section 8 moderate rehabilitation, Section 235 homeownership assistance and Section 312 rehabilitation loans. At current outlay levels, these programs cost approximately $300 million annually.

However, certain programs that serve unique needs with established delivery systems will be retained. These include Section 202 housing for the elderly and handicapped, the Indian Housing Program, public housing, a variety of programs targeted to assist the homeless, and the rural rental housing and low-income homeownership programs of the Farmers Home Administration.

HOP would not replace the current subsidy commitments under the Section 221(d)(3), Section 236 and other previously active programs that would continue to be administered and funded separately. Nor will HOP be used to address the problem of expiring federal subsidies on some privately owned, low-income developments. Moreover, related federal community development programs such as UDAG and Community Development Block Grants, which sometimes are used to fund housing developments, will not be disturbed or reduced because of the important role they play in overall community revitalization.

<u>RECOMMENDATION:</u> HOP should place a shared burden of responsibility on state and local governments to create effective approaches to meeting national goals and addressing special needs.

The Task Force intends that state and local governments be afforded broad latitude in assessing local housing needs and developing appropriate responses. However, it is important that

HOP funds be used to meet national goals such as housing low-income people where the need is the greatest, combating discrimination, reducing housing costs, serving groups with special housing needs, and preserving and improving communities. Therefore, state and local programs using HOP funds must:

a. **Benefit Low-Income Households.**

The primary goal of HOP is to help house low-income people. Thus, HOP funds will be subject to rigorous targeting requirements. For the non-matching portion of funds allocated solely with regard to need, state and local governments will have to ensure that 80 percent of HOP funds are directed to assist households at or below 50 percent of median income. Furthermore, 100 percent of these non-matching funds will have to go to households with income at or below 80 percent of median.

The remaining portion of federal HOP funds and the matching state money also will be subject to targeting, but the restrictions will be less stringent, to facilitate the development of mixed-income projects and the provision of assistance to a variety of households in neighborhoods identified for redevelopment or preservation activities. Thus, 40 percent of these funds will be targeted for households at 50 percent of median area income or below, and 80 percent for households below 80 percent of median, with the remaining 20 percent for households up to 120 percent of median.

All HOP funds as well as state matching funds could be used in mixed-income developments, but only to provide benefits to the target-level units. In addition to targeting, HOP funds should be used to ensure the long-term use of subsidized properties by low-income households through structured arrangements offering incentives and other inducements.

b. **Expand Housing Opportunities.**

The HOP program, in combination with rental assistance, will give state and local governments powerful tools for expanding the housing opportunities available to minorities. State and local programs must specifically address minority housing needs and adopt measures intended to break down barriers of discrimination and expand housing opportunities.

A number of local and regional governmental bodies have shown impressive creativity in using housing resources to combat discrimination. The Boston Fair Housing Commission, for example, has used litigation to prevent discrimination against holders of federal or state rent subsidies, and has used its own funds and CDBG grants to support community-based service agencies that provide fair housing counseling, referral and testing. The Task Force intends that such activities be encouraged and expanded.

c. **Reduce Housing Costs.**

By taking steps to reduce the costs of producing or preserving housing, state and local governments can do much to increase the availability of affordable dwellings. While many factors such as high interest rates and costly construction techniques contribute to high housing costs, factors under the control of state and local governments—such as outdated building codes, inappropriate subdivision regulations, exclusionary zoning controls and excessive development impact fees—can needlessly drive up the cost of low-income housing. Some of these regulations serve worthy safety, environmental and budgetary goals, but others do not. As a prerequisite to using HOP funds, state and local governments will be required to identify unnecessary regulatory barriers to housing development and carry out measures intended to reduce them.

d. **Improve and Preserve Communities.**

The construction or rehabilitation of low-income housing cannot take place in isolation from the community or neighborhood where it is located. The Task Force recommends that state and locally designed housing initiatives be developed as part of comprehensive, coordinated community stabilization and revitalization strategies.

e. Meet Special Needs.

The Task Force is recommending the continuation of a number of existing programs targeted to assist groups with special housing needs. HOP funds, furthermore, will be available to meet special needs that might not be addressed by categorical programs. State and local HOP recipients will be required to assess and address populations with special needs, some of which are discussed here by way of illustration:

- Elderly. Both HOP and the current Section 202 program will be available to support the development of affordable housing for low-income elderly citizens. However, an increasing number of "frail elderly" who are poor and can no longer live independently cannot find appropriate housing. No current subsidy program can adequately address this need.

  State and local recipients of HOP funds should assess the need of the frail elderly population in their jurisdictions. HOP funds would then be available to assist the development of appropriate facilities.

- Handicapped. HOP will supplement the two major housing programs serving the handicapped—Section 202 and Section 8 existing housing. The physically handicapped often require specially designed units or adaptive housing features so they can live independently. And the mentally ill and developmentally disabled sometimes need special facilities, such as group homes and extensive care and support services. Currently, federal and other programs are serving only a small percentage of identified needs.

  The Task Force intends that HOP recipients identify the housing needs of various handicapped groups in their jurisdictions and propose the use of HOP funds to address these needs. It is important that housing be coordinated with social service and rehabilitation programs for these people. In addition, HOP recipients should be required to help reduce obstacles to establishing group housing for the developmentally disabled and the chronically mentally ill.

Handicapped people require design features in their housing that will enable them to live independently.

- **Homeless.** The homeless population consists of different groups, each calling for different responses. Significant numbers of the homeless are mentally ill. They generally require support from community health systems, along with supervised group or independent living arrangements. Other homeless persons are substance abusers. To leave the ranks of the homeless, they need extensive rehabilitation services and time in transitional housing facilities. Another group, the fastest growing, consists of uprooted families whose breadwinner has lost a job. They may need short-term counseling and job placement services and assistance in finding suitable housing.

  A high priority should be placed on making sure that every homeless person has the access to decent shelter.

Delivering Housing: *NONPROFIT DEVELOPERS*

A new generation of community-based nonprofit development organizations, propelled by persistence and inventiveness, is an important part of the new delivery system. Different from community organizations of the 1960s, which were often created in response to federal programs, this new generation—some 4,000 strong—is made up of community development corporations, nonprofit developers, religious institutions and other neighborhood-based groups.

In a growing number of cities and towns, nonprofit developers are the primary or only producers of low-income housing. But they offer more than just numbers. They know local housing needs and are committed to serving them. They are determined to serve low-income residents on a long-term basis. They are willing to take on projects that are considered too risky or too small by financial institutions and other developers. From coast to coast and in between, the success stories are mounting:

- **In Boston, Inquilinos Boricuas en Accion has built or rehabilitated over 800 units for low-income residents in a rapidly gentrifying neighborhood.**
- **In Washington, D.C., Jubilee Housing has renovated 350 low-income apartments and established a comprehensive support system of health care, job placement and transitional housing to help the very poor help themselves towards self-sufficiency.**
- **The Greater Miami Neighborhoods (GMN) is providing development services to six constituent neighborhood and city-wide low-income housing groups. Since 1985, GMN has raised over $1.5 million from local government and the business community for loans, grants and operating expenses, producing initial commitments for 266 dwelling units.**
- **Headquartered in Sacramento, California, the Rural Community Assistance Corporation (RCAC) has assisted 408 rural communities and almost 500,000 individuals in 10 Western states. Operating primarily with grants and contracts from government agencies, RCAC has helped local communities develop**

But an equal priority must be given to the prevention of homelessness. The programs recommended by the Task Force can be powerful tools in helping the current homeless and in preventing the "near homeless" from losing their place in society.

f. **Demonstrate Progress.**

With the freedom and flexibility that HOP will provide to state and local governments comes substantial responsibility. These governments must be accountable for carrying out the programs set forth in their strategies for using HOP funds, and for meeting the goals that they set in accordance with the timetables they project. Federal administration of the HOP program must contemplate periodic review of state and local progress toward their stated objectives. If HOP requirements for furthering national policy objectives are not met, if HOP funds are not expended in accordance with state and local programs, or if satisfactory progress is not made in accordance with the state and local timetables, HUD could impose appropriate remedies, including the reduction or suspension of funding.

Administrative sanctions should not be imposed, however, in a fashion that effectively deprives low-income people of housing. Thus, for example, if a state or locality fails to produce an appropriate program for the use of HOP funds and therefore does not qualify for its basic allocation, HUD should provide HOP funds directly to local developers and organizations to meet low-income housing needs. A similar process should be followed if nonperformance justifies termination or reduction of HOP funds to a particular state or local government.

RECOMMENDATION: The federal government must ensure the availability of adequate housing data.

If state and local governments are to respond effectively to housing needs, they need accurate data. For that information, government housing agencies on all levels, as well as the private sector, have relied heavily on the Census, the Annual Housing Survey and a series of other reports generated by the Bureau of the Census.

The flow of comprehensive information regarding housing has been drastically curtailed. The most recent Annual Housing Survey—the snapshot of the nation's housing condition—was conducted in 1983. In the intervening years, the report has been renamed "The American Housing Survey" and has been rescheduled to come out every other year. But the 1985 edition is scheduled for release in the summer of 1988, and there is no release date for the 1987 edition. As a result, housing policy analysts and this Task Force have been forced to use nonstandardized data from a variety of different sources.

In addition, changes have been proposed in the 1990 Census that will further obscure America's housing picture. Under current federal plans for conducting the 1990 Census, the number of housing questions on the 100 percent survey would be reduced to two from 12 in 1980. Several housing questions normally asked would be eliminated, and others are to be moved to the sample enumeration.

These changes will significantly affect the amount and the reliability of available data and threaten to blur our view of the housing problems of poor people. Among the items that will lose statistical reliability at the community level are how much people pay for rent and the value of homeowner property, both of which are valuable information for local governments. Also, because of the proposed changes, it will no longer be possible to determine how much people are paying for utilities in excess of their rent, a significant additional burden and concern in many parts of the country.

The recommendations of this Task Force are premised on the ability of state and local governments and the federal government to judge housing needs accurately and to act effectively to address those needs. At a time when the nation demands that housing programs be cost-effective and well-tuned, we must invest in getting the information necessary to do the job.

20,000 units of housing, including 5,000 constructed using self-help techniques.

- **In Baltimore, The Loading Dock, Inc., a nonprofit salvage operation, collects donated new and used building materials and sells them to low-income people and nonprofit developers at one third of their retail price. Donors receive tax write-offs for the goods.**
- **In Vermont and New Hampshire, the Northern Community Investment Corporation has sponsored over 400 units of affordable housing for low-income families and elderly renters in a depressed six-county rural area. A number of the group's 11 apartment projects not only created housing, but preserved local historic landmarks.**
- **The Cleveland Housing Network has rehabilitated over 300 units using ingenious techniques that have reduced rehabilitation costs to less than $20,000 per unit. Reduced-rate financing for this effort has been provided by a consortium of corporate investors.**
- **The members of the Federation of Appalachian Housing Enterprises, Inc., a coalition of nonprofit builders serving communities in central Appalachia, have completed 623 new houses, 1,393 rehabs, 4,031 repairs and 7,880 weatherization projects. The groups have served 13,127 families with an average income of $4,800.**
- **In Mississippi, the Delta Housing Development Corporation has supervised the construction of 125 self-help housing units and has constructed 157 others. It has rehabilitated another 50 and weatherized 2,000 units.**
- **Neighborhood Housing Services (NHS) of Chicago serves nine neighborhoods housing over 220,000 people. It has directly managed $44 million in rehabilitating 8,181 units and originated loans totalling $9.5 million to more than 1,800 families, the majority of whom have low or very low incomes.**
- **In the rural San Joaquin Valley of California, Self Help Enterprises, Inc., has assisted 3,130 families build their own homes; rehabilitated 2,700 units; weatherized over 10,000 homes; and provided technical assistance to over 90 small rural community projects to improve water and sewer systems.**

Delivering Housing: STATE AND LOCAL GOVERNMENTS

State and local financing agencies are major players in the new housing delivery system. Over the past 15 years, using a variety of subsidies, including tax-exempt financing, state and local agencies have financed hundreds of thousands of units of low-income housing. In addition, with tax-exempt bonds, they have made several billion dollars in low-cost mortgages available to first-time home buyers and have financed thousands of mixed-income rental apartment projects.

Today, these agencies administer programs using the low-income housing tax credit and other subsidies in nearly every state. As a result, state and local agencies have both capacity and experience. They are finding new money and building new partnerships that can contribute significantly to meeting the housing goals set by the Task Force.

New Money

Since 1985, 15 states have created special housing trust funds. Supported by a variety of sources—including surplus bond funds, real estate transfer taxes and interest from escrow accounts—they generated $275 million by 1988. Eleven cities have housing trust funds, including Chicago, Duluth and Los Angeles. Examples of trust funds and other state and local mechanisms for raising new funds for housing include:

- The state of New York has established a $50 million low-income housing trust fund, with plans to increase it by $25 million in 1988.
- Since 1983, Massachusetts has allocated nearly $1 billion for the development of state-funded low-income housing units. These were built on a small scale on scattered sites located in two thirds of the state's communities.
- Dade County, Florida, has raised over $40 million for housing assistance through a commercial real estate transfer tax.
- In Seattle, voters passed a "housing levy" that increased property taxes to raise $50 million over the next eight years for low-income housing.
- The District of Columbia has provided $15 million in the last two years for its innovative program of Land Acquisition for Housing Development Opportunity; it will provide $10 million this year for its Tenant Assistance Payment program and over $7 million for "soft second mortgages" to assist first-time low- and

II. New Sources of Capital and a New Institution For Low-Income Housing

<u>RECOMMENDATION:</u> The federal government should support benevolent loan funds and community development banks and should create a new national corporation to support local housing delivery systems.

The cost of financing is a major part of the cost of housing, whether rental or homeownership. As interest rates are lowered, housing becomes more affordable.

Efforts to lower interest rates on low-income housing have been largely a function of government, especially the federal government, through insurance guarantees and subsidies. More is needed.

The Task Force has searched for new ways of drawing private funds and the private banking system into financing housing for low-income families. It proposes a program that, with a modest standby of federal funds, could release substantial private funds to finance low-income housing at rates of 6 percent or less. It also proposes seed capital support for five demonstration community development banks. To develop these new sources of capital and to further HOP initiatives, the Task Force recommends creation of a national institution to advance local housing delivery systems.

<u>RECOMMENDATION:</u> The federal government should provide standby support to "Benevolent Lending."

There is a promising new source of funds for financing housing at low rates to families with very low incomes. It is called "Benevolent Lending." Under this program, individuals, corporations, churches, foundations and others are encouraged to lend funds at rates as low as 3 percent to finance low-income housing. The early success of Benevolent Lending programs indicates that a very large flow of funds can be developed if the system can be made safe and simple.

The underlying appeal of this approach is that the investors can perform a charitable act by lending their funds to help the poor, receive a modest return, and get their money back when they need it.

Jubilee Housing, a nonprofit neighborhood housing corporation in Washington, D.C., has raised over $2 million from 400 lenders at an average rate of 2.5 percent by soliciting funds at "whatever rate you choose between 0 percent and 6 percent." The program was refined by The Enterprise Foundation, in cooperation with a large savings and loan in Baltimore. Under this plan, sums as small as $500 can be deposited at 3 percent interest, with right of withdrawal at the end of the year. An associated plan managed by the Foundation pays the interest rate selected by the lender. Together, these plans have drawn commitments for over $4.5 million at an average rate of 3 percent in less than two years.

In another program, the Institute for Community Economics has received $4.5 million in deposits for its national revolving loan fund, which has financed developments by over 25 community groups, largely for low-income housing. The 29 members of the National Association of Community Loan Funds have received loans and deposits of just under $30 million.

The annual flow of funds in charitable contributions in America is very large and growing. In 1986, it exceeded $81.5 billion—up by 172 percent from $30 billion 10 years earlier. That included $4.5 billion by corporations, $5 billion by foundations and $72 billion by individuals. The total volume of giving has increased every year since record-reporting in 1955. It is a tremendous financial force.

Experience suggests that many individuals now making charitable contributions would provide additional funds at a low rate of return if they knew they were helping to house the poor and could receive the money back when needed. Also, there are many who contribute little or nothing to charity (40 million taxpayers in 1985 reported no contributions.). They are candidates to make such loans.

With charitable giving increasing at a rate that will bring it to a total of more

moderate-income home buyers. These two programs will assist approximately 2,500 households.

New Partnerships

State and local governments are teaming up with developers, financial institutions and nonprofit organizations to bring new resources and ideas to bear on housing problems:

- **Boston's zoning "linkage" program has drawn commitments from 32 major development projects to contribute over $45 million for affordable housing projects. Similar programs are being used in San Francisco, Washington, D.C., and elsewhere.**
- **In Pittsburgh, the state and local governments have joined forces with a private corporation, Fannie Mae and a consortium of private foundations to finance the rehabilitation of an old YMCA building slated for demolition, thereby producing 270 units of badly needed transitional, single-room-occupancy housing for the homeless. This partnership made use of both the federal low-income housing and historic rehabilitation tax credits.**
- **Montgomery County, Maryland, is one of many local governments providing zoning density bonuses to encourage affordable housing projects. Its bonus program causes one eighth of the units in new residential developments to be set aside for moderate-income families. Its tax on conversion of apartments to condominiums has raised $30 million for low-income housing.**
- **Connecticut has created a rental assistance trust fund supported by donations from businesses that receive a 50 percent credit on state corporate taxes.**
- **In Tennessee, the Chattanooga Neighborhood Enterprise (CNE), an alliance of city government and private lenders, has embraced a plan to make all low-income housing in the city—some 14,000 units—fit and affordable within 10 years. In just 90 days, CNE raised a three-year operating budget of $2.3 million, and the mayor recently proposed a sales tax to be dedicated to low-income housing costs.**
- **Through the Chicago Housing Partnership, Cook County provides tax-foreclosed buildings at a nominal price; major corporations invest equity capital based on tax incentives; the city provides deferred-payment second mortgages and rent subsidies. The Partnership has enabled nonprofit community development groups to produce 1,000 units of low-income housing.**

Delivering Housing: *NATIONAL AND REGIONAL NONPROFIT HOUSING ORGANIZATIONS*

National and regional nonprofit organizations have become increasingly prominent in virtually every aspect of low-income housing production. On the national level, they are raising funds and funneling them to community-based revitalization projects. They play a critical capacity-building role, help structure project financing, identify ways to cut construction costs, and encourage alliances between local nonprofit developers and state and local governments.

A number of these organizations have had a major impact on the new system of delivering low-income housing in particular, and community restoration in general, throughout the country. These are but a few examples:

- **The Local Initiatives Support Corporations (LISC) is a national, nonprofit lending and grant-making institution founded in 1980 with initial capitalization from the Ford Foundation. LISC has provided financial and technical resources to 500 community development corporations (CDCs) for housing and other physical and economic development projects in deteriorated communities. With total capital resources of about $180 million received from over 400 corporations and foundations, LISC has assisted CDCs in the construction or rehabilitation of 14,000 units of affordable housing.**
- **The Enterprise Foundation is a nonprofit foundation formed in 1981. Its stated purpose is "to see that all very-low-income people in the country have the opportunity for fit and affordable housing within a generation." It works with nonprofit groups to reduce the cost of rehabilitation and new construction and to lessen the cost of financing. Enterprise also assists local organizations in providing housing management and delivering social and employment services. All of this is done for the purpose of developing new systems to house low-income families at affordable costs. Enterprise's national network now**

than $100 billion in five years, and with a huge market among non-givers to perform a charitable act and get their money back, it seems reasonable to project growth of Benevolent Loan Funds (BLFs) to a potential in excess of $2 billion a year by 1992.

Benevolent Lending is an attractive concept for local promotion through business, professional and religious groups. To date, for example, churches in Baltimore have invested from their own funds more than $1 million in the Enterprise Loan Fund, and the Home Builders of Maryland have pledged $1 million from their members. This has been accomplished in less than two years, without aggressive marketing or promotion.

But Benevolent Lending needs help from the federal government to become a successful national effort. The deposits are for a short term, but loans for low-income housing must be available for 20 to 25 years. So the local financial institutions that will hold BLF accounts need protection against abrupt and extensive withdrawal from these accounts.

It is clearly in the interest of the federal government to resolve this problem. Every dollar that is available at low rates through Benevolent Loan Funds is adding a non-federal dollar for housing the poor. Here is how the Task Force envisions a national Benevolent Lending system would work:

Individuals would make minimum deposits of $500 or more for one year or more in designated BLFs in banks and savings and loans. Accounts would be insured up to $100,000 by our federal deposit insurance institutions, as are regular deposits. The depositor would receive a dividend as low as 3 percent, with the assurance that the funds would be used for financing rehabilitation or construction of low-income housing in the local community. Higher rates of interest might be offered on a sliding scale, up to a minimum of 6 percent, for longer-term deposits.

The depository institution would make loans available to low-income housing developers and low-income buyers at its cost of funds (3 percent) plus an agreed percentage (perhaps 2 percent to 2.5 percent) for actual administrative costs.

Risk to depositors is substantially eliminated by federal deposit insurance. Further, mortgages made from the funds should be insured by the FHA, thus reducing risk to the financial institutions that make the loans. Congress should instruct HUD to develop FHA underwriting standards and processes that are appropriate to the needs of the program.

To cover potential problems, BLF institutions would set aside appropriate reserves, reducing the risk that withdrawals might outstrip deposits. Should the low-cost deposits be withdrawn, so that even after reserves they do not cover the outstanding BLF loans, the U.S. Treasury would fund the institution's shortfall at the low-deposit rate until deposits matched the loans outstanding. Standby authority of $500 million would be required to make this an effective national program.

While federal standby support would be important to expanding the network of Benevolent Loan Funds, technical assistance in establishing and marketing the funds locally is also important. The Housing Opportunity Corporation of America, whose establishment is recommended later in this section, would help local institutions set up and market BLFs.

There would be no additional loss of revenues to the Treasury, since charitable deductions would not be allowed for the interest foregone by those participating in Benevolent Lending. However, there is an important complementary mechanism for encouraging deposits in BLFs that would involve a tax deduction. It warrants careful consideration.

Tax policy allows deduction of interest paid on home mortgages—a subsidy that is particularly important in enabling home purchase by middle- and upper-income people. The same policy could be used to substantially reduce the cost of home purchase by low-income families. An individual would make a deposit in a Benevolent Loan Fund at 0 percent interest for a term of at least 15 years, with the funds

includes 70 nonprofits in 27 cities and has produced 5,000 units of housing for poor people.

- **The Neighborhood Reinvestment Corporation is a Congressionally chartered public corporation, formed in 1978 and best known for its Neighborhood Housing Services (NHS) program in 137 cities. The NHS network also includes Apartment Improvement Programs and Mutual Housing Associations, along with the Neighborhood Housing Services of America (NHSA). NHSs are locally initiated and funded nonprofits, governed by local residents and government and business leaders. Their focus is on housing rehabilitation where provision of loans and public improvements can reverse patterns of disinvestment and decline. NHS projects have been completed in 60 neighborhoods and continue in 240 more. Results to date include the rehabilitation of 58,000 units of affordable housing, construction of another 586 units on formerly vacant lots, and enabling almost 3,000 tenants to become homeowners.**
- **Habitat for Humanity, based in Americus, Georgia, is working to eliminate substandard housing worldwide. The philosophy of this ecumenical Christian organization is summed up by its founder, Millard Fuller: "We believe all of God's children should have at least a decent place to live." Since 1976, volunteers have worked with people in need to build over 3,000 homes. The homes are sold at no profit and homeowners pay no interest on loans. Currently, Habitat is building through local affiliates in more than 240 North American cities.**
- **The Housing Assistance Council (HAC) is a national nonprofit organization that, since 1971, has worked to provide housing for low-income rural people through technical assistance, training, information, research and seed-money loans to rural development organizations. HAC works with a network of several thousand local, state, regional and national nonprofits, public agencies, Indian housing authorities and private developers of housing for the poor. HAC's four loan funds, with over $9 million in assets, have over the years made more than $30 million in loans to help develop over 15,000 housing units.**

to be used for mortgages at a very low interest rate (2 percent to 2.5 percent) for a low-income purchaser. The depositor would be entitled to the federal income tax interest deduction for which the low-income person would be eligible but could not use. The deduction would be set at the average interest rate for Treasury Bills. This would be a simple procedure administratively and would be equitable in light of existing tax policy.

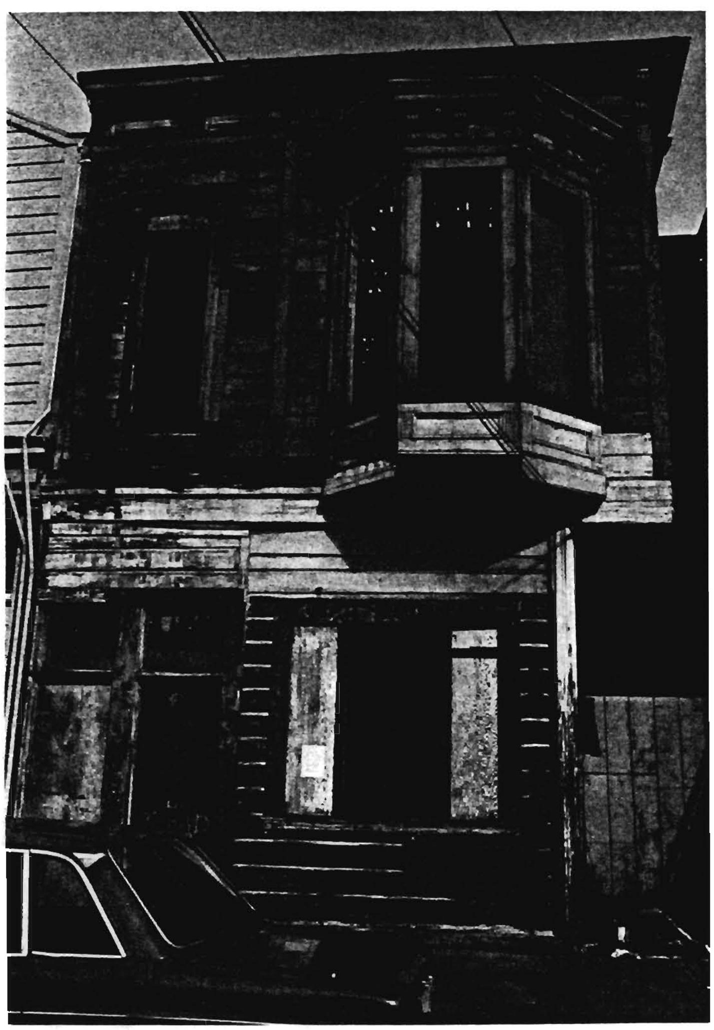
RECOMMENDATION: The federal government should promote community development banks.

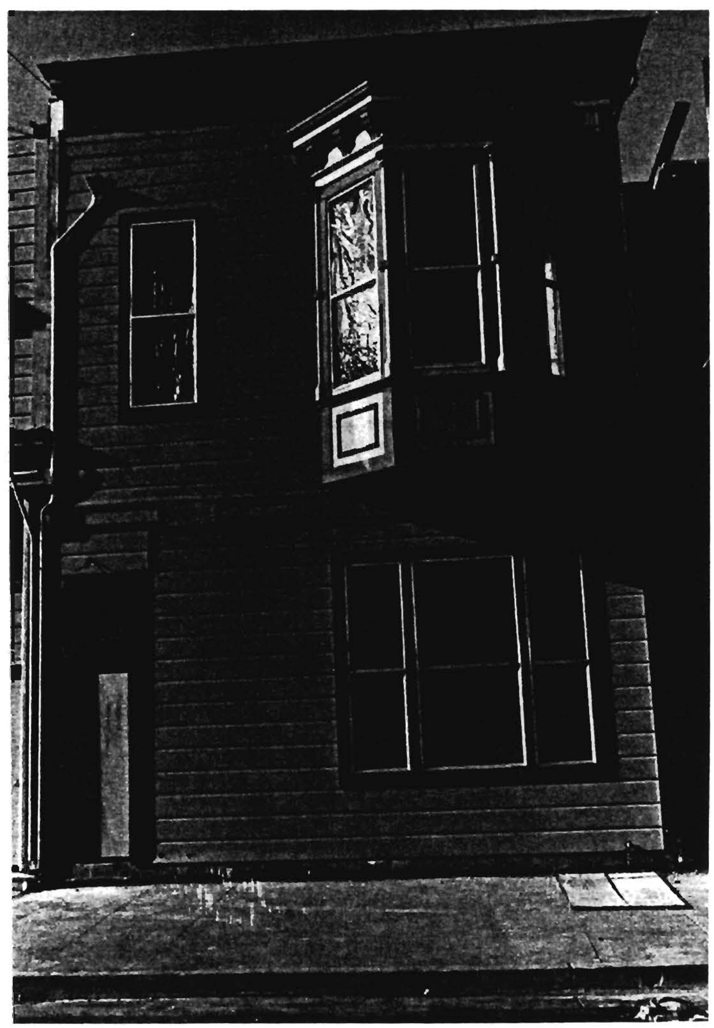
Banks and savings institutions are vitally important to community-based low-income housing efforts. However, with deregulation and other market forces changing the banking environment dramatically, many financial institutions appear more wary than ever of investing in the development or rehabilitation of low-income housing.

Community development banks—lending institutions dedicated to revitalizing their communities by investing in them—are a promising way to bring more private capital into low-income housing. These institutions have taken several forms. They include traditional banks whose activities are targeted to the credit needs of one neighborhood, and bank-sponsored community development corporations (CDCs) that not only finance low-income housing but also become directly involved in carrying out development.

The shining star of community development banks is the South Shore Bank of Chicago, which has concentrated on a single neighborhood of about 80,000 residents on the city's South Side. By using targeted financing, stimulating the creation of neighborhood renovators, undertaking its own development through subsidiaries, and linking counseling, education and employment programs

Before and after: through volunteer labor and both public and private financing, this house was made fit and affordable for low-income families in Oakland, California.





with development, the bank has sparked an incredible comeback of a neighborhood that most people had written off. The bank has made more than $92 million in mortgage and development loans and financed renovation of 4,800 apartment units. All of this was done without subsidies. In 1986 it made a net profit of $1.2 million.

An important aspect of the South Shore Bank story is the work of its nonprofit and for-profit housing subsidiaries. Using state and federal funds, private foundation grants and other money, these two subsidiaries have invested almost $55 million in rehabilitating over 1,100 units in the community's most deteriorated buildings. This has helped create a more stable and secure environment for market-rate investment, thus encouraging the development of almost five unsubsidized units for every subsidized unit.

To help ensure that similar efforts get underway in other communities, the Task Force recommends creation of a major national demonstration program based on the South Shore Bank experience. The new national institution, whose establishment is recommended in the following subsection, should invest adequate start-up capital, up to $5 million per institution, in each of five demonstration community development banks. After this initial investment, coupled with technical advice based on the South Shore model, the community development banks would be expected to be self-supporting and operate on a sound financial basis. The invested federal funds would be repaid and used for further demonstrations elsewhere.

<u>RECOMMENDATION:</u> The federal government should create a national corporation to support the new housing delivery system.

By leveraging federal housing aid through the Housing Opportunity Program, the new delivery system will become firmly rooted. However, more is needed if it is to flourish and spread.

The successful experience of state and local governments must be spotlighted so that others will learn. The expertise and ingenuity of successful for-profit and nonprofit developers must be shared with newer groups to help build capacity where it does not now exist. Innovative building techniques and financing mechanisms must be encouraged and replicated. And the nation must be kept apprised of the progress and capability of the new system, so that adjustments can be made to make it realize its full potential.

To support and advance the new delivery system, the Task Force recommends establishment of the "Housing Opportunity Corporation of America" (HOCA). HOCA should be a nonprofit organization, guided by a board of citizens with outstanding national reputations in the fields of development, finance and other areas related to the delivery of low-income housing. The new institution should be supported by funds raised by the private sector and an allocation from the federal government of up to $5 million a year for five years. In addition, HOCA should receive a one-time $25 million appropriation to establish five demonstration community development banks.

HOCA will be the entrepreneurial force for spreading the wave of new initiatives by state and local governments and private for-profit and nonprofit institutions; for stimulating the growth of Benevolent Loan Funds through the banking system; and for providing seed capital to enable the launching of at least five demonstration community development banks. It also will serve as an information center on local initiatives and will report to Congress and the President on the new housing delivery system—its growth, successes and obstacles experienced.

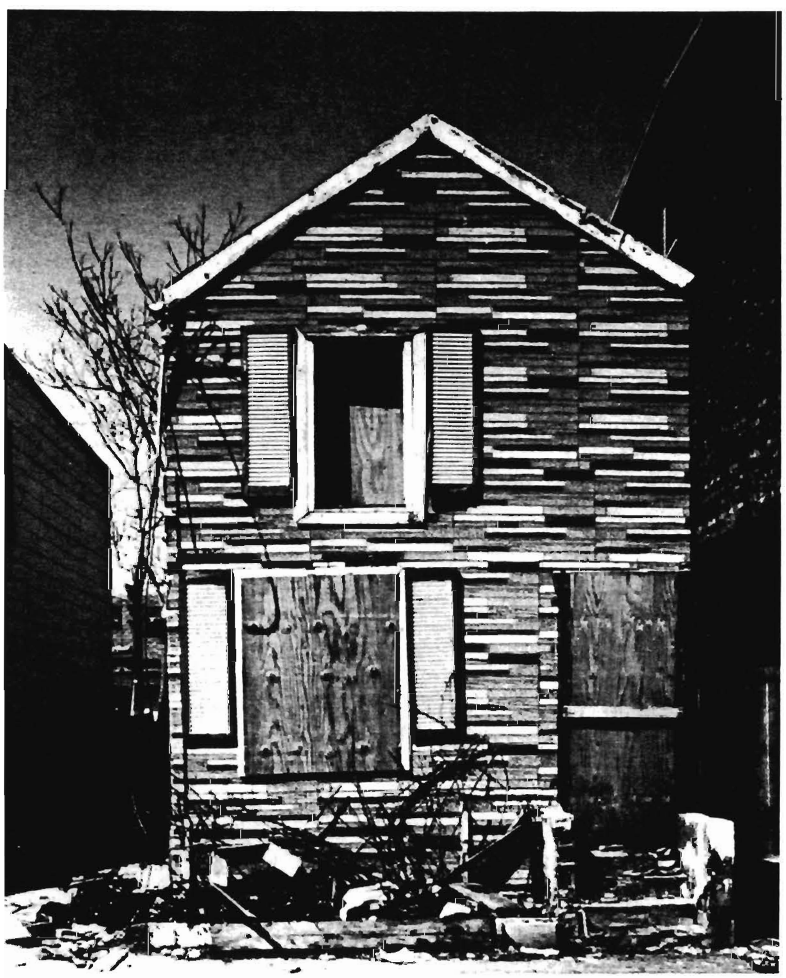
The functions of the Housing Opportunity Corporation of America are intended to be distinct from and complementary to those of the Neighborhood Reinvestment Corporation. The Neighborhood Reinvestment Corporation takes a comprehensive approach to the manifold resources and remedies needed to address neighborhood problems—housing, infrastructure, social services and economic development. Certainly HOP funds and programs and the support provided by HOCA can assist in such efforts. But while the Neighborhood Reinvestment Corporation's emphasis is on the neighborhood, HOCA's focus will be on new ways of delivering housing nationwide through promotion of local initiatives, Benevolent Loan Funds and community development banks, education and marketing.

Throughout this report, the Task Force stresses the need to make a variety of tools and resources available to state and local governments in order to meet housing needs. The Neighborhood Reinvestment Corporation and the Housing Opportunity Corporation of America should be viewed as two such resources, among the many that are needed. ■

III. The Nation's Existing Low-Income Housing Stock

RECOMMENDATION: Federal, state and local housing efforts must place greater emphasis on preserving and improving existing low-income housing.

Since 1975, 4.5 million dwelling units affordable to low-income families have been lost, many due to decay and demolition.



The Task Force is recommending an ambitious strategy to increase the supply of fit and affordable housing for low-income people. This means substantial new construction. But the strategy cannot succeed if a significant portion of the existing, aging stock of low-income housing is lost.

Experience demonstrates that it is far more economical to keep existing units in decent condition than to build new housing for the poor. Moderate rehabilitation of low-income units typically costs $7,500 to $20,000 per unit in most localities, compared to $40,000 or more for new construction. To lose large numbers of existing units is to put housing efforts on a treadmill that will exhaust both the nation's pocketbook and its will to provide fit and affordable housing for all.

Although housing preservation is extremely important as a matter of fiscal responsibility, it is much more than that. Preservation strategies also contribute to strengthening neighborhoods. They enable existing renters and homeowners to remain in their communities and maintain established family and cultural ties; they help retain the character of a neighborhood; and they do much to improve community image, confidence and reinvestment.

In examining the need to preserve existing stock, the Task Force focused on two major issues. The first, which has had a high profile, is maintaining the supply of existing federally assisted housing. Thousands of units across the country may be lost to use by low-income people in the next few years if current federal restrictions and subsidy contracts expire. This is a serious, pressing problem that demands immediate attention. The Task Force makes a number of detailed recommendations to address the matter.

There is, however, another quieter housing preservation issue that could be even more damaging in the long run if not addressed soon: how to maintain the millions of privately owned, unsubsidized dwellings that the vast majority of poor people call home.

These units are the backbone of the nation's low-income housing stock. They are typically in small buildings owned by landlords who do not own many units and who do not respond well to big governmental programs with red tape. It is often impossible to maintain and renovate these units while retaining them for low-income use because poor tenants cannot afford increased rents to cover the costs involved. The Task Force believes more attention must be focused on this issue and recommends ways to use the Housing Opportunity Program to preserve the privately owned, unsubsidized stock.

RECOMMENDATION: The federal government must take immediate steps to maintain the supply of federally assisted housing.

With the widening gap between the available supply of low-cost housing and the number of households in need, preservation of privately owned, federally assisted housing must assume a top priority in our national housing agenda. This valuable asset is threatened in two ways: by the early withdrawal of housing from federal programs through the advance payment of assisted mortgages, and by the expiration of rental subsidy contracts.

Beginning a quarter century ago, HUD mortgage subsidy programs made mortgage insurance available on riskier properties and below-market interest rate loans. To these subsidies were added substantial tax benefits to attract equity capital. These HUD programs resulted in the production of over 600,000 units of housing from 1963 through 1976, with another 117,000 units developed with financing by state agencies but without HUD mortgage insurance. Similar FmHA programs have produced 388,000 lower-income rental units that are now currently available in rural areas.

By contract and regulations, these programs limited rents and profits and restricted occupany in the subsidized projects. HUD regulations permitted an owner to remove the housing from low- and moderate-income use after 20 years, through early payment of the federally insured mortgage and cancellation of the regulatory agreement. In the rural counterpart to the HUD programs, no minimum time for low-income use was stipulated until 1979, when a 20-year period was directed for future developments.

The 20-year anniversary and the attendant opportunity for owners to exit the program are upon us. During the next five years, 301,461 HUD-assisted housing units will become eligible for mortgage prepayment. Mortgages on at least 55 such projects already have been terminated. A moratorium on prepayments of FmHA-assisted mortgages was imposed to forestall the loss of rural housing. Owners of 275,000 rural units have the legal right to withdraw from the FmHA program once the moratorium is lifted.

Mortgage prepayments are only part of the problem. Between 1988 and 1993, approximately 864,000 tenant- and project-based rental subsidy contracts will expire or be subject to termination, along with the rental subsidies attached to 131,000 units of the older HUD-assisted stock. More than half of these units are seriously threatened, since the initial 15-year commitments made under the HUD Section 8 program will be expiring. Unless Congress votes to appropriate new funds, tenants currently receiving this Section 8 assistance will lose it.

Two high-level commissions have undertaken detailed studies of the problem, including analyses of the various types of projects that are likely to prepay or are in jeopardy of default. The designing of precise remedies should take into account these studies. The Task Force believes, however, that certain general principles and approaches ought to govern policy toward the inventory of assisted projects.

- The federal government must be prepared to renew project-based and tenant-based subsidy contracts. Continuation of subsidies for assisted projects is necessary if defaults are to be avoided and low-income tenancies continued. For tenants currently receiving Section 8 assistance, the expiration of subsidies would mean either eviction or substantial increases in housing costs.
- The cost of keeping assisted projects in the inventory will be substantial;

the cost of failing to do so would be greater. The Office of Management and Budget estimates that interest reduction subsidies on HUD-assisted projects currently average $1,185 per year per unit. Current rental subsidies cost an additional $3,500 per unit annually. The respective costs for rural projects are less. To these costs must be added necessary rehabilitation or maintenance work. If these units must be replaced, however, the construction or rehabilitation of new units would cost between $40,000 and $100,000 per unit, and rent subsidies would range from $6,000 to $8,000 annually. Preservation is clearly the preferred course.

- Budget practices grossly overstate the cost of extending existing subsidy contracts. In its budget submitted for fiscal year 1989, HUD projects that in fiscal 1991 $8.5 billion of budget authority will be required to extend, for five years, subsidy commitments on nearly 300,000 Section 8 and housing voucher units. However, the actual monies expended by the government for these units, if they are retained in subsidy, would only increase by an inflation factor over current annual levels. Thus, retention of these Section 8 units for low-income tenants does not mean greater expenditures on an annual basis, but only that more funds must be appropriated to permit currently assisted units to continue to receive assistance.

- A balance must be struck between the interests of the owners of assisted projects entitled to mortgage prepayment and the tenants in those projects. Solutions that would abrogate owners' contractual right to withdraw from the assisted program raise legal issues and may chill the private sector's willingness to participate in future housing initiatives. Responses that fail to adequately protect tenants will mean massive relocation and hardship for poor families and the elderly. The federal government must be prepared, through direct assistance and a preservation-oriented tax policy, to provide both means and incentives for retaining the assisted stock. State and local governments, with their closer ties to the private sector and familiarity with local housing needs and markets, can design and implement solutions. The nonprofit sector can make available alternative ownership structures that will dedicate these projects to long-term low-income use.

"Sweat equity" helps low-income families help themselves into decent, affordable housing while building pride and job skills.

RECOMMENDATION: State and local governments should use HOP as an important tool in efforts to preserve privately owned, unsubsidized low-income housing.

Almost three out of every four poor families receive no assistance from federal government housing programs. They typically are renters who live in privately owned houses or small apartment buildings. In 1983, 80 percent of all renter families with incomes below $10,000 lived in buildings with fewer than 20 units; 60 percent lived in buildings with four units or less or in single-family homes.

This supply of privately owned, unsubsidized low-income housing has not been the focus of major federal housing programs in the past. The Task Force acknowledges the importance of this resource in achieving the goal of fit and affordable housing for all Americans by the year 2000.

There is a growing body of experience, particularly at the local level, that can guide new efforts to preserve existing housing stock. For example, the Neighborhood Reinvestment Corporation has developed a special program aimed at renovating smaller, declining apartment buildings. Combining training for landlords, financing and management assistance and small grants, the program is showing promising results in several communities.

Some local governments have undertaken innovative programs targeted to maintaining existing, privately owned low-income housing. In Pittsburgh, the city made rehabilitation loans to landlords who owned small buildings and rented to low-income citizens. These loans were modest, averaging only $7,500; they covered no more than half the total rehabilitation cost, with the owner or conventional financing sources providing the rest. The city's loans could be forgiven over the period the owner agreed to keep rents affordable to the poor, usually five to ten years. This program led to the renovation of over 1,400 units.

From these experiences and others, several important lessons emerge that can guide new efforts to preserve existing, privately owned stock.

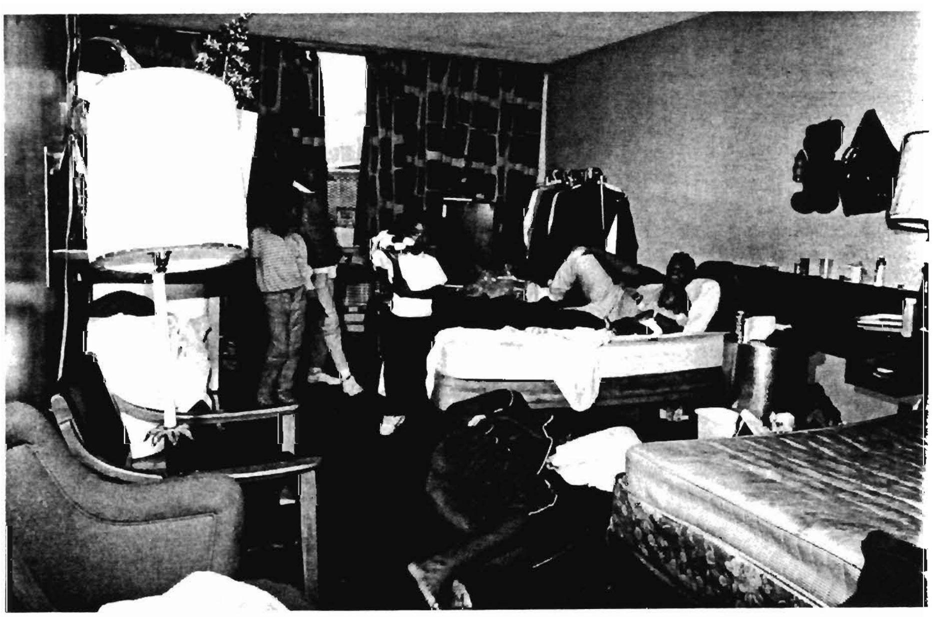
First, public investment clearly is needed to make the economics of renovation and maintenance work. Poor households cannot afford high enough rents or mortgage payments to cover these costs. Most cash flow must go to existing debt service, taxes, insurance, utilities and management costs.

Second, while public investment is critical, programs can and should be structured to bring in private funding, recycle government money and keep landlords closely involved in management and cost control. Government grants and loans should cover only a portion of renovation costs. With a landlord's or a financial institution's money on the line, the private sector is more likely to maintain an active interest in the project. And recycling of funds can be encouraged in several ways, such as by making loans at a very low interest rate, or through second mortgages that do not accrue interest and are repaid only at time of sale.

Finally, any program focused on privately owned stock must be decentralized and free of red tape, or small landlords and homeowners will not participate. Grant and loan terms and forms must be simple, program officials must be accessible, and inspections and compliance reviews fair and firm, but not intimidating.

The Task Force believes that the Housing Opportunity Program can be a very effective vehicle to address the critical issue of preserving privately owned, unsubsidized low-income housing stock. It will give local governments flexibility to design programs that respond to distinctive local needs and take into account the precepts discussed above—government incentives, private commitment and streamlined administration. The federal government, in allocating HOP funds, should ensure that the issue of privately owned, low-income housing is evaluated at the local level and that programs are put in place to address it. Moreover, the changes in federal tax policy discussed in Recommendation V can be instrumental in preserving the existing low-income housing stock. ■

Fit and affordable permanent housing can provide an alternative to putting families like this one in a hotel, at a cost to the government of $2,000 a month.



Two faces of public housing: while public housing is the source of some of the nation's most publicized low-income housing failures, the large majority of the 3,000 local housing authorities provide decent housing in a good environment for more than 1.4 million families.

IV. Public Housing

RECOMMENDATION: The federal government should support the restoration and revitalization of public housing.

Nowhere is the dilemma of federally assisted low-income housing more clearly demonstrated than in the public housing program. More than 3,000 local authorities house more than 1.4 million families. This is the nation's greatest low-income housing resource. It is permanently dedicated to public use; it serves the elderly, large families and the poorest of the poor; for the most part, it provides decent, cost-effective housing.

Public housing is also the source of some of the nation's most visible low-income housing failures. Some projects in some cities are beset by crime, fear and violence. Others are badly managed and poorly maintained. Still others reflect the discriminatory attitudes of the localities that built them and constitute some of the nation's most intractably segregated housing. Unfortunately, it is these projects, not the successes, that characterize the program in the minds of much of the public.

The Task Force recognizes that HUD, Congress and many housing authorities have acted to remedy the failures of the past and to avoid repeating them. High-rise family projects are no longer being built. Congress has begun, albeit with an unsteady supply of funding, the comprehensive modernization of public housing projects. Modernization programs have led to the reconstruction and, in a few instances, the demolition of overly dense, troubled projects. Housing authorities are developing smaller, scattered-site projects and are acquiring individual units for large families. In some areas, local governments, community groups and the courts are making progress in reducing patterns of discrimination.

While the progress has been substantial, it is clearly not sufficient. The Task Force recommends a series of measures intended to combat deterioration, discrimination and intolerable conditions in public housing projects, to preserve the public housing inventory, to support and improve housing authority management, and to increase state and local accountability. The federal government must get its own housing in order.

RECOMMENDATION: HUD must identify and remedy the most seriously troubled projects.

The very worst housing projects must be targeted for immediate action. With the extensive information it has developed about public housing projects and authorities, HUD should identify the most seriously troubled projects. Working with the state or local government and the local housing authority, HUD should promptly produce a plan to address the needs of each of those projects. Every possible option should be considered—from rehabilitation to reducing densities to changing tenancy to demolition.

Congress, then, must provide the necessary funds, and HUD and housing authorities must act. Federal funds will be needed (a) for modernization, (b) for rental assistance to meet the needs of displaced tenants and enable the residents of segregated projects to find housing elsewhere and (c) to replace lost units. Particular attention should be given to large, high-rise projects that currently house families with children. Immediate rental assistance should be provided to enable these families to find alternate units; if alternatives are not reasonably available, housing authorities should be required to acquire or construct housing suitable for such families.

In order to ensure success, local government must participate in identifying and carrying out solutions. The locality should be prepared to provide law enforcement resources, housing and community development assistance, relocation aid and social services. It should support effective housing authorities and replace unsuccessful ones. To the extent that there is no local government with the authority or capacity to act, the state government should be called upon to do so.

In those few places where neither government will act, HUD must consider federal control or judicial receivership. While receivership amounts to an admission of administrative failure, it may be, in some instances, the only way to bring all parties and all resources to the table.

The Task Force recognizes that the foregoing measures are extraordinary and may divert resources and attention from other pressing needs of public housing. The Task Force finds, however, that the persistence of intolerable conditions in even a very few projects blights not only the lives of the people who live in them and the neighborhoods in which they fester, but the entire effort to house low-income people in the United States.

RECOMMENDATION: The federal government must commit to completing modernization of the public housing inventory.

Public housing projects must be restored and upgraded if they are to continue to furnish satisfactory low-income housing into the next century. The overwhelming majority of the inventory can be preserved through reasonable expenditures for modernization and maintenance.

At the time of the Task Force's deliberations, HUD had received but had not yet published an analysis of the cost of modernizing the public housing inventory. These costs, estimated at upwards of $10 billion, can be staged over a period of years. While a large sum, such modernization expenditures constitute a cost-effective approach to the long-term provision of low-income housing, because they will preserve this inventory and keep it permanently for low-income use.

The Task Force is under no illusions about the complexity and expense of restoring the public housing inventory. But it is equally certain that the effort is both necessary and justified. Congress and HUD must commit themselves to the full long-term modernization of the public housing inventory and develop a schedule to achieve that end. Congress should appropriate the necessary funds, on a timetable consistent with federal budget priorities.

RECOMMENDATION: The federal government, in partnership with state and local governments, must take steps to strengthen housing authority management.

Throughout this report, the Task Force has recommended that increased reliance be placed on state and local governments for the delivery and management of low-income housing. The public housing program represents a 50-year experiment in federal/local partnership to deliver such housing, and it offers some valuable lessons. The successes in the public housing program show that this relationship can work. Its problems demonstrate the dangers that must be avoided.

Some local housing authorities, for example, have failed to manage projects efficiently and responsively. State and local governments too often have lacked the desire or the legal authority to correct housing authority failures. HUD and Congress have compounded these problems by failing to provide a predictable and reasonable level of operating support. Federal laws often have imposed rigid, costly requirements upon authorities, without providing the funding needed to meet them. HUD has lacked both the capacity and the will to deal with seriously nonperforming authorities.

The Task Force recommends that the current Performance Funding System for providing operating subsidies be revised to reflect more accurately the needs of each authority. The revisions must provide financial incentives for efficient management and assure that the basic needs of all well-managed projects—including security and safety—can be met out of available funds.

In many cities, poor families who cannot pay the rent are put out on the street—while laws provide for their pets to be taken to shelters until their owners find a home.

As federal efforts increase, so must state and local responsibility. The proposed Housing Opportunity Program calls upon these governments to take a comprehensive view of housing needs and resources. Public housing must be taken into account in the HOP process and must be provided the necessary supervision, services and support.

HUD must increase its capacity and willingness to deal with authorities that cannot or will not manage their housing properly, and with state or local governments that do not correct them. HUD must be able to correct and, if necessary, replace nonperforming authorities. This is a matter of responsibility to both tenants and taxpayers.

RECOMMENDATION: HUD and local authorities should continue efforts to involve tenants in project management.

The Task Force commends the efforts that HUD and local housing authorities have carried out to promote greater tenant involvement in project management. As residents are given increased roles in identifying project needs, developing tenant selection policies and setting priorities for improvements, their stake in the success of projects should grow and the soundness of those decisions should improve.

RECOMMENDATION: HUD and local housing authorities should explore carefully special situations for homeownership and sales of projects to tenants.

The unique virtue of public housing is that it provides a permanent supply of affordable low-income housing. The sale of projects eliminates a resource we cannot afford to lose. The Task Force recommends that sale of public housing projects or units be considered in only two circumstances.

The first situation would be where excess capacity or the availability of units in the local market makes low-income homeownership programs using public housing feasible. Housing authorities have great potential as administrators of such programs. They can identify likely homeowner families among their tenants and provide the necessary support and counseling to make programs successful. If there is a sufficient supply of long-term housing stock available to low-income households, housing authorities may look to their own inventories as a resource for cooperatives, condominiums or individual units to be sold to tenants. Where local market conditions make it possible to acquire single-family housing at reasonable cost, authorities can purchase these homes for resale to low-income buyers.

The second circumstance in which tenant or other private ownership may be appropriate is when the local housing authority cannot or will not operate a satisfactory program. In such a situation, when HUD is called upon to perform management functions for the local authority or where a court is operating an authority in receivership, it may consider the possibility of selling individual projects to tenant groups or private owners, provided the terms of sale assure that the stock will remain permanently available to low-income households.

RECOMMENDATION: The federal government should allow public housing authorities to produce housing, within budgetary constraints.

The Task Force recommends that competent housing authorities continue to be allowed to develop or acquire new public housing projects where needed, and that Congress provide a level of funding consistent with its budgetary concerns.

Despite its problems, the public housing program has proven its long-term efficiency as a producer of housing that is permanently dedicated to low-income use. The average public housing unit today requires annual operating subsidies of $1,200. Even when modernization and original capital costs are taken into account, these costs compare favorably with the level of expenditure that will be needed to preserve the other components of the assisted housing inventory. ■

V. Tax Policy and Low-Income Housing

RECOMMENDATION: While preserving the essential reforms of the Tax Reform Act of 1986, the federal government should use tax policy to support low-income housing.

The Task Force's recommendations to increase the supply of lower-income housing require favorable tax policy if they are to be effective. Although it is often not recognized as such, federal tax policy is a critical element in national housing policy. It affects the choice of whether to rent or to buy. It determines the relative attractiveness of housing as an investment compared to other types of real estate development—whether we build apartments, condominiums or shopping centers. It has a substantial impact on the proportion of real, after-tax income that people spend for housing. Sound tax policy complements other government policies affecting housing; unwise tax provisions frustrate housing policy.

Reflecting the great priority Americans give homeownership, the tax code allows the deduction of mortgage interest and property taxes, tax-free rollover of appreciated property and tax exemption on gains for homeowners over 55. This favorable treatment has played a major role in enabling the United States to become a nation of homeowners, and it contributes significantly to the accrued savings which Americans have in their homes.

Tax policy towards rental housing has been substantially less consistent and, more recently, far less supportive. The incentives provided by the 1981 Tax Act led to the highest levels of rental production in a decade, increasing apartment availability throughout the nation. With tax incentives virtually eliminated by the 1986 Tax Reform Act, rental production has dropped sharply. In 1987, little more than half the number of rental units went into construction than were started in each of the preceding two years. Permit statistics indicate the downward trend will continue.

Tax policies that disfavor rental housing adversely affect the supply of housing available to low- and moderate-income households. Renter median incomes are half those of owners; more than 60 percent of the nation's poverty households are renters. Current tax policies discourage the production of new units at rents that are affordable to moderate-income households without additional subsidy, or to the low-income households who receive government assistance. They force rents up and encourage condominium conversions.

With the exception of the public housing program (which itself depended upon tax-exempt financing), federal housing programs always have required substantial levels of tax incentives to attract private investors and provide a satisfactory return to owners. Tax-exempt financing and the low-income tax credit have been critical elements in the recent growth of state and local housing efforts that underlie the Task Force's major recommendations. While the Task Force expects that the HOP delivery system will be highly efficient in the use of federal funds, it emphasizes that HOP cannot achieve its objectives without some degree of favorable tax treatment.

Moreover, tax policies that encourage the production and preservation of rental housing offer substantial direct and indirect benefits to low-income renters, particularly when combined with effective targeting requirements. In addition to affordability, appropriate tax incentives can promote economic diversity in new and existing rental housing.

The challenge for Congress is to chart tax policy that respects reform, resists abuse and prevents waste, while providing reasonable incentives for production and preservation. The Task Force's recommendations are intended to strike such a balance. In addition, its recommendations concerning the low-income housing tax credit are intended to allow that incentive to realize its full potential.

The Task Force finds that the fundamental changes brought about by the 1986 Tax Reform Act can and should be preserved. Tax benefits should be restricted to rental projects serving lower-income households. In addition, Congress should prevent tax incentives from allowing taxpayers to escape liability entirely by providing that credits or losses may not reduce tax liability by more than 50 percent. With this basic protection, Congress can preserve tax reform while offering important incentives to the development and preservation of low- and moderate-income rental housing.

RECOMMENDATION: The federal government should expand the availability of tax-exempt financing for low-income rental housing.

In 1985, tax-exempt bonds financed an estimated 300,000 rental units, at least 60,000 of which were required to be set aside for families at 80 percent of area median income or below. State laws and market conditions actually produced far more substantial targeting than federal law required. In 1987, under the new tax code requirements, no more than a handful of projects received tax-exempt financing.

While steps must be taken to permit rental housing to take advantage of tax-exempt financing, the targeting standard established by Congress in the 1986 Act for tax-exempt bonds and the low-income housing tax credit should be retained. That is, at least 20 percent of the units in a project must be set aside for households at 50 percent of area median income or below, or 40 percent set aside for households at 60 percent of area median income or below. Used in this fashion, tax-exempt financing can enhance project feasibility and make possible the production of units that would not otherwise be built. It also encourages the development of economically integrated housing.

Bonds financing such housing should be redefined as public purpose bonds under the Internal Revenue Code. This would exempt interest on the bonds from the Alternative Minimum Tax, thereby lowering interest rates. In addition, it would remove the bonds from statewide caps on bond volume.

State or local authorities will be required to develop strategies for the use of tax-exempt bonds for rental housing as part of the Housing Opportunity Program process. Tax-exempt financing would be an integral element in the delivery of all housing assistance, and HOP funds, as well as rent support, would be used to assist rental projects, particularly mixed-income projects, in meeting the stringent targeting standards.

The Task Force further recommends an easing of the technical restrictions imposed on bonds by the 1986 Act. Issuers should be permitted to invest bond proceeds without having to rebate arbitrage profits to the Treasury Department, provided that the proceeds are actually applied to produce rental housing, excess earnings are applied to housing purposes and any temporary period for investments does not exceed 24 months.

For several years, Congress has authorized housing agencies to issue Mortgage Credit Certificates in lieu of mortgage revenue bonds for home buyers. Homeowners with such certificates receive a tax credit based upon interest payments, which has the effect of lowering their interest costs.

The Task Force recommends that a similar credit certificate program be authorized as an alternative to tax-exempt bonds for low- and moderate-income rental housing. This would permit a state or local housing finance agency to issue certificates to developers for use in connection with the conventional financing of low- and moderate-income rental housing. Conventional lenders would receive a tax credit equal to a portion of the interest rate on the loan (e.g., 2 percent), and project owners would pay the reduced rate. The tax credit would travel with the loan, so that originating lenders would have the choice of retaining the loans or selling them into the secondary markets. The credits would be refundable, to enable conventional lenders with net operating losses, primarily thrifts, to take advantage of them. Because the tax credit would have to produce a direct and equal reduction in interest costs to borrowers, the credit certificate alternative would respond to concerns over the efficiency of tax-exempt financing.

RECOMMENDATION: The federal government should provide favorable tax treatment for low-income housing.

By ending accelerated depreciation and lengthening depreciation lives, the 1986 Tax Act puts rental housing at a competitive disadvantage among real estate investments in attracting capital. The long-term effect will be reduced investment and higher rents. The Task Force recommends that limited incentives be restored to redress this imbalance, at least for housing in long-term, low-income use.

The Task Force recommends that qualifying low-income rental housing projects be given a depreciation life of 20 years, with straight-line treatment. Continuation of the passive loss limitation on non-cash or "paper" losses would prevent the use of these faster write-offs to shelter other income.

Further, the current prohibition on deductions for real cash losses on rental housing should be lifted for qualifying low-income projects. This limited exemption from the passive loss rule would not encourage infeasible projects but would recognize the significant chance of real cash losses in the development of low-income housing.

Rental housing qualifying for these benefits would be limited to projects that meet the current low-income targeting requirements for tax credit or tax-exempt financing. The Task Force intends that this housing continue to be available to low-income households throughout its useful life.

RECOMMENDATION: The federal government should improve and extend the low-income housing tax credit.

The low-income housing tax credit provisions of the 1986 Tax Act offer substantial potential for expanding the supply of available and affordable housing. The first year of operation of this program, however, has revealed a number of problems that limit its usefulness and decrease its efficiency. By remedy-ing these problems, while preserving its targeting to low-income households, Congress can give the taxpayer more value for the federal funds foregone and provide greater aid to lower-income families.

The Task Force recommends the following changes in the low-income tax credit program:

a. **Eliminate the 1989 Sunset Date, Extending the Program Indefinitely.** Providing adequate housing supply for the poor will be a long-term job, requiring production mechanisms to be available for the next decade. The low-income housing tax credit can provide the incentive to develop, renovate, preserve or set aside housing for low-income, assuming that HOP funds and rental assistance will be available to assure project feasibility.

This incentive is essential if we are to achieve our production goals within the budgetary limits contemplated by the Task Force. A tax credit that sunsets in 1989 just cannot do the job. Moreover, if the state agencies that administer the tax credit program are to operate it effectively, they must invest considerable time and resources in building their capacity. Similarly, private developers and nonprofit groups must learn how the program works and how to use it effectively. None of these participants can be expected to make a substantial investment in building capacity for a program that will terminate in less than two years.

b. **Remove Penalties on the Use of Tax Credit With Tax-Exempt Financing and Other Federal Assistance Programs.** Federal housing programs consistently have depended on a combination of direct subsidies and tax incentives. The tax credit statute limits the use of the tax credit with direct housing assistance. Both analysis and experience demonstrate that the low-income tax credit alone is not sufficient to induce the production of housing in the volume contemplated by the credit authorization. Allocating agencies should have the authority to provide tax credit to a project in the maximum permissible amount, regardless of what other form of assistance is used.

c. **Provide Full Exemption from the Passive Loss Rule and the Alternative Minimum Tax for Low-Income Tax Credit Projects.** The passive loss rule of the 1986 Tax Act limits the ability of investors to take advantage of low-income housing tax credits, substantially undermining their value. This rule denies low-income housing its traditional investment market, the so-called "accredited investors" under the securities laws. Instead, owners of tax credit projects are forced to find investors through costly public syndications or in a corporate market that is unfamiliar with and often highly suspicious of low-income housing. As a result, much of the benefit of the low-income tax credit is lost in transactional costs and in providing levels of return high enough to attract investors.

An additional effect of the passive loss rule is that it discourages mixed-income projects. Because they cannot take advantage of depreciation and tax losses, investors seek projects that generate the maximum amount of tax credit—projects that are 100 percent low-income housing.

The Task Force recommends exempting tax credit projects from the passive loss rule. This will enable tax credits to generate substantially greater benefits for housing and will promote the development of economically integrated projects.

d. **Permit Low-Income Housing Tax Credits to Be Sold to Investors.** Under current law, a nonprofit entity seeking to use low-income housing tax credits for a project must sell as much as 99 percent of the project to private investors, who then benefit from the credits. Such a sale involves substantial transactional costs and makes it more difficult to provide for the retention of the project for long-term use by low-income tenants.

The Task Force recommends that nonprofits and public agency owners of tax credit projects be permitted to sell the tax credits generated by such projects to investors, rather than selling the projects themselves. This will preserve the long-term use of the projects, while allowing the credits to generate direct monies for low-income housing.

e. Permit the Carryover of Tax Credit Authority and Its Reallocation Among States. Current law requires projects to be placed in service in the year in which tax credit is allocated. The development of multifamily housing is highly vulnerable to construction delays; low-income housing, in particular, is difficult to develop and finance. The rule against carryover creates unacceptable risks for investors and lenders, since a construction delay can result in the loss of all tax credit.

The Task Force recommends that when tax credit authority has been allocated to a specific project, it may be carried over so long as the project commences construction within a reasonable period of time. Credits not allocated to projects in the year of initial allotment, and credit authority allocated to projects not beginning construction within a reasonable time, should be reallocated to other states as an addition to those states' per capita limits.

f. Allow Greater Flexibility in Allocating Tax Credits. Owners should be allowed to allocate tax credits to investors in accordance with their capital contributions to a project.

g. Allow Greater Flexibility for Investors to Donate Interests. The Internal Revenue Code should permit investors in tax-credit projects to donate their interests to nonprofit organizations or governmental agencies, without receiving tax benefits but without incurring any tax liability. Advance commitments to donate such interests should be permitted.

RECOMMENDATION: The federal government should provide incentives for the donation of assisted housing to nonprofit organizations, low-income tenant cooperatives and public agencies.

The Task Force recommends that particular consideration be given to providing incentives for the donation of assisted projects to nonprofit organizations, low-income tenant cooperatives and public agencies that will maintain those properties for long-term low-income use. Specifically, owners should be permitted to donate assisted projects to nonprofit groups and public agencies without incurring tax liability. This corrects a situation that may arise under current law, under which substantial tax liability may arise as the result of the donation of a low-income project. ■

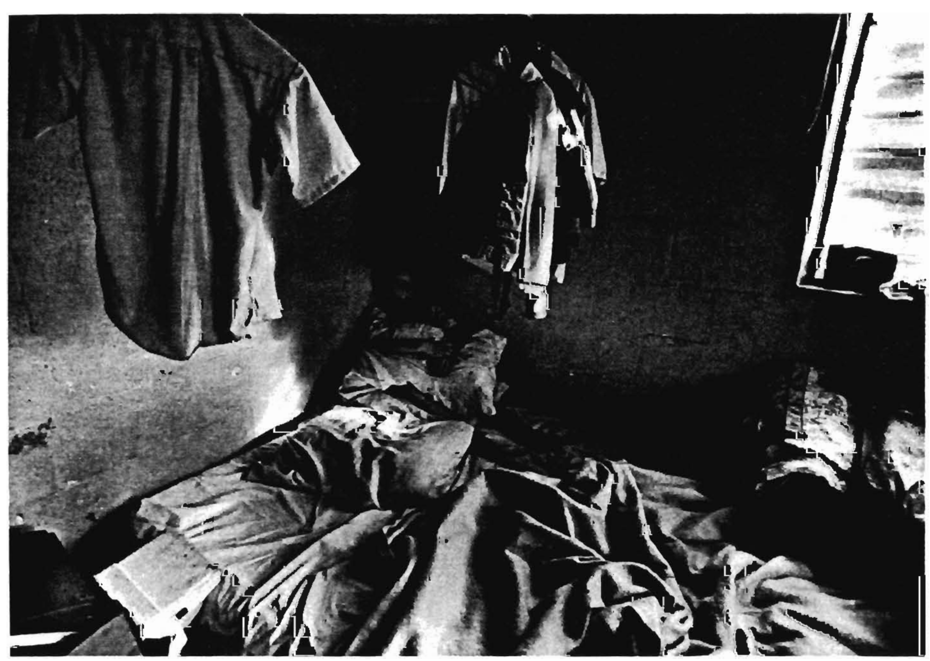
VI. The Gap Between Housing Costs and Income

RECOMMENDATION: The federal government should commit to an adequate rental assistance program to complement production and preservation efforts.

The most significant housing problem faced by low-income households is cost. As rents have grown and the supply of affordable units has decreased, declining real incomes have placed poor people in a housing cost squeeze.

Housing supply programs alone cannot meet the income needs of the poor. The ultimate solution to the income problems of low-income Americans lies in areas beyond housing. What is needed is jobs, education and health care coverage, as well as a rationalized, well-integrated social welfare system that makes specific provision for wide variations in housing costs and needs. However, the resolution of the housing

Living in an abandoned cinder block building, this youngster and his family are hidden from view of the surrounding high-rent areas of Key Largo, Florida.



problems facing low-income people cannot await a grand and permanent solution to the underlying problem of poverty.

The Housing Opportunity Program recommended by the Task Force, together with additional private financing and significant changes in tax policy, is intended to increase the supply of housing that is fit and affordable to poor people. But while increased production, renovation and preservation are essential, they are not sufficient. The reason is simple: even if the capital cost of producing housing could be reduced to zero for the more than 10 million renter households with annual incomes below $10,000 (something that is not contemplated nor reasonably attainable), a substantial proportion of those people still could not afford the irreducible minimum rent necessary to cover the cost of utilities, management, reasonable reserves for replacement and other required expenses. Direct rent assistance is a clear necessity.

The Task Force recommends that Congress commit to providing sufficient rent assistance so that by the end of the century, in combination with an increased supply of affordable housing, no household that seeks fit, livable and affordable housing will lack the opportunity to obtain it. The Task Force recommends the provision of 100,000 units of rental assistance over and above the Administration's request for fiscal year 1989—or an incremental increase of 200,000 households receiving rental assistance.

This assistance would make up the difference between a required tenant contribution and a reasonable rent level for decent housing in the community. To be eligible, tenants would have to be living in or move to units meeting housing quality standards. Priority would be given to households with incomes at or below the poverty level.

RECOMMENDATION: A more flexible definition of reasonable rent burden should be adopted.

Since 1982, tenants in assisted housing have been expected to pay 30 percent of their adjusted gross income for rent. This is a significant increase from the previous 25 percent standard. Yet it reflects the private market realities for most renters.

However, applying a single rent-to-income standard across the board to poverty-level households can produce serious inequities. A single person living alone, with an income toward the upper end of the eligible range, clearly can afford to pay a higher proportion of income for rent than a large family with children and an income at the lower end of the scale. Current law recognizes this by providing adjustments for families with minor children, but more should be done.

Accordingly, the Task Force recommends that Congress consider requiring a sliding scale of tenant payments based upon family size and income. Larger families with lower incomes would pay a smaller proportion of income; small, relatively better-off households would pay a larger proportion.

RECOMMENDATION: Rental assistance should be tied to federal housing quality standards.

Research and demonstration programs show that rental assistance or other housing allowances do not, by themselves, add to or improve the housing stock. However, the Task Force believes that a properly designed and administered rental assistance program can contribute to efforts to increase the supply of affordable housing. Such a program can assure owners of low-rent units that their real economic operating costs will be met by poor tenants. This can forestall disinvestment and help stabilize the supply. Moreover, supply-side strategies that aim to reduce the cost of housing to an affordable amount can be designed with a payment "floor"—the applicable rent level—that would ensure poor people's ability to pay at least irreducible direct costs.

Rental assistance must be predicated on the provision of decent housing. Failure to insist on standards can lead to subsidization of poor quality units. The subsidies then become nothing more than an income transfer program, with no positive effect on the housing supply.

State and local governments should be permitted, in conjunction with their HOP planning process, to couple rental assistance with direct efforts to increase and improve the existing supply of affordable housing. Absent adequate supply efforts, the increase in demand that assistance fosters can lead to cost inflation in tight markets, without offering any overall hope for improvement. ■

VII. Homeownership

RECOMMENDATION: The federal government should adopt a series of low-cost measures to expand opportunities for homeownership.

Homeownership is a fundamental American ideal. It provides financial and emotional security to families and promotes neighborhood stability. Owning one's home remains a primary goal for Americans of all backgrounds and ages. In recognition of this, the Task Force finds that increasing the opportunities for people to become homeowners and enabling lower-income owners to preserve and improve their homes must be central objectives of our national housing policy.

Today, increasing numbers of American families, most of them young, cannot afford to purchase a home. Down payment requirements and high carrying costs put ownership beyond the reach of many. High default rates and economic distress in certain regions have forced lenders to tighten underwriting standards and increase down payment requirements. These problems sometimes are exacerbated by state and local government actions that increase housing prices through growth restrictions, reduced infrastructure support and excessive impact fees and permit costs.

In order to restore homeownership opportunities for thousands of Americans, the Task Force recommends a series of measures to reduce down payment requirements and carrying costs. Mindful of the substantial preference already given to homeownership through tax policy and the provision of mortgage credit, the Task Force intends that the mechanisms for furnishing assistance to homeowners should (a) operate without substantial direct subsidy cost to the federal government, (b) focus primarily on first-time buyers, particularly those of low and moderate incomes and (c) contemplate the repayment or reduction of direct assistance, where feasible.

Homeownership helps define the American dream.

The Task Force further recommends that particular attention be devoted to enabling low-income families to buy homes and to assisting low-income owners in preserving and rehabilitating their dwellings. Government expenditures in support of low-income home purchase constitute a sound investment in families and communities. Rehabilitation assistance to low-income homeowners can address substandard housing conditions and contribute to neighborhood preservation efforts. The impact of these efforts can be substantially enhanced by steps that break down state and local barriers to development, steps the Task Force recommends be required as part of the HOP process.

RECOMMENDATION: The federal government should increase access to FHA mortgage insurance and the VA program.

Mortgages with low down payments are essential for an increasing number of home buyers, particularly first-time purchasers. Conventional lenders cannot and should not be expected to carry the risk burden of such loans; nor will private mortgage insurers fill the gap.

The programs of the Federal Housing Administration (FHA) have allowed first-time and lower-income buyers to overcome down payment obstacles and secure mortgage financing at favorable rates. Thus, in recent years nearly 60 percent of FHA buyers made down payments of 10 percent or less of a home's sales price, compared with as few as 9 percent of conventional buyers. FHA insurance gives lenders the security to make loans with low down payments; as insured loans, these are highly attractive to the secondary market, thus helping produce lower-interest rates.

However, FHA mortgage limits have not kept pace with increases in home prices in many areas. In addition, because FHA programs have not fully responded to innovations in financing techniques, FHA buyers are denied access to types of mortgages that could produce more favorable interest rates. Accordingly, the Task Force recommends a series of changes in the FHA programs. These changes should not have an adverse impact on the federal budget, because the basic FHA homeownership program continues to make money for the federal government.

a. **Expand the Availability of Adjustable-Rate Mortgages.** Adjustable-rate mortgages (ARMs) can offer interest rates from 2 to 3 percent below fixed-rate instruments. They have, as a result, become increasingly popular, accounting for nearly half of mortgage originations in 1987, and even more in other years. At the same time, the continued availability of fixed-rate mortgages gives home buyers a meaningful choice between greater purchasing power and higher risk on the one hand, and long-term security on the other. Legal restrictions, however, have limited the use of ARMs in the FHA program.

The Task Force recommends that Congress make ARMs fully available to FHA borrowers:

- FHA should be authorized to insure ARMs under which interest rates may rise 2 percent a year, provided that over the life of a loan, the total increase may not exceed 5 percent. In addition, FHA's existing authority to insure ARMs whose rates rise no more than 1 percent per year would be continued. Under current market conditions, the 2 percent ARM may achieve an interest rate 1 percent or more below the 1 percent ARM. By underwriting at the lower initial rate, FHA could provide buyers with the option to obtain even more favorable mortgage rates and thus bring home purchase within the range of thousands of additional households.
- The statutory limit on the aggregate number of ARM loans that FHA may insure in a year should be eliminated. Although the 1987 Housing Act raised this limit from 10 to 30 percent of the previous year's activity, this is still significantly below the share of the conventional market that ARMs constitute. In fact, since 1982 when activity was first measured, ARMs have never comprised less than 30 percent of total originations on an annual basis. FHA purchasers should have the same freedom in selecting favorable mortgage forms as conventional home buyers.
- HUD should be required to monitor ARM program costs and losses to see whether they continue at acceptable levels. While conventional market experience suggests that most home buyers can realize the benefits of ARM financing without unacceptable

default risks, we cannot be certain the FHA experience will be similar because of the lower FHA down payment requirement.

- HUD should determine whether measures are needed to protect buyers in the event of maximum increases in ARM rates. Congress and HUD should consider making the temporary mortgage assistance payments program available to protect against resultant defaults. Such a remedy would be comparable to work and forbearance procedures on conventional loans.

b. Raise Mortgage Limits. The high-cost area limits for FHA mortgages recently enacted by Congress are already substantially below the median sales prices of new or existing homes in many places. This means potential first-time buyers in many areas simply cannot take advantage of the FHA program.

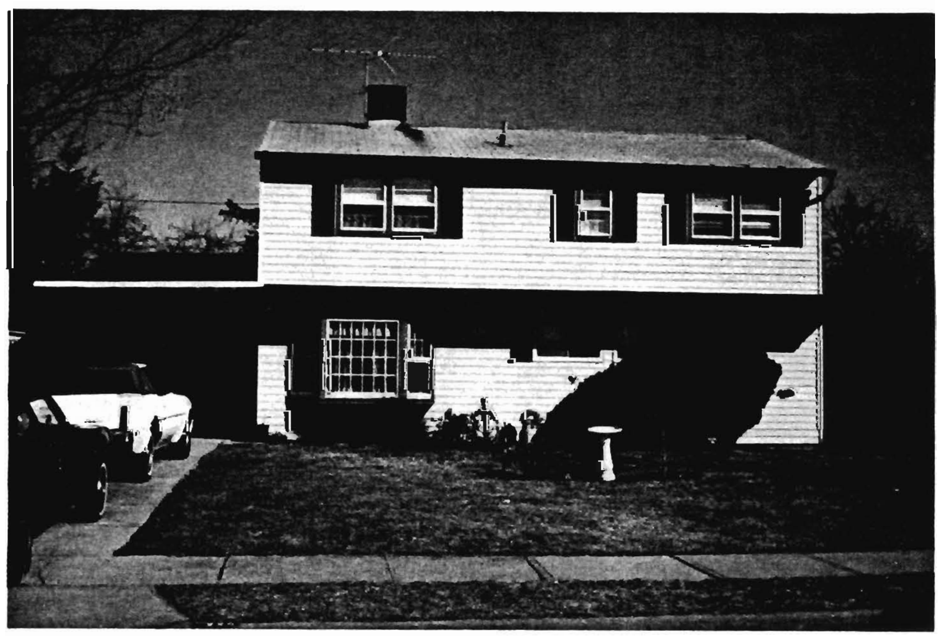
In one fifth of all metropolitan areas, including five of the top ten, the new maximum FHA mortgage limit of $101,250 is below the cost of the median-priced home. Under preliminary HUD regulations, more than 40 areas will be at the ceiling—indicating that many would be higher but for the cap. In fact, the median price of all new homes sold in December 1987 exceeded the FHA limit by $7,000. Thus, while the local indexing of FHA limits was intended to make nationwide increases unnecessary, the cap of $101,250 on all FHA mortgages continues to frustrate this intent.

The Task Force believes the community should be the focus for the determination of housing needs and the delivery of housing assistance. As under current law, FHA mortgage limits should be established at 95 percent of the median home sales price in the county or the local Metropolitan Statistical Area, whichever is higher, but without the $101,250 limit. Limits would be computed separately for new homes and existing homes; limits for multiple-unit dwellings would receive corresponding adjustments. In order to avoid hardship from the shift to separate limits for new and existing homes, mortgage limits for an area would not drop below those in effect when the proposed changes were enacted.

c. Reduce FHA Down Payments. High down payment requirements probably constitute the most significant obstacle to homeownership. FHA mortgages can overcome this obstacle, but FHA down payment requirements have not responded to recent home price increases. The Task Force recommends that FHA buyers be permitted to secure financing of up to 97 percent of the first $50,000 of a home's value, as opposed to $25,000 under current law, and 95 percent of the value in excess of $50,000.

d. Update the VA Program. While recent Congressional action has improved the loan guarantee program of the Veterans Administration (VA), further modernization—such as use of adjustable-rate mortgages—is necessary to make the program fully responsive to market developments. Even without improvements, however, the Task Force believes that the changes recommended for the FHA programs should be useful to veterans, as they will be to all other potential home buyers.

Purchased in 1973 for $47,500 and virtually unchanged since then, this house in Levittown, New York, was appraised at $250,000 in 1987.



RECOMMENDATION: The federal government should take steps to ease down payment difficulties for first-time home buyers by allowing the use of IRA and other self-funded benefit plan monies.

Individual Retirement Accounts (IRAs) allow people to make tax-free investments as savings toward their retirement. The law permits a broad range of investment vehicles for IRAs—but not one's own home. This is neither sensible nor fair. To most Americans, a house is their most significant, costly and valuable investment. If a family can invest its IRA in gold or soybean futures, why not in its home?

The Task Force recommends that first-time buyers be permitted to invest IRA, 401(k) and other self-funded benefit plan monies in the acquisition of a home, in the same manner they would invest in any other asset. For this purpose, the term "first-time home buyer" should be defined broadly to include all persons not owning homes at the time of purchase.

While certain families might be encouraged by this provision to establish IRAs for the purpose of buying a home, this authority should not cause significant loss of revenues to the federal government. It would not change the amount of money that may be deposited in benefit plans, nor the income limits or other conditions on tax-deferred deposits—limitations that have reduced the cost of new IRAs. Normal IRA taxation rules would apply to amounts withdrawn prematurely and to amounts received and not reinvested in a home. Because taxes already are deferred on the appreciation of a home, there would be no incentive to invest IRA funds beyond the minimum level needed to qualify for a home purchase; above that amount, the buyer would, in effect, be losing the benefit of tax-deferred appreciation and earnings that would otherwise be realized in a retirement account. Thus, the overall revenue loss to the federal government might indeed be less than if buyers had separate tax-deferred investments in their homes and their retirement accounts.

RECOMMENDATION: The federal government should continue mortgage revenue bond programs for low- and moderate-income home buyers.

The Task Force recommends continuation of mortgage revenue bond programs for low- and moderate-income first-time home buyers, for targeted development efforts and for rehabilitation loans.

Revenue bond programs have served the needs of hundreds of thousands of home buyers who otherwise might have been excluded from the market or from affordable rehabilitation financing. In addition, these programs have enabled state and local agencies to develop substantial expertise in housing production and finance. This increased capacity is a critical element in the Task Force's reliance upon these governments as the primary delivery system for the recommended Housing Opportunity Program. Further, by imposing sales price limits and, most recently, income limits, Congress has assured the targeting of revenue bond programs.

Mortgage revenue bond programs can be used, in conjunction with HOP assistance, to increase the impact of state and local housing initiatives. Because revenue bond programs are subject to income-targeting restrictions (generally up to 115 percent of area median income) less stringent than most HOP funding, states and localities will have greater freedom to respond to particular local needs and priorities. They may elect, for example, to use bond programs to assist moderate-income people in purchasing homes in high-priced markets. Such programs also enable state and local agencies to combine financing with the provision of home purchase or rehabilitation assistance.

The Task Force further recommends that state and local agencies be permitted to continue to operate Mortgage Credit Certificate programs. While these certificates are a relatively new device, they have found a level of acceptance in the marketplace and deserve continuation as an alternative to the use of mortgage revenue bonds.

RECOMMENDATION: State and local governments should use HOP to assist low-income home buyers and homeowners.

More than half of American households with incomes below median are homeowners, and more than one third of homeowners have incomes below 80 percent of median. In recent years, however, homeownership has become steadily less accessible to lower-income households.

Programs to facilitate homeownership and to assist owners in maintaining their properties are key elements in a comprehensive, locally developed housing strategy. In devising this strategy, states and localities should consider ownership programs with all forms of housing assistance, including tax-exempt financing, rental assistance and HOP funds. These plans also should encompass: coordination of such assistance with other federal aid programs; augmentation of federal monies with state and local funds; and measures to reduce housing costs.

The Task Force recommends that state and local governments provide home purchase assistance through the proposed Housing Opportunity Program. Income limits and targeting restrictions would apply to homeownership activities, as they would to any other HOP activities. States and localities would be permitted to determine the amount of assistance, the specific income targeting and the types and prices of homes—making whatever trade-offs they deem appropriate between the amount of assistance furnished to individual purchasers and the total number of households served.

Such flexibility notwithstanding, the Task Force emphasizes that the use of a second mortgage under which interest is deferred and accrued is an attractive mechanism for reducing both down payment requirements and carrying costs. It permits the use of market-rate conventional or government-insured financing for first mortgages, while limiting subsidies to the subordinate financing. It also offers a variety of approaches to the reduction and recapture of home purchase assistance.

While federal law would not require the recapture of all subsidies used to facilitate homeownership, the Task Force intends that state and local governments provide for reduction in assistance as owners' incomes increase, and for repayment of a portion of the assistance upon sale of the home. Because homeownership is a significant investment to families, however, recapture provisions should not eliminate all benefits of appreciation. For example, a local program might require repayment of an accruing second mortgage with the sale of a property, provided the repayment formula does not discourage homeowner investment and reinvestment. The repaid amounts would be used to fund other HOP activities.

The Task Force encourages state and local governments to use HOP funds to explore home purchase programs for low-income households, traditionally served only by federal housing rental programs. Such initiatives will likely involve substantial monitoring and administrative efforts by the operating government, along with the participation of local nonprofit groups. "Sweat equity" and other in-kind requirements might help meet a portion of the purchasers' responsibilities. The additional cost and effort involved are fully justified by the long-term benefits of enabling low-income people to build a stake in their homes, their neighborhoods and their future.

The Task Force intends that state and local governments also use HOP funds, where appropriate, to help lower-income owners preserve and rehabilitate their homes and strengthen their neighborhoods. In the past, these governments have made use of mortgage revenue bonds, Community Development Block Grants and other federal, state and local resources to carry out rehabilitation and preservation programs for lower-income homeowners. Local nonprofit groups, such as the Neighborhood Housing Services organizations, have played a critical role in helping governments design and implement preservation and improvement strategies. With limited funds available for new development, preservation becomes even more important in ensuring a continued sup-

A young family in Florida looks at the plans for a low-cost home.

ply of affordable housing. HOP funds, augmented by state and local contributions, will expand the resources available for housing preservation efforts.

The proposed Housing Opportunity Program requires substantial state or local contribution. The Task Force further recommends that no state or locality be permitted to carry out a homeownership program through HOP unless, as part of its contribution or HOP program, it provides specific assistance through one or more of the following: (1) direct cash contribution of a portion of subsidy costs; (2) real estate tax abatement that directly reduces carrying costs and increases affordability; (3) reductions in fees, permit costs or zoning restrictions; (4) substantially increased infrastructure support; (5) provision of publicly owned land. In this way, HOP will emphasize that local strategies to reduce development barriers and costs can be as beneficial to home buyers as those that provide direct government funds.

RECOMMENDATION: Congress and HUD should explore the potential of employer-sponsored and employer-assisted housing.

The Task Force notes two promising areas of exploration regarding the role of employers in promoting housing affordability on behalf of their employees.

The first centers on how corporations can assist employees in financing the purchase of homes near their jobs, with particular emphasis on large employers in high-cost areas. Private corporations, local governments, religious organizations and others have begun to join forces with employers to identify sites for affordable housing and to structure the requisite private and public financing to build it. Types of housing assistance that could be provided include land density reallocations, tax-exempt financing, employer tax credits and property tax abatement.

The second area of exploration is employer-assisted housing. One recent study identified 50 employers that already have helped their employees purchase homes near their jobs by making housing assistance an employee benefit like health coverage. Advocates have called for changes in federal laws defining and regulating benefits to authorize housing benefits as permissible corporate activities. They contend that these proposals can be implemented on a revenue-neutral basis.

The Task Force commends these attempts to link moderate-income employees with housing near their jobs and to offer housing as an employee benefit. It recommends that Congress and HUD further examine the merits of supporting them.

RECOMMENDATION: States and localities should actively explore means of reducing regulatory constraints on the production of affordable housing.

Many factors contribute to the high cost of housing—including interest rates, expensive construction techniques and regulatory requirements. The ability of home builders to produce affordable housing can be constrained by regulations imposing high fees and infrastructure costs, overly restrictive land use controls or outmoded building codes. Such regulations usually are created and administered by local governments; sometimes they are imposed by state governments. As a result, housing costs are often substantially higher than they need be.

The reduction in development costs and the updating of building codes are two areas where there are significant opportunities to reduce the cost of new housing. Adequate development densities also are a key, not only because of the savings in raw land costs, but also because the costs per unit of providing infrastructure are reduced. Unnecessary delays and complexities in permit processing are other factors that increase carrying costs and discourage development.

Impact fees—charges against new development to pay for sewage systems, roads, schools or other community-wide services—are a rapidly spreading means of imposing the capital costs of local public services on home builders and buyers. These fees often result in an increase in the cost of new housing, putting it out of reach for first-time home buyers and other potential buyers of modest means.

Although model building codes have generally incorporated new, cost-reducing technologies, some localities have failed to allow the use of those innovations. To address this problem, HUD and the National Association of Home Builders have instituted the Joint Venture for Affordable Housing—a collaborative effort to determine how more affordable housing might be produced through practical regulatory reform. Their experience from demonstration projects in 35 cities shows that through relatively simple changes in development requirements (such as narrower street widths, sidewalk specifications or different methods of construction), builders can produce housing at savings of 10 to 30 percent.

In the case of existing housing, building codes sometimes dictate expensive substantial rehabilitation, where only modest repair is economically feasible. The result of such requirements is often the further deterioration or abandonment of housing that could have been made livable.

The Task Force urges states and localities to examine the panoply of regulations governing the construction and rehabilitation of housing, to see if changes can be made to bring homes on the market less expensively—without compromising the integrity of environmental and other community-oriented safeguards. ■

VIII. The Housing Finance System

<u>RECOMMENDATION:</u> Congress should support the current housing finance system and not impose on it additional costs or other burdens.

America's housing finance system works well and with remarkable resilience. In the 1980's, 27 million home buyers have been able to finance their mortgage loans because of the access provided by the housing finance system to both domestic and international sources of capital. This healthy level of financing was accomplished in spite of numerous shocks to the system: the 1981-82 recession, the most severe economic downturn since the Great Depression; rapid deregulation of primary mortgage lenders; historically high interest rates; and regional economic difficulties that particularly hurt thrifts, thus placing enormous strains on the Federal Savings and Loan Insurance Corporation (FSLIC).

That the housing finance system has been able to deliver funds steadily to home buyers in spite of these shocks is a credit to the federal government's sponsorship of housing and homeownership. For more than half a century, the federal government has facilitated the flow of funds to housing through both direct and indirect supports and especially through the creation of a variety of institutions to buttress the housing finance system.

In the primary market, the federally insured thrift institutions, backed by the Federal Home Loan Bank system, continue to furnish the largest share of funds for housing in the primary market, even after the deregulation of interest rates payable on deposits. In 1987, for example, FSLIC-insured thrift institutions originated 40 percent of home mortgages. These mortgages were overwhelmingly conventional (that is, not insured by a government agency). Operating along with the thrift institutions is the government-insured market maintained by the Federal Housing Administration (FHA) and the Veterans Administration (VA).

In the secondary market, the Government National Mortgage Association (GNMA) provides a market for FHA and VA loans by guaranteeing the timely payment of interest and principal on securities backed by these loans. GNMA's guarantee carries the full faith and credit of the United States.

In the conventional market, the private corporations, Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), are chartered by the federal government for the limited purpose of purchasing mortgage loans to replenish the funds of primary lenders. Fannie Mae and Freddie Mac may not deal in mortgages above a maximum limit set each year based on increases in housing prices; in 1988, the limit is $168,700. These two federally sponsored, private corporations also guarantee payments on mortgage-backed securities; but, unlike GNMA, their guarantees do not carry the full faith and credit of the United States.

This federal housing finance system has evolved into an efficient mechanism for linking the mortgage market with domestic and international capital markets. The federal connection enables home buyers to compete for funds with giant users of capital and helps keep mortgage rates as low as possible. At the same time, the system operates at no cost to taxpayers; indeed, both Fannie Mae and Freddie Mac pay corporate income taxes.

During the last several years, there have been suggestions that the role of the federal government in housing finance is improper and that home buyers should compete in a completely free market with other users of capital. Consequently, some have proposed the imposition of charges and restrictions on the housing finance system as now constituted. Congress has rejected all of these proposals.

While the Task Force has recommended adjustments in the FHA and VA programs to enhance the viability of homeownership programs and, in addition, has designed special opportunities for first-time buyers, it finds no reason for change in the basic housing finance system as outlined above.

RECOMMENDATION: Bank and thrift regulators should consider the Community Reinvestment Act as a powerful incentive to encourage institutions to invest in low-income housing and community development.

Many of the recommendations made elsewhere in this report, if implemented, will increase funding for low-income housing. Here, the Task Force calls attention to the Community Reinvestment Act (CRA). It should be considered an integral aspect of the housing finance system.

The Community Reinvestment Act was enacted by Congress in 1977 to place an affirmative duty on lending institutions to help meet the credit needs of the neighborhoods where they are located. Federal financial regulatory agencies are required to take into account an institution's CRA performance in reviewing its requests for expansion, merger and acquisition.

Despite criticism that it has been a weak tool, the Community Reinvestment Act helped turn what had been heated debates over redlining into a more constructive dialogue over legitimate community credit needs and strategies. The pressure of the CRA has led to many productive local partnerships between lending institutions and the communities in which they operate.

Increasingly, local groups are using the CRA as a lever to improve the availability and affordability of credit in low-income areas. According to recent surveys, the CRA has been directly responsible for as much as $4 billion in loan commitments for low-income housing and other community development efforts since its enactment.

Recent developments in the regulatory and economic environment for banks and thrifts, spurred by deregulation, pose new challenges to an effective CRA. In light of these changes, the Task Force recommends that federal financial regulatory agencies look more readily to the CRA as a powerful incentive to encourage institutions to make economically sound investments in low-income housing and community development. This can be accomplished by a combination of improved compliance reviews and incentives for good performance, as well as by evaluating performance against community credit needs. ■

IX. Fair Housing

RECOMMENDATION: The federal government must renew its commitment to enforcing the laws against discrimination in housing.

Twenty years after the enactment of the Federal Fair Housing Act, minorities still face persistent and pervasive discrimination in their efforts to secure satisfactory housing. Recent reports confirm that the average minority household—regardless of economic status, and whether seeking to buy a home or rent an apartment—encounters racially based discrimination when it enters the housing market. And as employment opportunities are located at increasing distances from urban centers, the need for minority workers to find housing in outlying neighborhoods will grow steadily.

The Task Force finds that expanded fair housing efforts must be a fundamental component of national housing policy. These efforts should be directed toward enforcement of existing laws to eradicate remaining barriers of discrimination, extension of those laws to bar discrimination against families with children, and use of federal housing assistance and state and local initiatives to expand housing choices for minorities.

RECOMMENDATION: The federal government must increase the enforcement of fair housing laws.

Private individuals and state and local governments are given the primary responsibility for enforcing rights under the Fair Housing Act. Using HUD funds, state and local agencies have increased their fair housing enforcement activities, and the number of such agencies recognized as providing appropriate rights and remedies has grown substantially. Still, the complaints acted upon by these agencies represent only a miniscule fraction of the incidents of housing discrimination estimated to occur. Additional authority and resources are required at the federal and local levels to bring about expanded enforcement.

The Housing Act of 1987 includes landmark legislation that would fund private fair housing groups to carry out testing and enforcement actions. Unfortunately, such programs are authorized only on a two-year demonstration basis, and no funding has yet been provided for the first year. Congress should fund this Fair Housing Initiative Program and should contemplate a longer time for carrying out its efforts. HUD should act quickly to identify potential recipients of funds, and to develop program regulations and guidelines that are consistent with effective fair housing enforcement.

Additional authority is also required for enforcing fair housing laws at the federal level. HUD and the Department of Justice must be authorized to move beyond so-called "pattern of practice" cases, to seek judicial remedies for individual acts of discrimination. HUD also should be empowered to issue restraining orders and to adjudicate remedies in administrative law proceedings.

In recent years, some local agencies working with owners of certain assisted housing projects have contemplated or carried out efforts intended to preserve integration and stability in those projects. The Department of Justice and HUD have actively opposed these endeavors. The Task Force recognizes that the legal status of such efforts is uncertain and that any process of allocating housing by race is inherently suspect. However, with the incidence of discrimination so great and the federal resources available to address the problem so limited, the Task Force finds federal opposition to these good-faith efforts to be unwise and inappropriate. Resources should be focused, as Congress intended, on the far more pervasive problem of discrimination that restricts the housing choices of minorities.

<u>RECOMMENDATION:</u> Discrimination against families with children should be prohibited.

There is widespread evidence that some families are being denied housing simply because they have children. Discrimination against families with children should be prohibited in the same manner as discrimination on the basis of race, color, religion, sex or national origin. By the same token, appropriate exemptions should be provided for specialized housing, such as that designated for the elderly.

<u>RECOMMENDATION:</u> State and local governments should use HOP funds and rental assistance to counter housing discrimination.

In recent years, a number of state and local agencies have shown remarkable initiative and creativity in promoting housing opportunities for minorities. The Task Force recommends building on that foundation and providing these governments with additional resources.

The proposed Housing Opportunity Program and increased availability of rental assistance will provide valuable resources for state and local governments to use in expanding housing choices for minorities, as well as in improving housing conditions in low-income neighborhoods. HOP funds can be used to acquire or develop housing for minorities in integrated or non-minority neighborhoods. Rental assistance can be used to enable families to remain in improving neighborhoods and to assist them in finding housing outside areas of low-income concentration. To facilitate the latter, people receiving rental assistance should be able to use it in any jurisdiction.

The changes in tax policy contemplated by the Task Force would further contribute to the development or rehabilitation of integrated, mixed-income housing.

Every state and local strategy for the use of HOP monies will be required to include measures to combat housing discrimination and provide expanded housing opportunities. Such measures could include (a) land acquisition and siting of lower-income units or projects, (b) identification and leasing of units in non-minority areas, (c) removal of zoning or land use barriers and (d) coordination of remedies with enforcement actions. If local plans are not sufficient or not properly implemented, state action must be taken. To the extent that neither the state nor local government acts effectively, HUD should be required, in its award of HOP funds directly to local developers and nonprofit groups, to pursue fair housing objectives. This residual authority on the part of HUD, particularly when combined with judicial and administrative enforcement authority, should significantly increase the government's ability to deal with the most intractable problems. ■

X. Housing in Rural America

<u>RECOMMENDATION:</u> Current federal rural housing programs should be used, consistent with budget priorities, to improve housing conditions in rural areas.

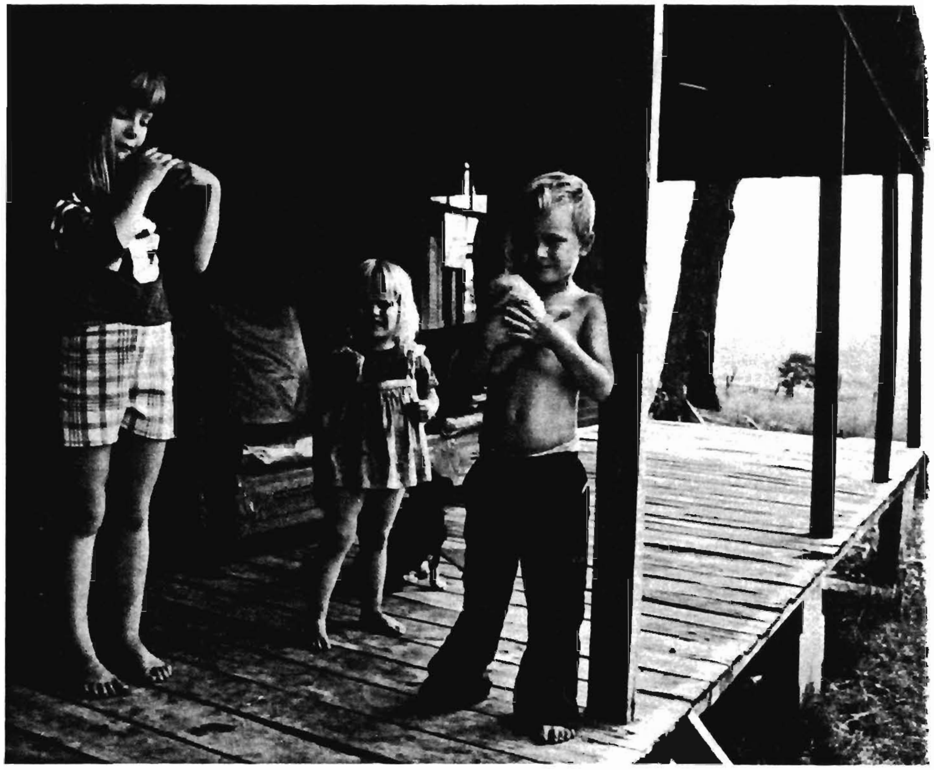
The low pay and seasonal nature of many rural jobs—as well as the loss of employment opportunities in agriculture, mining, manufacturing and energy production—have prevented much of rural America from participating in recently improved economic conditions for the country as a whole. Non-metropolitan areas now have a higher rate of poverty and unemployment than metropolitan areas—and the incidence of inadequate housing is higher. In non-metropolitan areas, there are presently 4.3 million low-income households experiencing housing problems. Almost 2 million of these households have significant problems with the units themselves, including lack of plumbing.

The Task Force recognizes that what is required to meet the needs of poor citizens in rural areas is a comprehensive and coordinated housing and rural development approach. The framework for this currently exists within the programs and authorities of the Farmers Home Administration (FmHA) of the Department of Agriculture. In addition to a number of farm, community and rural development programs, the agency administers a variety of housing initiatives uniquely suited to rural needs. These include direct low-interest loans for homeownership and multifamily development, rental assistance, grant support for mutual self-help housing activities and home repair loans. For the elderly, FmHA provides both home repair loans and grants. To support these programs, the agency has a delivery system of over 2,200 field offices.

Federal rural housing programs currently in place should be used to the greatest extent practicable in improving housing and living conditions in rural areas. In addition, a proportionate share of the funds of the proposed Housing Opportunity Program should be allocated to non-metropolitan areas and, where appropriate, used in conjunction with the FmHA's efforts.

<u>RECOMMENDATION:</u> The Housing Corporation of America and the Farmers Home Administration should help build the capacity of rural nonprofit development organizations.

Many rural areas are well-served by private nonprofit and for-profit developers. However, the Task Force recognizes that some rural communities lack the human and financial resources to initiate and carry out development activities. The Housing Opportunity Corporation of America proposed in Recommendation I will play an important role in helping to correct this situation by working with national and regional rural organizations. HOCA will encourage states to create and support local rural housing entities, such as the network of Rural Preservation Corporations funded by the state of New York. In addition, FmHA should use its current authority to support the development of nonprofit organizations that will serve rural housing needs.



Substandard housing is particularly prevalent in rural areas, where 44% of the nation's total substandard units are located.

<u>RECOMMENDATION:</u> The federal and state governments should take steps to increase rural homeownership and to upgrade substandard housing.

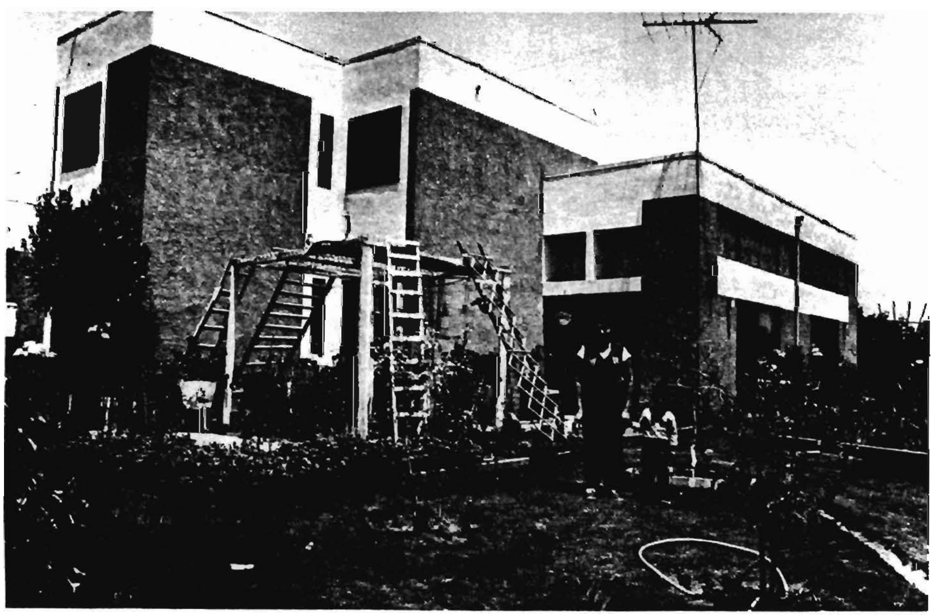
The Task Force recognizes that the unique nature of rural areas requires approaches to meeting housing needs that differ from those used in the cities and suburbs. The FmHA's Section 502 homeownership program provides no-down payment, low-interest loans to low-income people, enabling them to become homeowners or to rehabilitate their homes. Through the FmHA county office network, the program reaches thousands of rural communities that often are underserved by conventional credit markets. In addition, FmHA coordinates housing aid with other forms of economic and infrastructure support. The Section 502 program is highly targeted—generally to households with incomes below 80 percent of the area median—and it provides modest, affordable housing.

Recognizing the effectiveness of the Section 502 program and the

FmHA delivery system, the Task Force recommends that the program be continued. In addition, within the current 40 percent set-aside of Section 502 funds for very-low-income families, FmHA should be permitted to provide deferred loans and to work with public agencies and nonprofit groups in carrying out homeownership programs.

The Task Force further contemplates that HOP funds administered at the state level on behalf of rural areas will be used, both separately and together with the 502 program, to improve homeownership affordability and to upgrade substandard housing. Such a combined state/FmHA effort can build on the cooperation between state housing finance agencies and FmHA offices that has evolved in tax-exempt finance and in the use of the low-income housing credit.

Award-winning houses for migrant farm workers in central California.



RECOMMENDATION: FmHA and HUD should place greater emphasis on housing for farm workers and Native Americans, and HOP funds should be used to meet the special needs of these groups.

Reports documenting the deplorable housing choices faced by the population of migrant farm workers appear with alarming regularity. Governmental response has been minimal. FmHA's Farm Labor Housing Loan and Grant Program is the only federal resource whose sole purpose is to provide housing for farm workers, including locally based seasonal and migrant workers. Funding levels, however, have been cut by two thirds over the last decade, from $68.7 million in 1979 to $18.3 million in 1987.

The Task Force recommends that a greater emphasis be placed on housing migrant farm workers directly through the FmHA network and that states be encouraged to participate as well. The California and Florida farm worker housing programs provide excellent examples of state activity.

A substantial portion of American Indians and Alaskan Natives living on reservations, on trust lands or in Alaskan Native Villages have serious housing problems. The latest Bureau of Indian Affairs Consolidated Housing Inventory shows that out of these 185,600 households, 92,970 are in need of new or substantially rehabilitated units. Currently, federal housing assistance for this group flows mainly through the HUD Indian Housing Program, CDBG discretionary funds and the Bureau of Indian Affairs Housing Improvement Program. The support now being provided under these programs is at an historical low, and subsidies are too small to meet the needs of these disadvantaged populations.

The Task Force finds that the pressing needs of American Indians and Alaskan Natives call for greater accessibility to mortgage credit through the HUD and FmHA insurance and credit programs. Moreover, HOP funds should be used to help address their housing needs. ■

Appendix 1

Members of the National Housing Task Force

James W. Rouse, Chairman

James Rouse has spent his adult life working with the American city, both as a developer and as a member of various public interest organizations. He was the founder of The Rouse Company and for 40 years was its chief executive officer, as president and then chairman of the board.

Retiring from the company in 1981, Mr. Rouse founded The Enterprise Foundation, a charitable organization that works with neighborhood groups throughout the country to provide fit and livable housing for the very poor, and The Enterprise Development Company, its subsidiary, a for-profit commercial real estate development company that helps support the Foundation's work.

The recipient of numerous academic and industry honors for his work on behalf of urban America, Mr. Rouse is now chief executive officer of both The Enterprise Foundation and its development subsidiary.

David O. Maxwell, Vice Chairman

David Maxwell has spent the past 18 years in the housing and mortgage finance industries, spanning work in both private industry and the federal government. He served as general counsel for the U.S. Department of Housing and Urban Development (HUD) from 1970 to 1973. After leaving HUD, Mr. Maxwell founded Ticor Mortgage Insurance Company and served as its chairman and chief executive officer from 1973 to 1981.

Mr. Maxwell is chairman of the board and chief executive officer of the Federal National Mortgage Association (Fannie Mae). He joined the corporation as president and chief operating officer in February 1981 and was elected chairman later that year.

A member of the Pennsylvania and District of Columbia bars and a fellow of the American Bar Association, Mr. Maxwell serves on the boards of numerous business, cultural and civic organizations, including the Alliance to Save Energy, The Urban Institute and The Enterprise Foundation.

Amy S. Anthony

Amy Anthony is the secretary of the Massachusetts Executive Office of Communities and Development. Appointed to the cabinet-level position by Governor Michael S. Dukakis, she assumed the post in January 1983. Ms. Anthony also is co-chair of the Massachusetts Housing Partnership, created in 1985 to increase the supply of affordable housing through a working collaboration of members of the public and private sectors.

Before her appointment, she directed the activities of Amy Anthony Associates, a housing consulting and development company. The firm's clients included federal and municipal agencies as well as nonprofit neighborhood groups and private sector organizations. Her earlier experience included seven years as the director of the Housing Allowance Project in Springfield, Massachusetts.

Ms. Anthony has served on a number of associations and committees concerned with housing and development issues; currently, she is president of the Council of State Community Affairs Agencies and a member of the National Low Income Housing Preservation Commission.

Maurice Lee Barksdale

Maurice Barksdale is president of H.M.B. Development, Inc., of Fort Worth, Texas.

Mr. Barksdale served as assistant secretary for housing and commissioner of the Federal Housing Administration (FHA), U.S. Department of Housing and Urban Development (HUD). He directed the housing policy and functions of the department, including the production, financing and management of government-assisted housing and the government-backed housing mortgage insurance programs of the FHA. Earlier, Mr. Barksdale was deputy assistant secretary for multifamily housing programs at HUD.

In the private sector, he served as president of the H.M.B. Management Company; worked as a Wall Street mortgage banker; served as vice president in charge of the real estate department of a commercial bank; and was the developer and manager of various real estate holdings.

Felix M. Beck

Felix Beck has been chairman of the board and chief executive officer of Margaretten & Company, Inc., of Perth Amboy, New Jersey, since 1969. Prior to that, he was an executive vice president of J.I. Kislak Mortgage Corporation and secretary of the Carteret Savings and Loan Association.

A Certified Mortgage Banker, Mr. Beck has held numerous positions of leadership in his industry. He is past president of the Mortgage Bankers Association of America and a member of the organization's executive committee and board of governors, as well as past chairman of several of its committees.

Mr. Beck has presented testimony before various Congressional committees and has lectured on mortgage banking at numerous graduate schools of business. He has been a director of the Federal National Mortgage Association since 1985.

Paul C. Brophy

Paul Brophy is currently vice president for development at Massaro Properties, Inc., a Pittsburgh-based real estate development company.

From 1977 to 1986, Mr. Brophy held positions in the city of Pittsburgh government, first as director of the housing department and then as executive director of the Urban Redevelopment Authority of Pittsburgh. Before his work for the city, he was executive director of ACTION-Housing, Inc., a civic nonprofit housing development and research agency in Pittsburgh.

Mr. Brophy is an adjunct professor at the School of Urban and Public Affairs of Carnegie-Mellon University and also teaches at the University of Pittsburgh's Graduate School of Public and International Affairs. The co-author of two books, *Housing and Local Government* (1982) and *Neighborhood Revitalization: Theory and Practice* (1975), he has written numerous articles for professional journals.

Gordon Cavanaugh

A partner in the Washington, D.C., firm of Roisman, Reno and Cavanaugh, Gordon Cavanaugh also serves as the legislative counsel for the Council of Large Public Housing Authorities.

Mr. Cavanaugh was administrator of the Farmers Home Administration, U.S. Department of Agriculture, from 1977 to 1981. Before that, he served as executive director of the Housing Assistance Council. He held the position of commissioner of licenses and inspection and housing director for the city of Philadelphia from 1966 to 1971, following the private and municipal practice of law between 1953 and 1966.

Mr. Cavanaugh is a board member of the National Low Income Housing Coalition, the National Council of Agricultural Life and Labor Research Fund and the Cooperative Housing Foundation. He is also a member of the Section on Urban, State and Local Government Law of the American Bar Association.

John Crosland, Jr.

John Crosland, Jr., is president of The Crosland Group, Inc., of Charlotte, North Carolina.

Mr. Crosland's experience in the home building industry dates to 1951, when he founded the Mecklenburg Corporation. In 1954, he joined the John Crosland Company as vice president; he later served in the positions of president, chief executive officer and chairman of the board.

Appointed a life director of the National Association of Home Builders in 1968, Mr. Crosland continues to hold offices in that organization and in other professional groups at the state and local levels. He currently is chairman of the North Carolina Housing Finance Agency, a member of the Federal National Mortgage Association Advisory Board, a member of the Habitat for Humanity Advisory Committee, and active on numerous other business and civic boards.

Terrence R. Duvernay

Terrence Duvernay has been executive director of the Michigan State Housing Development Authority (MSHDA) since 1983. In addition, he serves as special advisor on urban affairs to Governor James J. Blanchard, a position he has held since July 1986.

Before joining MSHDA, Mr. Duvernay was deputy regional administrator for the U.S. Department of Housing and Urban Development (HUD) in Seattle. His earlier HUD assignments included managing the New Orleans Area Office, holding various staff positions and consulting to HUD in Washington, D.C. From 1970 to 1979, Mr. Duvernay held a number of posts with the city of New Orleans, including chief administrative officer.

Mr. Duvernay is secretary/treasurer for the National Council of State Housing Agencies, past president and current member of the board of directors of the National Community Development Association and chairman of the Community Development Training Institute. He also serves on the boards of several other national and state housing and development organizations.

Jesus Thomas Espinoza

Tom Espinoza is chairman and chief executive officer of Espinoza Development Corporation (EDC), a Phoenix-based real estate development company serving residential and commercial needs and providing consulting services for downtown revitalization and redevelopment.

A major focus of EDC is on creating affordable housing for low- and moderate-income families, an endeavor to which Mr. Espinoza has devoted more than 18 years. Before forming his own company, he was chairman and chief executive officer of Chicanos Por La Causa, a 65,000-member community organization operating in Phoenix and throughout rural Arizona.

Mr. Espinoza is a director of the Phoenix Community Alliance Executive Board and is active in numerous other local groups. He serves on the Governor's Hispanic Advisory Board and is the immediate past president of the Arizona State Board of Education. He also is a board member of the Local Initiatives Support Corporation and is on the Hallmark Advisory Board.

Anthony M. Frank

Prior to his appointment as Postmaster General of the United States in February 1988, Anthony Frank was chairman and chief executive officer of First Nationwide Bank and its parent company, First Nationwide Financial. He joined the San Francisco-based institution as president in 1971, when it was called Citizens Savings; he was elected chairman of the board in 1975.

Before joining the bank, Mr. Frank was president of INA Properties, Inc., and group vice president in charge of INA Corporation real estate and health care activities. He also served as chairman of the Federal Home Loan Bank of San Francisco.

A director of several major corporations, Mr. Frank has been active in a variety of industry associations. He served as chairman of the California Housing Finance Agency and as president of the California Savings and Loan League.

Robert A. Georgine

Robert A. Georgine is president of the Building and Construction Trades Department of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO). He was named to that position in 1974, after serving as secretary-treasurer for three years. Since 1985, he also has been vice president and a member of the AFL-CIO's executive council.

Mr. Georgine began his career with the Lathing Foundation in Chicago in

1962. He worked for the Wood, Wire and Metal Lathers' International Union from 1964 to 1971, assuming the presidency of the organization in 1970.

Mr. Georgine's civic as well as professional interests have led to membership on various presidential commissions and to numerous awards and commendations. He currently serves on the boards of directors or executive committees of over a dozen national industry, government and public interest organizations; in the housing area, these include the National Corporation for Housing Partnerships, the National Housing Conference and the National Low Income Housing Coalition.

Paul S. Grogan

Paul Grogan became president of the Local Initiatives Support Corporation (LISC) in 1986. He came to that post from Boston, where he was the director of the city's Neighborhood Development and Employment Agency (NDEA).

As director of NDEA from 1982 through 1985, Mr. Grogan managed Boston's programs in housing, neighborhood commercial development and job training. Concurrently, he was Mayor Raymond L. Flynn's liaison to the local business community, organizing the Business Advisory Committee to help direct policy development and implementation.

From 1980 to 1982, Mr. Grogan was deputy director of NDEA, in charge of manpower training and human services. Earlier, he served as director of the Boston Community Schools Program and was a policy planner and educational advisor to the mayor. Prior to joining the city administration in 1971, Mr. Grogan taught at the University School of Milwaukee for two years.

Dianne E. Ingels

Dianne Ingels is managing director of Argus Financial, Inc., an investment, development and advisory firm headquartered in Denver. She also is president of The York Company. She has been in the real estate business for 20 years and was the founder and president of The Ingels Company of Colorado Springs.

Recently appointed by President Reagan to the Board of Directors of the National Institute of Building Sciences, Ms. Ingels is on the boards of several private corporations and local civic and charitable organizations. She also is a member of the U.S. Department of Housing and Urban Development's National Manufactured Home Advisory Council and the Federal National Mortgage Association (Fannie Mae) Advisory Committee.

In the past, Ms. Ingels chaired the Colorado Springs Urban Renewal Authority and was vice chairman of the National Association of Realtors' Real Estate Finance Committee. She served as a Presidential appointee to the Fannie Mae board of directors from 1981 to 1986.

Bruce E. Karatz

Bruce Karatz is president and chief executive officer of Kaufman and Broad Home Corporation, a major on-site housing, land development and mortgage banking company. He joined the firm in 1972, after an internship at the Securities and Exchange Commission in Washington, D.C., and after practicing law with a Los Angeles firm.

Mr. Karatz started with Kaufman and Broad as associate corporate counsel and soon assumed operational responsibilities as forward planner for the company's southern California housing division. In 1974, he accepted a position with Kaufman and Broad in France; two years later, he was put in charge of all the firm's French housing operations. Returning to the United States in 1980, Mr. Karatz became president of Kaufman and Broad's on-site housing operations; in 1985, he was also named chief executive officer.

Mr. Karatz is active in civic and cultural orgnizations in Los Angeles and Paris. While in France, he became the first American appointed a director of the National Federation of Builders and Developers.

John J. Koelemij

Since 1954, John Koelemij has been a builder in Tallahassee, Florida, where his company has constructed some 3,000 housing units. He is the owner of Orange State Construction Company, which builds single-family homes and apartments, develops land and manages rental property.

Mr. Koelemij is the former president of the 147,000-member National Association of Home Builders. He currently serves as president of the International Housing Association. Active in local and state industry organizations as well, in 1974 he became the first person to be honored as "Builder of the Year" by the Florida Home Builders Association.

Mr. Koelemij has chaired the planning commissions for both his city and county as well as other task forces for local government. He has served as a board member for the Tallahassee Chamber of Commerce and the Florida Economic Club and was the first president of the Leon County Mental Health Center.

Marilyn Melkonian

Marilyn Melkonian is the president of Telesis Corporation, a Washington, D.C.-based company working in community development and the preservation and development of affordable housing. The firm also acts as advisor to public agencies, businesses, labor unions and nonprofit organizations on housing and community planning issues.

Ms. Melkonian began her involvement in housing policy and legislation on the staffs of Senators Edward W. Brooke and Thomas McIntyre, both members of the Senate Committee on Banking, Housing and Urban Affairs. She then became a partner in a law firm that represented developers and nonprofit sponsors in the development, management and syndication of assisted housing.

She served as deputy assistant secretary of the U.S. Department of Housing and Urban Development from 1977 to 1980, first for insured and direct loans and later for all multifamily housing. Since 1980, Ms. Melkonian has been counsel and business advisor to Lucasfilm, Ltd., and an architectural firm. She founded Telesis in 1984.

Anita Miller

Anita Miller is chairman, chief executive officer and president of AmeriFederal Savings Bank. She founded the Lawrenceville, New Jersey-based company four years ago.

From 1980 to 1984, Mrs. Miller was affiliated with the Local Initiatives Support Corporation as the South Bronx Project Director and served as a trustee of the Lincoln Savings Bank of New York City. During 1978 and 1979, she was a member and acting chairman of the Federal Home Loan Bank Board in Washington, D.C.

Mrs. Miller currently chairs a committee on newly chartered financial institutions for the U.S. League of Savings Associations and serves as a member of the Massachussetts Institute of Technology Planning, Architectural and Real Estate Graduate School Visiting Committee. She was a founder of Neighborhood Housing Services of New York City and served on its board for six years. In 1986, she completed a second term as a member of the Federal National Mortgage Association National Advisory Committee.

Lewis S. Ranieri

Lewis Ranieri is the chairman and chief executive officer of Ranieri Wilson & Co., Inc., a New York investment partnership. A former vice chairman of Salomon Brothers, he is generally considered to have been the guiding force behind the mortgage-backed security concept.

At Salomon Brothers, Mr. Ranieri was in charge of the firm's activities in the mortgage, real estate and government-guaranteed areas. He joined the firm in 1968 while attending college. Moving up through a variety of positions over the years, Mr. Ranieri was named a vice president in 1975 and was admitted as a general partner in 1978. He became a member of Salomon

Brothers' executive committee in 1984 and was appointed a vice chairman of the firm three years later.

Mr. Ranieri is a member of the board of trustees at the South Street Seaport Museum, Marymount College (Tarrytown) and the Environmental Defense Fund. He is also a member of the board of directors of the Peninsula Hospital Center and serves as trustee for the Parish of Our Lady of the Rosary/Shrine of St. Elizabeth Ann Seton.

Richard Ravitch

Richard Ravitch is the former chairman and chief executive officer of the Bowery Savings Bank of New York and chairman of Aquarius Management Corporation. He is also a general partner in Waterside Redevelopment Company, North Waterside Redevelopment Company, Stevenson Commons Associates and Manhattan Plaza Associates.

Mr. Ravitch has assumed leadership positions in numerous business, civic and charitable organizations. He is currently the chairman of the New York City Charter Revision Commission, and a member of the Council on Foreign Relations and the Board of Governors of the American Stock Exchange.

Mr. Ravitch's activities have led to his appointment to numerous local and national commissions and to varied commendations. In the housing and community development area, he has received the American Institute of Architects Award of Merit, the American Society of Construction Engineers Construction Achievement Award, the Citizens Housing & Planning Council of New York Special Award and the Robert Moses Special Achievement Award.

Joseph P. Riley, Jr.

Joseph Riley is the mayor of the city of Charleston, South Carolina. First elected to the office in 1975, Mayor Riley has been re-elected twice without opposition. In 1986, he became president of the U.S. Conference of Mayors.

Mayor Riley was an attorney in private practice prior to his election as mayor. His political career began 20 years ago, when he became the youngest member of the South Carolina House of Representatives.

A member of the advisory board of the National League of Cities, Mayor Riley is past president of the Municipal Association of South Carolina and a member of the board of Neighborhood Housing Services of America. He has served as chairman of the National League of Cities Urban Conservation Task Force and the Cities Task Force of the Southern Growth Policies Board. His efforts in city revitalization have resulted in numerous awards for Charleston and its mayor. Among other recognitions, Mayor Riley has been inducted into the American Society of Landscape Architects as an honorary member and was presented the Outstanding Mayor's Award by the National Urban Coalition.

Lawrence B. Simons

Lawrence Simons is a partner in the Washington, D.C., law firm of Powell, Goldstein, Frazer & Murphy, specializing in development, housing and financial matters.

From 1977 to 1981, Mr. Simons served as assistant secretary of housing and federal housing commissioner at the U.S. Department of Housing and Urban Development. In that dual capacity, he directed a wide range of mortgage insurance and assistance programs designed to help produce and manage housing meeting the needs of lower- and middle-income Americans.

In addition to his legal practice, Mr. Simons has been active for more than two decades in the home building industry. He served on the board of directors of the Pennsylvania Avenue Development Corporation for seven years and currently is on the boards of the National Association of Home Builders, the National Housing Conference and the National Housing and Rehabilitation Association. He has been the Man of the Year of the National Housing Conference and serves on the Mayor's Commission on Downtown

Housing. A former home builder from Staten Island, New York, Mr. Simons has held various positions with state builders organizations in New York and the Staten Island Home Builders Association.

Mary Lee Widener

Mary Lee Widener is president of Neighborhood Housing Services of America, Inc. (NHSA) and one of its co-founders. NHSA develops resources for affiliate community revitalization organizations nationally.

Mrs. Widener played a key role in the growth of Neighborhood Housing Services (NHS) organizations established to upgrade declining neighborhoods; the network has grown from three in 1971 to over 200 today. She began this work as an urban program coordinator with the Federal Home Loan Bank Board and continues as a member of the officer's committee of the Neighborhood Reinvestment Corporation, the successor organization.

A variety of activities has complemented Mrs. Widener's efforts as president of NHSA; she has served on the board of directors of the Federal Home Loan Bank of San Francisco and on the Federal National Mortgage Association Advisory Council, in addition to participating in numerous study groups and foundations. Her current board and committee memberships include Partners for Livable Places, the Daniel E. Koshland Committee of the San Francisco Foundation and the Oakland, California, NHS.

Harold O. Wilson

As executive director of the Housing Assistance Council (HAC), Harold Wilson administers HAC's activities in field operations, the revolving loan fund, training information, intergovernmental coordination, research and policy development. In addition to directing the council's work, he provides guidance in rural matters to state agencies and, on request, to Congressional committees and federal government officials.

Mr. Wilson also serves as president of Rural Housing Services, Inc. (RHS), a subsidiary of HAC that promotes the development of lower-income rural housing through tax-advantaged syndication and other means. Earlier, he was executive director of Rural Housing Improvement, Inc., a community-based development agency in Winchendon, Massachusetts.

Mr. Wilson is a member of the board of directors of the National Housing Conference, the National Low Income Housing Coalition, the National Rural Housing Coalition, the Cooperative Housing Foundation and the Rural Coalition. He also is a member of the Maryland Affordable Housing Committee.

Leo E. Zickler

Leo Zickler is president and chief executive officer of the Oxford Corporation and Oxford Development Corporation.

Mr. Zickler joined Oxford's predecessor, Lippman Associates, in 1961. He became president of Oxford three years later and served as chief operating officer for all the company's operations until 1969. He then established his own development firm, CBI Corporation, in Boston.

Mr. Zickler merged his operations into Oxford's in 1974 and returned to Indianapolis as the company's president and CEO. In 1982, Mr. Zickler was instrumental in the reorganization and expansion of Oxford and in relocating the corporate headquarters to Bethesda, Maryland, a suburb of Washington, D.C.

Barry Zigas

Barry Zigas is president of the National Low Income Housing Coalition, a nonprofit advocacy organization based in Washington, D.C. He also is executive secretary for the Low Income Housing Information Service, an affiliated educational and research organization.

Before joining the Coalition in 1984, Mr. Zigas was on the staff of the U.S. Conference of Mayors, first as director of the housing assistance staff and then as assistant executive director, serving as the organization's principal lobbyist. Prior to his eight years with the Conference of Mayors, he was assistant managing editor of the Housing and Development Reporter, published by the Bureau of National Affairs.

Mr. Zigas is vice chairman of the board of directors of the Catherine McAuley Foundation in Denver; secretary of the Coalition for Human Needs; a trustee of The Enterprise Foundation; and a member of the advisory board of the Housing and Development Reporter.

Staff To The Task Force

Raymond K. James

A partner in a Washington, D.C., law firm, Raymond James has an extensive practice focusing on federal housing programs and legislation.

Mr. James played a major role in the development of the Housing and Community Development Act of 1974, first as assistant general counsel of legislation at the U.S. Department of Housing and Urban Development (HUD) and later as counsel to the Housing Subcommittee of the House Banking Committee. He also participated, in his earlier positions at HUD, in designing housing and urban development legislation in 1968.

Anthony S. Freedman

Anthony Freedman is a partner in a Washington, D.C., law office. His area of expertise is housing finance and development, including tax-exempt financing and all forms of governmental assistance for housing. He also has extensive experience in legislative representation, particularly in legislation concerning taxation, housing, budget and environmental protection.

Mr. Freedman was deputy assistant secretary for housing policy and budget for the U.S. Department of Housing and Urban Development from 1979 to 1981, and deputy director, legislation, for the U.S. Environmental Protection Agency in 1977 and 1978. Previously, he held several staff positions with the House of Representatives.

Appendix 2

Members of the National Housing Policy Advisory Panel

<u>CO-CHAIRMAN</u>
Leland Brendsel *President and Chief Executive Officer, Federal Home Loan Mortgage Corporation*

<u>CO-CHAIRMAN</u>
Ira Gribin *President-Elect, National Association of Realtors*

<u>MEMBERS</u>
M.J. Brodie *Executive Director, Pennsylvania Avenue Development Corporation*
Kent Colton *Executive Vice President, National Association of Home Builders*
Stuart A. Davis *Director, Laurene Davis, Inc. Realtors*
Robert I. Dodge, III *Partner, AHI Associates*
Cushing N. Dolbeare *Consultant on Housing and Public Policy, National Low Income Housing Coalition*
Weston E. Edwards *Senior Executive Vice President, Lomas and Nettleton Company*
Martin Fine *Senior Partner, Fine, Jacobson, Schwartz, Nash, Block, England*
Emanuel V. Freeman *Executive Director, Greater Germantown Housing Corporation*
David Garrison *Director, Urban Center, Cleveland State University*
Albert H. Gerston, Jr. *President, Gerston Company*
Daniel B. Grady *President, Council of HUD Management Agencies*
George Greenwell *Chairman Emeritus, Lincoln Service Corporation*
Ernest B. Gutierrez, Jr. *Director, City of Boston Fair Housing Commission*
T.L. Holmes *Chairman of the Board, Investment Division, National Association of Real Estate Brokers, Inc.*
Robert D. Horner *Chairman and CEO, CitiCorp Mortgage Company*
Kenneth Johnson *Director of Housing, City of St. Paul*
Charles John Koch *President and Chief Operating Officer, The First Federal Savings Bank*
Glenn Kummer *Chairman, Manufactured Housing Institute*
Warren Lasko *Executive Vice President, Mortgage Bankers Association of America*
Eugene Lehrman *Board Member, American Association of Retired Persons, Madison, Wisconsin*
Gerald Levy *Chairman, Guaranty Savings & Loan Association*
Thomas H. Lewis, Jr. *Executive Director, Detroit Housing Department, Detroit, Michigan*
Joseph S. Murphy *Chancellor, The City University of New York*
William D. North *Executive Vice President, National Association of Realtors*
Charles E. Peck *Chairman, Ryland Group*
Ann Pringle *Group Vice President, Maine Savings Bank*
Ronald F. Poe *President, Dorman & Wilson, Inc.*
Carl Reidy *Executive Vice President, Council of State Housing Agencies*
Robert C. Rosenberg *Partner, Hawkins, Delafield & Wood*
Bruce Rozet *Chairman of the Board, Associated Financial Corporation*
Martha Sachs *Co-General Manager, Cooperative Services, Inc.*
Helen L. Sause *Project Director of Yerba Buena Center*
Mike Schmelzer *Board of Directors, National Association of Realtors*
Joel Singer *Vice President of Planning, Research & Economics, California Association of Realtors*
Bernie Tetreault *Executive Director, Housing Opportunities Commission*
John Tuit *Administrator, Community Redevelopment Agency, Los Angeles*
Kurt VanKuller *Vice President, Leventhal & Co., Inc.*
Harold Van Varick *First Senior Vice President, American Savings Bank*
Walter Webdale *Director, Fairfax County, Virginia, Department of Housing and Community Development*
Alan Yassky *President, New York State Association of Realtors*

Appendix 3

List of Papers From the Massachusetts Institute of Technology Housing Policy Project

HP#0 Housing Policy for the 1990's, Denise DiPasquale & Langley C. Keyes (MIT).

HP#1 The Nation's Housing: A Review of Past Trends and Future Prospects, William C. Apgar (Harvard University).

HP#2 A Strategy for Designing a National Housing Policy for the Federal Government of the U.S., Anthony Downs (The Brookings Institution).

HP#3 Institutional Roles, Relevance and Responsibilities, Marshall Kaplan & Franklin James (University of Colorado).

HP#4 New Directions for Federal Housing Policy: The Role of the States, Ian Donald Turner (BRIDGE) & Thomas Cook (Bay Area Council).

HP#5 Federal Fair Housing Policy in the U.S.: The Great Misapprehension, George C. Galster (College of Wooster).

HP#6 The Building Industry, Robert H. Kuehn (Keen Development).

HP#7 First Time Homebuyers: Issues and Policy Options, Denise DiPasquale (MIT).

HP#8 Housing and the Capital Markets, Michael Lea (Imperial Corporation of America).

HP#9 Resolving Local Regulatory Disputes and Building Consensus for Affordable Housing, Michael Wheeler (MIT).

HP#10 The Tax Reform Act of 1986 and Real Estate, Patric H. Hendershott (Ohio State University).

HP#11 Tax Incentives and Federal Housing Programs: Proposed Principles for the 1990s, Patrick E. Clancy (Greater Boston Community Development, Inc.).

HP#12 Integrating Housing and Welfare Assistance, Sandra Newman (Johns Hopkins) & Ann Schnare (ICF, Inc.).

HP#13 The Voucher/Production Debate, John C. Weicher (American Enterprise Institute).

HP#14 Preservation of the Existing Stock, Phillip L. Clay (MIT) & James E. Wallace (Abt Associates).

HP#15 Housing and the Homeless, Langley G. Keyes (MIT).

HP#16 The Role of Nonprofits in Renewed Federal Housing Efforts, Neil Mayer (Office of Economic Development, City of Berkeley).

HP#17 Housing and Supportive Services: Federal Policy for the Frail Elderly and Chronically Mentally Ill, Sandra Newman (Johns Hopkins) & Raymond J. Struyk (Urban Institute).

HP#18 The Role of Public Housing in a Revitalized National Housing Policy, Michael Stegman (University of North Carolina).

HP#19 Rural Housing: Status and Issues, Carol B. Meeks (University of Georgia).