Rethinking Federal Housing Policy

John D. Landis and Kirk McClure

Problem: Federal housing policy is made up of disparate programs that a) promote homeownership; b) assist low-income renters' access to good-quality, affordable housing; and c) enforce the Fair Housing Act by combating residential discrimination. Some of these programs are ineffective, others have drifted from their initial purpose, and none are well coordinated with each other.

Purpose: We examine the trends, summarize the research evaluating the performance of these programs, and suggest steps to make them more effective and connected to each other.

Methods: We review the history of housing policy and programs and empirical studies of program effectiveness to identify a set of best principles and practices.

Results and conclusions: In the area of homeownership, we recommend that the federal government help the nation's housing markets quickly find bottom, privatize aspects of the secondary mortgage market, and move to eliminate the mortgage interest deduction and replace it with a 10-year homeownership tax credit. In the area of subsidized rental housing, we recommend that the current system of vouchers be regionalized (or alternatively, converted into an entitlement program that works through the income tax system), sell public housing projects to nonprofit sponsors where appropriate, and eliminate some of the rigidities in the Low Income Housing Tax Credit program. In the area of fair housing, we recommend that communities receiving Community Development Block Grants be required to implement inclusionary zoning programs.

Takeaway for practice: In general, we recommend that federal policy build on proven programs; focus on providing affordable housing for low- and moderate-income families and provide the funding to meet that goal; avoid grandiose and ideological ambitions and programs; use fewer and more coordinated programs; offer tax credits, not tax deductions; and promote residential filtering.

Keywords: federal housing policy, rental assistance, homeownership, housing affordability, fair housing

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What a difference two years makes! Between when we began writing this article in 2008 and its 2010 publication, the country has elected a new president, enacted sweeping health care legislation, and confronted the worst economic downturn since the Great Depression. In the housing sector, prices have fallen 30% from their 2006 highs, resulting in nearly 5 million homeowner foreclosures.[1] New home construction is at its lowest level since the National Association of Homebuilders started keeping track of housing starts in 1963, and $4 trillion of housing-based wealth has been wiped out (Federal Reserve Board, 2009). Falling real estate values have devastated state and municipal budgets, and whole swaths of cities like Detroit, MI, and Cleveland, OH, in the Midwest, and Stockton, CA, and Fresno, CA, in the West lie vacant or abandoned. Although these problems were mostly caused in the private financial system and not by housing policy or program failures, fixing them will require fundamentally rethinking the nation's housing policy goals, strategies, programs, and institutions.

In the first draft of this article, completed in 2008, we assumed that the listing housing sector would gradually right itself, requiring minor modifications to American housing policy, but no great shifts. We have since changed our minds. We now believe that a deeper review is required and that fundamental changes are in order. In commencing that review, we focus on three questions at the core of future federal housing policy.

1. Should the Federal Government Continue To Disproportionately Advantage Homeownership Over Renting? By our estimates, the federal government spent $6 assisting homeowners in 2008 for every $1 spent assisting low-income renters.[2] While there are substantial private and societal benefits to promoting homeownership when homeownership rates are low, at some point the marginal social benefits of additional homeownership may not be worth the cost. This question is all the more relevant when, as in recent times, the financial system proves incapable of properly mitigating the systemic risks associated with mortgage lending to high-risk borrowers. Beyond this issue of tenure balance is the related question of whether current programs are actually encouraging additional homeownership or simply continuing to reward existing homeowners.

2. Should the Federal Government Substantially Reconfigure Its Various Subsidy Programs for Low-Income Renters or, Perhaps, Make Them More Fungible? The degree to which low-income households lack access to affordable rental housing varies widely by state and metropolitan area. In places such as New York City, Chicago, or Los Angeles, high construction costs and a paucity of developable sites make it difficult to build any rental housing, whether affordable or market rate. Combined with modest household growth, this results in higher rents and rent burdens. In other places, greater site availability, less restrictive development regulations, and lower (or negative) rates of household growth result in an ample supply of affordable rental housing of reasonable quality. Current rental subsidy programs do not sufficiently recognize these differences. The program design, and, to a lesser extent, subsidy levels of current rental housing policy follow a one-size-fits-all model regardless of location, cost structure, institutional capacity, or need. Perhaps a more differentiated policy coupled with greater flexibility in the use of subsidy dollars (e.g., exchanging tax credits for vouchers and vice versa) would enable housing officials to better respond to local differences in rental housing need.

3. Should Federal Fair Housing Policy Be Expanded to Address Issues of Economic as Well as Racial Segregation? Residential discrimination and segregation by race are finally on a downward trend. Segregation by income appears to be rising, however, and generating some of the same pernicious effects as racial segregation. What role, if any, should the federal government assume in combating residential segregation by income?

All three of these questions are of profound importance to planners. Residential land uses predominate in just about every American community. According to the National Association of Homebuilders, new residential construction in 2001 was associated with roughly 3.5 million jobs (Millennial Housing Commission, 2002). Most of the approximately $400 billion spent annually building and remodeling homes is spent locally, where it boosts municipal economies and helps build individual and community wealth. Protecting local property values, which in most cases means protecting single-family home values, lies at the heart of most land use planning and permitting decisions. Community planners in older cities and suburbs struggle mightily with neighborhood revitalization efforts, most of which center on encouraging housing investment. Should the federal government alter how it supports homeownership, subsidizes affordable rental housing, or reduces racial or income-based housing disparities, the effects would be felt in every census tract, neighborhood, and municipality throughout the country.

This article is organized into five sections. The first briefly looks at the historical progression of federal housing legislation and policy reviews.[3] The second explores the widening disconnect between the goal of increasing homeownership and the ways in which federal homeownership subsidies are allocated. The third considers why the nation's three major subsidized rental housing programs (vouchers, public housing, and the Low Income Housing Tax Credit) do not add up to a comprehensive policy; the fourth discusses the shifting context of federal fair housing policy. The fifth and final section proposes an ambitious and specific housing policy reform agenda.

Federal Housing Policy: A Primer

Some policies are created using the rational model: An important problem is identified, its dimensions described, and responses are formulated and put forth. Other policies come about when constituencies mobilize around a particular issue, ideology is brought to bear, programmatic responses are negotiated among stakeholders, and money is appropriated.[4] The history of federal housing policy is replete with examples of both (see Table 1). Section 8 housing allowances (now the Housing Choice Voucher program), the Low Income Housing Tax Credit program, and HOPE VI were all products of the rational approach. The Federal Housing Administration, public housing, the Section 235 and 236 programs, the 1977 Community Reinvestment Act, mortgage market deregulation, and, most recently, the 2008 National Housing Trust Fund, were all results of more ad hoc and constituency-driven processes. Programs created through both avenues gradually accrete over time or, less frequently, die, requiring new or revised policy structures.

Table 1. Major federal housing legislation.

Major federal housing acts
1937 Housing Act created public housing program
1949 Housing Act expanded public housing and Federal Housing Administration mortgage insurance
1954 Housing Act authorized urban renewal and imposed planning and participation requirements for public housing
1961 Housing Act created Section 221(d)3 and Section 202 programs
1968 Fair Housing Act outlawed housing- and mortgage-market discrimination
1974 Housing and Community Development Act created the Section 8 and Community Development Block Grant programs and ended Section 235 and 236 programs
1977 Community Reinvestment Act allowed community groups to intervene in bank merger approvals
1986 Tax Reform Act created the Low Income Housing Tax Credit Program
1988 Fair Housing Act Amendments strengthened fair housing enforcement
1990 Cranston-Gonzales National Affordable Housing Act created the HOME program
Other housing-related federal legislation
1934 Federal Housing Administration and government-sponsored mortgage insurance created
1938 Federal National Mortgage Association (Fannie Mae) created
1944 Veterans Administration mortgage insurance program created
1945 Fannie Mae reorganized and expanded
1961 Federal Housing Administration outlawed redlining
1965 U.S. Department of Housing and Urban Development created
1968 Fannie Mae converted to investor-owned government sponsored enterprises (GSE)
1969 Kaiser Committee report (President's Committee on Urban Housing) issued, triggering creation of Section 235 and 236 programs
1970 Federal Home Loan Mortgage Corporation (Freddie Mac) created
1975 Home Mortgage Disclosure Act enacted
1987 McKinney Act enacted, providing funding for homeless housing
1989 Financial Institutions Reform, Recovery and Enforcement Act enacted, allowing federal disposition of foreclosed properties
1990 Americans with Disabilities Act enacted, prohibiting discrimination based on disabilities
1993 HOPE VI program started
1995 Homeownership and Equity Protection Act (HOEPA) requiring expanded disclosure of mortgage terms
2008 National Housing Trust Fund created

An Evolving and Expanding Housing Policy Agenda

It is not obvious that housing policies and programs should originate at the national level, and prior to 1934, they did not. It was left to private builders to construct new homes; to commercial banks and savings and loan associations to provide loan capital; and to state and local governments to deter inappropriate development, protect existing property owners, and enforce minimum safety and habitability standards through local building and development codes. The federal government entered the private housing market through the creation of the Federal Housing Administration (FHA) in 1934 to insure privately issued mortgages, principally in response to the unprecedented unemployment and foreclosure levels of the Great Depression. Only the national government, it was argued, had the requisite legal power and resources to intervene at a national scale. Federal efforts quickly expanded to include creation of a national public housing program in 1937, and, with the establishment of the Federal National Mortgage Association (Fannie Mae) in 1938, the creation of a nascent secondary mortgage market.

But these were programs, not policies. Not until passage of the landmark 1949 Housing Act would Congress formally articulate anything that might realistically be called a national housing policy. The preamble to the 1949 Housing Act said it all: Congress pledged itself to "the realization as soon as feasible of the goal of a decent home and suitable living environment for every American family" (ch. 338, 63 Stat. 413). That the preamble focused on issues of housing quality and not affordability was no accident: Worried about inflation and ballooning government spending, Congress was simply unwilling to give housing a blank check.

The high-sounding rhetoric of the 1949 Housing Act notwithstanding, enthusiasm for federal spending on housing programs would wax and wane (Lang & Sohmer, 2000). Throughout the 1950s, President Eisenhower tried to curtail housing spending as Congress tried to increase it. President Kennedy's 1960 election led to the passage of the 1961 Housing Act, authorizing the Section 202 housing construction program for low-income seniors, and the Section 221(d) 3 subsidized rental housing program; but, two years later housing policy was taking a back seat to civil rights.

Three national commissions, all reporting their findings in 1968, would reassert housing policy's importance. The National Advisory Commission on Civil Disorders (known as the Kerner Commission after its chair, Illinois Governor Otto Kerner, Jr.) called attention to housing discrimination. The National Commission on Urban Problems (known as the Douglas Commission after its chair, Senator Paul Douglas) looked at the broad range of demographic, social, and economic forces shaping residential development patterns in America. President Johnson's Commission on Urban Housing (known as the Kaiser Commission for its chair, Kaiser Industries chair, Edgar Kaiser) would challenge the federal government to take the lead in building or rehabilitating 6 million low-income housing units by 1978.

The Housing and Urban Development Act of 1968 took up this challenge, creating two ambitious housing production programs (Section 235 for low- and moderate-income homebuyers, and Section 236 for low- and moderate-income renters) and a new federal agency, the Government National Mortgage Association (Ginnie Mae), to issue and guarantee securities backed by mortgages offered to veterans, government employees, and qualified low- and moderate-income homebuyers.

Forced to compete for funding with the Vietnam War and a faltering public housing program, these new initiatives soon proved financially unsustainable. Facing mounting program costs and declining coherence, President Nixon, in 1973, suspended most federally subsidized rental housing programs and commissioned a new National Housing Policy Review to recommend how they might be improved or replaced. Although the Review's final report (U.S. Department of Housing and Urban Development [HUD], 1974) did not recommend revising federal housing policy, it did recommend rethinking current housing programs, noting that, "over the years, the presence and endurance of federal control have contributed to the development of a multiplicity of programs with differing and sometimes conflicting and overlapping requirements and procedures" (HUD, 1974, p. 6).[5]

Part of this rethinking involved scaling back expectations of what the federal government should and could accomplish. In a brief but influential book entitled *Housing: Federal Policies and Programs* (Weicher, 1980), American Enterprise Institute and Urban Institute scholar John Weicher departed from the previous program-based view of federal housing policy, and instead, took a more macro view, writing that federal housing policies since the 1930s had been "justified as a means of achieving certain national objectives. The most important of these have been improved social conditions, especially for the poor, and a high level of economic activity" (Weicher, 1980, p. 5). Using national data, Weicher went on to identify how many then-current programs seemed to work suboptimally or at cross purposes (1980, p. 125).[6]

President Reagan's Commission on Housing went further. Its final report (McKenna, 1982) characterized the programs that had emerged from the Kaiser Commission as contributing "to deterioration rather than renewal, to misery rather than comfort" (p. xvi). Calling for a fundamental change in policy direction, the Reagan Commission on Housing advocated for the continued deregulation of the banking industry to expand the flow of mortgage capital to housing, and for private enterprise and the "genius of the market economy" (p. xvii) to take the lead in providing affordable housing. To the degree that government might have a role, the Commission concluded that it should help those that the market could not be extended to reach (p. xviii).

Congress was reluctant to go along with such a complete retreat and, in 1987, commissioned its own policy review. Chaired by developer James Rouse and Fannie Mae CEO, David Maxwell, the National Housing Task Force took a middle ground between the grand ambitions of the Kaiser Commission and the extreme market orientation of President Reagan's Commission on Housing. The Rouse/Maxwell Commission's final report, entitled *A Decent Place to Live* (National Housing Task Force, 1988), reaffirmed the federal government's role in shaping housing policy while also emphasizing the need to leverage private resources and nonprofit capacity to deliver housing services. Following up on the Commission's report, Congress enacted the Cranston-Gonzales National Affordable Housing Act of 1990 creating the HOME program. HOME provides federal matching block grants to local governments to fill in the funding gaps between public housing, the Section 8 program, and other smaller housing programs.

Sometimes policy advances through serendipity. When President Reagan and Democratic House Ways and Means Committee chair Dan Rostenkowski of Illinois decided in 1986 to simplify the nation's income tax system, affordable housing advocates elbowed their way to the negotiating table to propose the Low Income Housing Tax Credit (LIHTC) program. The LIHTC was unique in that it would work entirely through the tax system and would be implemented through state housing finance agencies. Crafted around the *syndication*, or sale of tax credits from nonprofit developers to major corporations, its character appealed to Democrats and Republicans alike.

To address the deepening problems of public housing, in 1989, Congress created a National Commission on Severely Distressed Public Housing to advise it on what to do about the nation's rapidly deteriorating public housing stock. The Commission's final report (National Commission on Severely Distressed Public Housing, 1992) proposed a modest demonstration project to replace the oldest and least viable public housing projects with new, mixed-income, mixed-use, lower-density projects designed to catalyze positive community change. Embraced wholeheartedly by incoming HUD Secretary Henry Cisneros, this idea was expanded and became the HOPE VI public housing replacement program. Before being discontinued by President George W. Bush in 2004, HOPE VI would replace 150,000 public housing units in 224 projects.

The Republican congressional majority that was achieved in the 1994 elections shunted housing to the policy sidelines. Struggling to maintain policy relevance, President Clinton tacked sharply to the center and, together with Congress, pushed the two government sponsored enterprises (GSEs), Fannie Mae and Freddie Mac (the Federal Home Loan Mortgage Corporation, established in 1970) to aggressively expand mortgage lending to minority and moderate-income households. Reluctant at first to do so, Fannie Mae and Freddie Mac gradually acquiesced. President George W. Bush would later push the two GSEs even harder toward his central domestic policy goal of creating what he termed an "ownership society."

As the U.S. economy expanded during the 1990s, housing prices and rents again began rising, widening the affordability gap between homeowners and low- and moderate-income renters. Loath to spend public money but needing to respond, Congress created the bipartisan Millennial Housing Commission in 2000 to identify ways to galvanize the private sector to better provide affordable housing. Exceeding its narrow mandate, the Commission's final report recommended a substantial expansion and realignment of federal housing programs (Millennial Housing Commission, 2002). But in the aftermath of September 11, 2001, neither Congress nor President Bush was in the mood for any major new domestic spending initiatives.

Housing reentered the policy arena in 2007 after the Democrats retook Congress, and in July 2008, President Bush signed into law legislation creating the National Housing Trust Fund (NHTF). Funded from contributions by Fannie Mae and Freddie Mac, the NHTF aims to construct 1.5 million new affordable homes by 2018. But with Fannie Mae and Freddie Mac now in federal receivership, funding for the NHTF is on indefinite hold.

Barack Obama's victory in the 2008 presidential election triggered a run of housing policy reform suggestions. First out of the gate were two academics, Edward Glaeser and Joseph Gyourko (2008), who proposed two new federal initiatives to make housing more affordable. First, to help the poor gain greater access to affordable rental housing, they proposed expanding the existing Housing Choice Voucher program.[7] To address the problem of excessive local land use and housing regulations, which they regard as the principal cause of rising housing prices, Glaeser and Gyourko (2008) proposed establishing a national housing appeals board, modeled on that in Massachusetts's Chapter 40B law, to review local denials of housing construction projects in high-priced markets (Massachusetts General Laws, 2009, p.126).[8]

A second set of reform proposals, put forth by a University of Pennsylvania working group chaired by Paul Brophy and Rachel Godsil, took a narrower aim. Brophy and Godsil (2009) offered a laundry list of piecemeal initiatives aimed at expanding or remedying the problems of current HUD programs. Suggestions included: federal purchase, modification, and renegotiation of delinquent and defaulted mortgage loans (p. 15); retargeting and expanding the Section 8 program to better help the *hard to house*[9] (p. 73); increasing funding for the Neighborhood Stabilization Program and retargeting it to communities with proven institutional capacity (p. 89); enacting additional tax incentives to encourage neighborhood homeownership (p. 107); encouraging a regional approach to planning for additional housing supplies (p. 119); and dividing the Community Development Block Grant program into three subsets aimed at service delivery and job training, fiscal equalization, and local economic development (p. 133).

A more coherent policy vision was offered in June 2009 by Bruce Katz, director of the Brookings Institution's Metropolitan Policy Program, and a special advisor to current HUD Secretary Shaun Donovan. At a national conference sponsored by the Center for Housing Policy, Katz (2009) argued that housing policy had tilted too far toward homeownership and financial deregulation. He suggested that federal policy reemphasize affordable rental housing by substantially expanding the Section 8 voucher program, funding a new Affordable Housing Trust Fund to augment the faltering NHTF, and restarting the HOPE VI public housing replacement program (which had been allowed to sunset in 2004) with an expanded community development agenda.

Money Matters

As every policy student knows, government spending provides a better indicator of priorities than all policy statements, program summaries, and commission reports combined. Table 2 summarizes 2008 expenditures for

Table 2. 2008 Federal expenditures for current federal housing programs.

Program	2008 federal expenditures ($ millions)	% of total housing outlays	Administering or oversight agency	Subsidy approach	Targeting and eligibility
Mortgage interest deduction	94,800	44	IRS	Demand side	Itemizing homeowners
Capital gains exclusion at time of sale	33,000	15	IRS	Demand side	Homeowners
Other rental housing tax expenditures	19,200	9	IRS	Demand side	Low and moderate-income renters
Property tax deductibility	16,400	8	IRS	Demand side	Itemizing homeowners
Implicit federal guarantee to Fannie Mae and Freddie Mac	14,000	7	Congress	Guarantee, demand side	Homeowners
Housing Choice Voucher Program	8,545	4	HUD	Demand side	Low-income renters
All public housing, including HOPE VI	7,750	4	HUD	Supply side	Low-income renters
Low Income Housing Tax Credit	5,400	3	IRS	Supply side	Low-income renters
Federal Housing Administration mortgage insurance	4,600	2	HUD	Guarantee, demand side	First-time homebuyers
Homeless and HIV/AIDS housing programs	1,900	1	HUD	Demand side	Low- and moderate-income persons with AIDS/HIV (mostly renters)
Mortgage revenue bonds and credit certificates	1,840	1	IRS	Demand side	First-time homebuyers
HOME	1,700	1	HUD	Mix of supply and demand side	Low- and moderate-income households
Rural housing programs	1,270	1	USDA	Demand side	Low- and moderate-income households in rural counties
Section 202 elderly	925	0	HUD	Demand and supply -side	Low- and moderate-income elderly households
Native American housing programs	610	0	HUD	Demand side	Native Americans
Military family housing	520	0	DOD	Mix of supply and demand side	
Sections 235 and 236 and rental assistance	505	0	HUD	Demand side as a closeout to a supply side program	Low- and moderate-income households (mostly renters)
Section 811 disability	300	0	HUD	Demand side	Low- and moderate-income persons with disabilities (Mostly renters)
Other HUD housing programs	200	0	HUD		
Fair housing enforcement	45	0	HUD	Service provision	
HUD Section 108 credit counseling	35	0	HUD	Service provision	First-time homebuyers
TOTAL	213,545	100			

Note. Values in the expenditure column represent total outlays in the 2008 federal budget (Office of Management and Budget, 2009) except those for the implicit federal guarantee to Fannie Mae and Freddie Mac, and HUD Section 108 credit counseling, which are from Collins (2007).

major federal housing programs, as estimated from published data from the Office of Management and Budget (2009). Altogether, we estimate that the federal government spent over $213 billion providing housing assistance in 2008, excluding expenditures or credit allocations associated with the September 2008 takeover of Fannie Mae and Freddie Mac.

Roughly 75% of these expenditures went to support homeownership. They include cash outlays, which appear as line items in the federal budget, and *tax expenditures* (reductions in tax revenues resulting from tax credits or tax deductions), which do not. The latter included foregone taxes on the mortgage interest and property tax deduction ($111.2 billion, available to all homeowners who itemize their income tax returns), excluded capital gains taxes at time of sale ($33 billion), the value of the implicit guarantee against repayment default provided to purchasers of mortgage-backed securities issued by Fannie Mae and Freddie Mac ($14 billion), federal payments to the FHA mortgage insurance program to cover likely mortgage defaults ($4.6 billion), and lost revenues attributable to state and county mortgage revenue bond and credit certificate programs ($1.8 billion). Almost all expenditures favoring homeowners are demand-based and triggered by private transactions rather than congressional appropriations. This means that Congress cannot control these expenditures except by changing the law.

By comparison, federal subsidies to renters in 2008 totaled approximately $46 billion. This includes $19.2 billion of tax expenditures on rental housing (including assistance to landlords assumed to be passed on to renters), $8.5 billion of direct rent assistance through the Housing Choice Voucher program, $7.8 billion of operating and capital assistance to local public housing authorities (including payments for HOPE VI projects), and $5.4 billion of tax expenditures to cover the LIHTC program. Of the major rental subsidy programs, only the LIHTC is statutory. The others depend on yearly congressional appropriations and are vulnerable to changes in administration or congressional composition and sentiment. Except for the Housing Choice Voucher program, most renter subsidy programs are supply (or production) oriented rather than supply (or tenant) oriented.

Promoting Homeownership

Homeownership has been the cornerstone of federal housing policy for nearly 80 years, and appropriately so. Homeownership enables households to build wealth. It is associated with positive social and personal achievement outcomes, particularly for the children of homeowners. Homeowners are more actively involved in their communities than renters, and neighborhoods dominated by homeowners are more stable and than those dominated by renters. (For many years, homeownership programs also produced negative outcomes, principally by discriminating against African Americans and other minorities.) Still, worthwhile policy goals do not always translate into effective programs. At best, recent homeownership policies and programs have been inefficient and inappropriately targeted. At worst, they promoted predatory lending and high-risk behavior that undermined the world's financial system.

Current federal policy promotes and subsidizes homeownership in six ways. First, it allows homeowners to deduct mortgage interest and property tax payments from their taxable incomes, thereby reducing their tax burdens. Second, it exempts from capital gains taxes $250,000 (per owner) of housing value gains at sale. Third, it exempts investors who buy state-issued mortgage revenue bonds (or households who hold mortgage credit certificates) from federal income taxes. Fourth, it provides down-payment grants and subsidized mortgage loans to some rural and low-income homebuyers. Fifth, it provides an implicit guarantee against default to buyers of mortgage-backed securities issued by the GSEs. Finally, the government sponsors lender insurance programs through the FHA, the Veterans Administration, and the Department of Agriculture, which help low-income borrowers obtain mortgage loans.

How much are these subsidies worth and who benefits from them? As noted previously, homeownership-oriented tax expenditures cost the federal treasury approximately $153 billion in 2008 (see Table 2). This included $98 billion in mortgage interest deductions, $33 billion in capital gains exclusions, $16 billion in property tax deductions, $5 billion in imputed rent, and $1 billion in mortgage-revenue-bond-interest-income exclusions. Roughly 30 to 35 million households make annual use of the mortgage interest and property tax deduction (Collins, 2007); and depending on the volume of home sales, 20 million home sellers annually exclude some or all of their capital gains from being taxed (Joint Committee on Taxation, 2003). Approximately 90,000 new households make use of mortgage-revenue-bond financing and mortgage credit certificates each year (Collins, 2007).

Because households with more expensive homes, bigger mortgages, and higher incomes are eligible to claim larger deductions, 36% of the value of the mortgage interest deduction is claimed by homeowners having incomes of $100,000 or more. Another 40% is claimed by households with incomes between $50,000 and $100,000 (Prante, 2006). Many of these households would be homeowners anyway, so the principal effect of these programs is to increase overall consumption (including housing consumption) rather than promoting homeownership. Indeed, the argument can be made that in supply-restricted housing markets, the primary effect of the mortgage interest deduction and capital gains exclusion has been to inflate housing prices, making homeownership more difficult for less well-off households.

In contrast to more than $150 billion in tax expenditures, direct expenditures in support of homeownership totaled only $4.7 billion in 2008, excluding funding for mortgage insurance programs operated by the Veterans Administration and the Department of Agriculture. This included $4.6 billion in appropriations to support additional mortgage loan guarantees issued by FHA, $43 million to fund obligations of the Government National Mortgage Association, $10 million to Native American ownership programs, $8 million to support the Nehemiah Program, and $3 million to support residual funding needs of the Section 235 program. Altogether, according to Collins (2007), these programs benefit more than 1.2 million new households each year.

It is less clear how to value federal support of the GSEs. Prior to their federal takeover, the GSEs operated as private enterprises, occasioning no direct federal expenditures. According to the Office of Management and Budget (2008), "[The GSEs] are not included in the federal budget because they are private companies, and their securities are not backed by the full faith and credit of the federal government" (p. 1373).

This statement was never taken at face value. Buyers of GSE-issued mortgage-backed securities have long assumed them to be backed by the full faith and credit of the government, an assumption that proved correct when the Department of the Treasury nationalized the GSEs in September 2008, wiping out their shareholders, but protecting the holders of securities issued by Fannie Mae and Freddie Mac. This implicit federal guarantee allowed the GSEs to raise investment capital at a lower cost than their private competitors, and some of these savings were passed on to borrowers in the form of lower mortgages and mortgage insurance rates. After accounting for their administrative costs, the resulting difference between the GSEs' opportunity cost of capital and lending rates and those of their private competitors is best viewed as an implicit subsidy from taxpayers to the shareholders and managers of these private companies.[10] The Congressional Budget Office (2001) conservatively estimated this subsidy to be worth in excess of $11 billion; Fannie Mae and Freddie Mac put its value at only $5 billion. With U.S. taxpayers now guaranteeing the GSEs' entire $4 trillion portfolio (a share of which will likely be discounted before being eventually sold), it is still too early to estimate how much the GSEs will ultimately cost the federal treasury.

Federal Homeownership Policy 1921–2008

Housing policy historians are divided on whether promoting homeownership has been an explicit or implicit policy goal. Carliner (1998) concludes that many federal homeownership programs, most notably the mortgage interest and property tax deductions and the Section 235 program, were developed for purposes other than promoting homeownership. Others, including Aaron (1974), Hayes (1985), Vale (2007), and Weiss (1987) conclude that whatever the origins of individual programs, the overall policy narrative is one of promoting homeownership. All agree that the central theme of U.S. housing policy since the early 1990s has been to expand homeownership among minorities and other previously underserved groups.

The opportunity to own land and a home have long been entwined with the American dream (Schama, 2009), but it is only since 1921 that homeownership itself has been a major concern of federal policy.[11] That was the year that the Secretary of Commerce, Herbert Hoover, agreed to cosponsor a national homeownership campaign with the National Association of Real Estate Boards, the forerunner of today's National Association of Realtors. The "Own Your Own Home" campaign as it was known, was intended to convince middle-class families that buying a home (preferably a new, single-family home) was not only a secure financial investment, but would also promote domestic accord and high moral values (Vale, 2007).[12] Over the next decade, the U.S. Department of Commerce would undertake numerous initiatives to encourage homeownership, including promoting zoning as a means of protecting single-family neighborhoods. In 1931, President Hoover convened a President's Conference on Homebuilding and Homeownership to develop a comprehensive national agenda promoting homeownership.

The foreclosure crisis brought on by the Great Depression (nearly a million homes were foreclosed between 1931 and 1933) prompted government action. The federal response occurred on four fronts. First, the Federal Home Loan Bank system, created in 1932, injected additional liquidity and, thus, confidence into a failing savings and loan industry. Second, the Home Owners Loan Corporation (HOLC), established in 1933, refinanced existing mortgages in foreclosure or in danger of default using a relatively new financial vehicle, the 30-year, fixed-rate, fully amortizing mortgage.[13] Third, the FHA created a system of mortgage insurance to entice uncertain lenders to make mortgage loans with reduced down payments on new homes. (A more liberal mortgage insurance program directed toward returning veterans was established in 1944 under the authority of the newly created Veterans' Administration.) Finally, Fannie Mae provided additional liquidity to commercial banks by buying and securitizing single-family mortgages, thus creating a nationwide secondary mortgage market. (Freddie Mac was created in 1970 to provide a comparable function for savings and loans.)

Gradually, these initiatives gained traction. Between 1933 and 1935, the HOLC refinanced over a million mortgages, offering foreclosure protection to nearly one in five urban homeowners (Carliner, 1998). Thanks to the efforts of the FHA, the national homeownership rate began climbing, rising from 40% in 1935 to 44% in 1940, 55% in 1950, and 62% in 1960 before stalling at 63% in 1970 and 64.4% in 1980.

Foremost among the forces preventing further increases was continued redlining. Even after FHA amended its underwriting practices in the late 1950s to eliminate federal redlining, many private lenders continued to pursue such practices on their own. Not until passage of the Fair Housing Act of 1968 would federal agencies start to actively combat redlining. Second, housing prices in some housing markets, particularly in fast-growing California and the Boston-to-Washington corridor, had risen to levels too high to be eligible for FHA insurance. Third, Depression-era federal regulations limiting how high mortgage loan rates could go were resulting in periodic deposit shortages and mortgage credit crunches, a phenomenon known as *disintermediation*.

Federal policymakers tried to overcome these impediments in a number of ways. The first was to create a new homeownership subsidy program for households too rich for subsidized rental housing but too poor to qualify for FHA insurance. Enacted in 1968, the Section 235 program provided mortgage subsidies to cover the difference between a qualified household's housing costs (including debt service, property taxes, and insurance) and 20% of its adjusted gross income (Bratt, 2007; Hayes, 1995). To deal with the problem of periodic disintermediation, Congress began a separate effort to deregulate the mortgage finance system, better integrate it into expanding global capital markets, and promote innovative mortgage instruments. This took several forms, including phasing out limits on the interest rate savings institutions could pay depositors and authorizing Fannie Mae and Freddie Mac to purchase and securitize adjustable rate mortgages (ARMs), which carried lower interest rates. To help make the thrift industry more competitive, Congress also relaxed capital standards (the amount of money held in reserve to protect against losses) and, for the first time, allowed the nation's savings and loans institutions to make loans to, and invest in commercial real estate projects.

None of these responses worked quite as intended. The Section 235 program was plagued by significant appraisal and construction fraud (Welfield, 1992) and was suspended by President Nixon in 1973. Deregulation of the thrift industry was accompanied by reduced federal oversight, leading many savings and loans to overinvest in speculative real estate deals, and by the end of the 1980s, to a $157 federal bailout of thrift depositors (Sherrill, 1990). The advent of ARMs helped many home purchasers cope with the effects of high interest rates during the first half of the 1980s and rising housing prices during the second half, but had little effect on the overall homeownership rate, which, as of 1990, stood at 64.2%, down 0.2% from 1980. Worse yet, the longstanding gap between White and Black homeownership rates remained in the 20% to 30% range (Bostic & Surette, 2001; Collins & Margo, 1999).

There was one bright spot. In 1977, Congress passed the Community Reinvestment Act (CRA), empowering housing advocacy groups and community organizations to challenge commercial banks seeking to acquire other banks or expand across state lines on the grounds that they had provided inadequate service or credit to low-income households and communities.[14] CRA had little impact at first. Gradually, however, applicant banks were forced to negotiate lending agreements with community interveners stipulating how and where they would provide increased mortgage credit to low-income and minority communities (Schwartz, 1998). By 2002, according to the National Reinvestment Coalition, several hundred such agreements totaling $1.5 trillion had been signed. Moreover, at less than 1%, the default rate on CRA-initiated mortgages was comparable to or even lower than the rate on many conventional mortgages. Lending to qualified low-income and minority households was not only good policy, it was also good business.

Picking up on the success of CRA-based lending in general, and of Chicago-based Shore Bank in particular, Congress, in 1992, began imposing a series of mandates on Fannie Mae and Freddie Mac to buy additional mortgages made to minority homebuyers and buyers living in lower-income communities. With the support first of the Clinton administration, and then later of the Bush administration, these mandates were gradually ratcheted upward (Schwartz, 2007, p. 67).[15] Homeownership rates

Table 3. Percentage of U.S. households who own their own homes, by metropolitan location and race or ethnicity, 1980–2007.

	1980	1990	2000	2001	2003	2005	2007
U.S. total	64.9	64.2	66.2	67.8	68.3	68.8	68.1
White	69.0	68.1	71.3	74.3	75.4	75.8	75.2
Hispanic	44.0	42.0	45.7	47.3	46.7	49.5	49.7
Black	45.0	43.3	46.3	48.3	48.8	48.8	47.8
Asian (alone 1980–2000, with other races 2001–2007)	53.0	52.2	53.4	54.7	56.9	60.3	60.1
All minorities				49.0	49.5	51.3	50.9
In metropolitan statistical areas (MSAs)				66.0	66.3	66.6	65.8
In central cities in MSAs				53.1	53.4	54.3	53.4
In suburbs in MSAs				73.6	73.9	74.1	73.3
Outside MSAs				76.2	76.1	76.5	76.2

Sources: Data for 1980 through 2000 are from U.S. Census Bureau (1980, 1990, and 2000). Data for 2001 through 2007 are from U.S. Census Bureau & U.S. Department of Housing and Urban Development Office of Policy Development and Research (2002, 2004, 2006, and 2008).

responded almost immediately. Nationally, rates rose from 64.2% in 1990 to 65.2% in 1995 to 67.4% in 2000 to 69% in 2004.

Rising homeownership benefited all racial and ethnic groups (Table 3). Between 1990 and 2005, White homeownership rates rose from 68% to 75% while rates for non-Whites rose from 44% to 51% (U.S. Census Bureau, 1990; U.S. Census Bureau & HUD Office of Policy Development and Research, 2006). Even more impressive than the increase in rates was the increase in numbers. Nationally, the number of African American homeowners rose from 4.3 million in 1990 to 6.5 million in 2005.

Building on these successes, and anxious to do something innovative about housing policy, in 1995 the Clinton administration proposed its National Homeownership Strategy with a goal of generating 8 million additional homeowners by the year 2000 (Rohe, Quercia, & Van Zandt, 2007). In 2003, Congress added to previous GSE mandates by requiring that Fannie Mae and Freddie Mac not only issue securities backed by mortgages to previously underserved borrowers, but also buy comparable mortgage-backed securities offered by private issuers.[16] In 2002, the Bush administration issued its own *Blueprint for the American Dream* (HUD, 2002), aiming to increase minority homeownership by 5.5 million households by 2010. The Bush proposals echoed many of those from the Clinton administration (improving homebuyer education, increasing down-payment and closing-cost assistance, and expanding production) but went beyond them, advocating the creation of a tax credit program to fund the production of affordable units for owners (paralleling the LIHTC), and the local-option diversion of low-income rental housing vouchers to homeowners.[17] Somewhere along the way, federal housing policy had crossed from broadly encouraging homeownership to pushing mortgage loans on high-risk borrowers.

The Reckoning

The nation's rising homeownership statistics were built on an unsustainable combination of low interest rates, questionable lending standards, and a collective disbelief that the resulting housing price bubble would eventually burst. By 2006, an increasing number of homeowners with ARMs found themselves facing serious trouble as interest rates on their loans began ticking upward (Immergluck, 2008). They could neither make their mortgage payments, nor convert their ARMS to fixed-rate loans, nor, in the worst case, sell their homes and repay their outstanding balances. Their only available courses of action were to pay what they could or default and wait for their lenders to foreclose.

Defaults and foreclosures were initially confined to the most overpriced markets such as Miami, Las Vegas, and California's Central Valley and Inland Empire, but they soon spread. According to RealtyTrac (2010), nationwide, completed home mortgage foreclosures rose from 269,000 in 2006, to 405,000 in 2007, to 850,000 in 2008, to as many as 1.5 million in 2009.[18] As more and more foreclosed homes came back on the market, prices started falling more broadly and with greater momentum. Many households who had been making their mortgage payments now found themselves underwater, with the value of their homes having fallen to less than their mortgage balances, and reasoned that the logical thing to do was to default (Immergluck, 2009). By June 2009, house prices nationwide had fallen 31% from their June 2006 peak (Standard & Poor's, 2010) and, according to the Mortgage Bankers Association (2009), 1 in 11 homeowners was one or more payments past due on their mortgage.

How in two short years did the United States go from a situation in which federal policy visualized every American household as a potential homeowner into one in which one of every four homeowners found themselves underwater? And what role, if any, had federal attempts to expand low-income and minority ownership played in the collapse? While the full story of this debacle is still emerging, we already have enough sense of its key elements to draw some useful conclusions:

Nearsighted Risk Modeling. The story starts in the mid-1980s with two technical innovations, one in underwriting and another in finance. On the underwriting side, credit scoring was born when the Fair Isaac Company of San Francisco discovered it could do a better job predicting mortgage defaults using statistical models than could traditional mortgage lenders using conventional loan-to-value and loan-to-income qualifying criteria. Fair housing advocates initially worried that credit scoring would reduce mortgage lending to urban and minority borrowers, but the opposite occurred instead; credit-scoring made it easier for lenders to originate more loans and easier for more households to qualify. On the finance side, Wall Street investment banks were experimenting with new forms of structured finance that enabled them to bundle collections of higher-risk mortgages into investment-grade mortgage-backed securities (MBSs) and sell them to investors. These securities could then be repackaged and resold as derivatives, known as collateralized debt obligations (CDOs). These underwriting and structured finance models worked well when housing prices were stable or rising, but became harmful when housing prices started falling.

A Surplus of Investment Capital. There was no shortage of buyers for these new instruments. Since the mid-1990s, there had been an increasing supply of international investment capital willing to take on additional risk in pursuit of higher returns. Repeated financial crises had been successfully contained: Mexico's devaluation of its peso in 1994, Russia's devaluation of its ruble in 1996, the Asian financial crisis of 1997–1998, and the bankruptcy of the hedge fund firm Long Term Capital Management in 1998. It seemed that central bankers had learned how to manage financial disruptions. As risk premiums fell to all-time lows, much of this capital surplus was invested in MBSs and CDOs issued by Wall Street investment banks. Indeed, these instruments were regarded as so profitable that most Wall Street institutions, commercial banks, and even Fannie Mae and Freddie Mac purchased them for their own accounts. Such purchases were made easier when, in 1999, Congress repealed the 1932 Glass-Stegall Act, which had separated consumer and business banking from investment banking.

Loose Interest Rates and Looser Regulation. Meanwhile, the Federal Reserve and the Securities Exchange Commission mostly stood by and watched. In 1996, Federal Reserve Chairman, Alan Greenspan, had warned that low interest rates and investors' "irrational exuberance" over technology stocks was generating a stock market bubble (Greenspan, 1996). Greenspan was right. Yet, despite similar indications in 2003 that even lower rates were creating a U.S. housing price bubble, Greenspan and the Federal Reserve refused to raise interest rates to moderate demand. Housing prices kept on rising and so too did investments in mortgage-backed securities. Meanwhile, the Securities and Exchange Commission allowed investment banks like Goldman Sachs, Merrill Lynch, Lehman Brothers, and Bear Stearns to lower their *capital reserve ratios*, or amount of debt they could take on per dollar of investment capital, from 12% to just over 3%. This multiplied their potential profits, but also magnified their vulnerability to potential losses.

Decommissioning Risk. Mortgage brokers, mortgage bankers, and investment banks make their money upfront by charging commissions to originate mortgages and package mortgage-backed securities. Unless they also buy them, they bear none of the cost if those mortgages default. As the dominant issuers of mortgage-backed securities through the late-1990s, Fannie Mae and Freddie Mac dealt mostly with reputable lenders and underwriters. Gradually, as the action in the securitizing mortgages shifted from the GSEs to banks and investment houses, underwriting standards were relaxed or ignored. This led to the growth of a new class of mortgage loans for which there was minimal documentation of borrower income or ability to repay. Worse yet, with all parties' compensation based on loan volume rather than loan quality, there was a built-in incentive to originate marginal or even bad loans. When the share of nonperforming loans in an MBS issuance exceeded just a small percentage, the whole issuance was quickly contaminated, but by that point the mortgage brokers, bankers, and investment banks had already made their commissions.

Paying the Underwriters. It is the job of Wall Street rating agencies, including Moody's, Standard and Poor's, and Fitch Ratings, to certify the creditworthiness of the mortgages underlying the securities and derivatives purchased by investors. Whether for reasons of incompetence or because they themselves were overwhelmed by the complexity of the deals, the ratings agencies failed at this. This problem is structural. As long as ratings agencies are paid by MBS issuers and not by investors, and as long as ratings practices are exempt from regulation, they will have the incentive to understate risk.

You Can Always Refinance, Since Housing Prices Don't Go Down. Low interest rates and rising housing prices mask multiple problems. They allow lenders to shift the underwriting burden from the borrower's ability to repay the loan to the value of the home, qualifying otherwise questionable borrowers. They make it possible for overextended borrowers with ARMs to refinance their loans or sell their homes without taking a loss. Most of all, they discourage lenders, borrowers, securities issuers, and investors from reading the fine print and imagining what will happen to their homes, their loans, and their investments if housing prices start declining. Housing prices do decline, especially in overbuilt markets. During the early 1980s, real housing prices in the Houston market declined by 13%. During the early 1990s, real housing prices in Los Angeles declined by more than 20%. The fact that housing prices had not declined nationally since the 1930s did not mean that they would not or could not.

While the federal government (including the Federal Reserve) did not create the housing bubble or cause the subprime meltdown, its actions clearly worsened them: First, through the 1999 repeal of the Glass-Stegall Act; second, by reducing bank reserve requirements; and third, by failing to raise interest rates in 2004 in an obvious housing price bubble.

Once the financial crisis was underway, the federal response was improvised and disjointed, with most of the action aimed at helping lenders rather than borrowers. Under the aggressive leadership of Chairwoman Sheila Bair, the Federal Depository Insurance Corporation (FDIC) tried to identify potentially insolvent banks and arrange for them to be closed or taken over by stronger institutions. When the Treasury Department finally placed Fannie Mae and Freddie Mac in federal receivership in September 2008, it had no real plan for their future and, as of this writing still does not. In an attempt to stabilize the financial sector and ease the worsening credit crunch, the Treasury Department loaned the nation's banks and investment houses more than $250 billion under the Troubled Asset Relief Program (TARP).

The only federal action to help borrowers came in December 2008, when President Bush announced a tentative deal with major mortgage lenders to voluntarily freeze mortgage interest rates on subprime and adjustable rate mortgages originated between January 1, 2005, and July 30, 2007. Aimed only at those who had previously been able to make their mortgage payments, the plan was criticized by fiscal conservatives as rewarding past speculation, by housing activists as doing little to help those who had already lost their homes, and by economists as too narrow to stabilize housing prices. Lenders hoped that the government would ultimately be forced to take the worst loans off their books entirely and that borrowers on the edge of foreclosure would somehow muddle through on their own. Of the 1.2 million borrowers eligible for a rate freeze, fewer than 5,000 ultimately participated (Miller, 2008).

Hoping to improve on this dismal performance, President Obama announced his own mortgage renegotiation program in March 2009. Intended to reach up to 9 million at-risk borrowers, the three-part Making Home Affordable program included additional capitalization for Fannie Mae and Freddie Mac; a Home Affordable Refinance program to provide access to refinancing for 4–5 million homeowners who owed more than their homes were worth; and a Home Affordable Modification program to help up to 4 million homeowners unable to make their payments renegotiate their loan terms. Although most of the nation's largest mortgage issuers and servicers agreed to participate, as of January 2010, they had arranged to refinance fewer than 100,000 troubled loans (Goodman, 2010). As of this writing, the Obama administration has announced yet another program to help underwater homeowners, this one by writing down the value of their loans (Streitfeld, 2010).

HUD has done only slightly better. To stabilize foreclosure-impacted neighborhoods and stem the decline of neighboring housing values, Congress created the Neighborhood Stabilization Program (NSP) as part of the Housing and Economic Recovery Act of 2008, authorizing HUD to provide $4 billion in grants to states and local governments to purchase foreclosed or abandoned homes and to then rehabilitate, resell, or redevelop them. Although questions remain about the effectiveness of the first round of NSP spending, a second round of $2 billion was authorized as part of the stimulus program when the American Recovery and Reinvestment Act was enacted in February 2009.

Quantifying the Benefits of Homeownership

As Congress and the Obama administration debate the next generation of housing policy, they will have to determine whether the individual and societal benefits of expanding homeownership among lower-income households are worth the additional risk of default. Collins (2007) identifies three broad arguments in favor of further expanding homeownership. The first is that there may be positive spatial, social, and intergenerational externalities associated with being a homeowner. Neighborhoods with higher proportions of homeowners, it is often argued, are in better physical condition than those dominated by renters. Others claim that children who grow up in owner-occupied housing suffer fewer problems and are more likely to finish high school, thereby improving their life prospects, than otherwise similar children of renters. Second, as a form of forced savings, homeownership provides superior opportunities to build long-term wealth through rising property values. Third, homebuilding and related industries (real estate sales, mortgage lending, and home furnishings) employ large numbers of American workers and promote greater promote macroeconomic stability. We consider each of these arguments in turn.

Rohe, Van Zandt, and McCarthy (2002) summarized the community benefits of homeownership. Controlling for household socioeconomic status and education, they concluded that homeowners are more involved in their neighborhoods and communities than renters. In a follow-up study of personal and household satisfaction, Rohe, Quercia, and Van Zandt (2007) found that recent home-buyers reported higher levels of satisfaction with their lives and communities than otherwise similar renters, and were more likely to have expanded their social support networks.

The anecdotal and statistical evidence is also clear that the children of homeowners are likely to perform better in school than the children of renters and, thus go on to additional years of education. Using multigenerational data from the Panel Study on Income Dynamics, Boehm and Schlottman (2002) found that the children of homeowners accrued more wealth, accrued it faster, and were more likely to become homeowners themselves than the children of renters. These results are limited to comparisons of home-owners and renters; there is little evidence that the social or intergenerational benefits of homeownership rise with household wealth in a way that could be used to justify the regressive distribution of homeownership subsidies.

What of the relationship between homeownership and wealth accumulation? While there is little doubt that home-owners are wealthier than renters, there is some debate regarding how much of the difference is due solely to homeownership. Using data from the Panel Study of Income Dynamics, Di, Yang, and Liu (2003) found that after 15 years, the net wealth of households who had bought homes in 1984 was more than twice that of economically and demographically similar households who had remained renters. Goodman (1997) reached a wholly different result using slightly different data, concluding that when all the costs of owning and renting were considered, a majority of families who bought homes in the mid-1980s would have saved money by renting comparable housing.

What of lower-income households? In a study comparing low-income homeownership in Chicago, Boston, and Los Angeles since 1980, Case and Marynchenko (2002) found homeownership to be a superior means of wealth accumulation in all three cities, but only after 1995. In a nationwide study of the Community Advantage Secondary Market Demonstration Program (CAP), Stegman, Quercia, and Davis (2007) found that the majority of low-income families who participated between 1998 and 2002 realized "substantial gains in paper wealth as a result of their transition from renting to owning" (p. 189).

Last, with respect to homeownership's macroeconomic benefits, the Millennial Housing Commission (2002) estimated that the housing sector, broadly identified, accounted for roughly 20% of U.S. gross domestic product. As of 2001, new residential construction was associated with roughly 3.5 million jobs and $166 billion in income to local economies. Although it has since fallen significantly, at its peak in 2006, the value of residential real estate in the United States stood at $22.9 trillion, or about 30% of all household assets in the U.S. economy (Federal Reserve Board, 2009).[19] For better and for worse, the health of the U.S. economy follows the health of the housing market.

In sum, there seem to be significant individual and social benefits to homeownership, especially for moderate- and middle-income families with children. This suggests that there is a legitimate basis for federal policies promoting homeownership. This is not to say that the distribution of benefits follows the distribution of subsidies. In fact, quite the opposite is true: The current distribution of homeownership subsidies disproportionately favors those who would have the least trouble attaining homeownership in the absence of government subsidies.

Subsidized Rental Housing

Since the Housing Act of 1937, subsidized rental housing policy in America has suffered from two essential difficulties. The first is that there is no policy, only a collection of individual programs, which despite significant improvements, remain poorly integrated and continue to have implementation problems. The second is that there has always been disagreement in Congress about the need and role for a national rental housing policy, especially with respect to the private market. These two difficulties are related, and together have resulted in the systematic underfunding of all subsidized rental housing programs. Without a clear policy objective or beneficiary group, it is difficult to create a large constituency and attract political champions. And without a constituency or champions, it is difficult to secure adequate funding.

Programs and Problems

Three programs dominate federal assistance to low-income renters: public housing, vouchers, and the LIHTC.[20] Each has its own history, programmatic design, and problems, and since all three are likely be the building blocks of any future rental housing policy, each merits further discussion.

Public Housing and Related Programs. Public housing was the nation's first large-scale subsidized rental housing program, and there are still approximately 1.5 million public housing units and 1.2 million legacy units built under the Section 236 and Section 8 New Construction/Substantial Rehabilitation programs. Although public housing is often stereotyped as monolithic and crime-ridden towers, the nation's public housing stock and public housing authorities (PHAs) are actually quite diverse. About half of the nation's 2,700 PHAs administer fewer than 100 units. At the other extreme, the New York City Housing Authority, the nation's largest PHA, administers 180,000 units accounting for 12% of the nation's public housing stock (Schwartz, 2007, p. 102).

Many PHAs suffer the same problems. First, the aging public housing stock requires increasing maintenance and capital investment. The most recent analysis of public housing capital needs, completed in 2000 and based on 1998 data, found that the public housing stock required $2 billion (or $1,679 per unit) to meet immediate repair needs and an additional $24.6 billion ($20,390 per unit) to meet modernization needs (Finkel, DeMarco, Lam, & Rich, 2000, p. 18). During the administration of President George W. Bush, federal funding for major capital repairs to public housing declined 32% (Center on Budget and Policy Priorities, 2009; Rice & Sard, 2009). As part of President Obama's stimulus package, Congress authorized an additional $4 billion for PHAs to begin to address their most pressing repair and maintenance needs, but as yet, neither the Obama administration nor HUD has developed a plan to guarantee the long-term sustainability of the nation's public housing stock.

A second set of problems concerns how public housing operating subsidies are allocated, how projects are managed, and how tenants are selected. Public housing was originally structured so that the federal government paid only the costs of construction, while tenants paid all subsequent operating costs through their rental payments. This system worked reasonably well through the 1960s, but started breaking down as operating costs began climbing faster than tenant incomes. Congress and HUD implemented numerous reforms to deal with this problem throughout the 1960s, 1970s, and 1980s, including authorizing a system of need-based operating subsidies in 1968 to supplement tenant rents (a provision known as the Brooke Amendment).

Because public housing is intended for the poorest households, finding sufficient numbers of tenants who are fully employed, pay their rent on time, and can help maintain their units has always been a problem. To deal with these issues, some PHAs experimented with expanded tenant participation and management practices in the 1970s and 1980s, but with little success. As part of the Quality Housing and Work Responsibility Act of 1998, Congress stipulated that no more than 40% of new households admitted to public housing have incomes below 30% of the area median. Congress had also previously required PHAs to adopt a one-strike policy evicting any public housing tenant (and their family) charged with a felony.[21]

None of these changes have had much overall effect. Public housing operating costs are high relative to market-rate rental housing because PHAs are notoriously inefficient. Most are grossly overstaffed, have an extremely centralized and hierarchical management structure, and do not make use of current best practices of property management (Byrne, Day, & Stockard, 2003; Schwartz, 2007, p.112). In 1993, Congress started deliberately underfunding public housing operating subsidies to force local PHAs to better control their operating costs (Byrne et al., 2003). While this has helped a little to control operating costs, it has left all PHAs with sizeable (and rising) capital budget deficits (Finkel et al., 2000).

Third, in many locations, public housing is simply too much of a bad thing. From its earliest days, public housing was never supposed to compete with market-rate housing. The 1937 Housing Act specified that public housing development costs, including land, were not to exceed $5,000 per unit, well below what it would cost to develop market-rate units. To meet this requirement, and to promote the idea that public housing tenants should someday graduate to market-rate housing, public housing projects were purposely designed to be as spartan as possible. As Schwartz (2007) notes, "Closets were shallow and without doors, and plaster walls were eschewed for cinderblocks. In many high-rise projects, elevators skipped every other floor; buildings lacked enclosed lobbies, and common spaces were kept to a bare minimum" (p. 110).

Such designs immediately alienated their residents, especially when combined with the high densities required to contain land and construction costs. From the beginning, many public housing projects suffered from vandalism, crime, and disinvestment. Worse, because of virulent White and middle-class opposition, public housing construction was disproportionately focused in minority and low-income neighborhoods, as first and best described by Meyerson and Banfield (1955). So, instead of becoming a vehicle for desegregation and enhanced economic opportunity, public housing served to further concentrate poverty and worsen racial segregation.

Faced with the need to rebuild or demolish large numbers of aging and vacant public housing units, the Clinton administration created the HOPE VI program in 1993 to replace the nation's worst public housing projects with new mixed-income, mixed-use developments. HOPE VI was designed to avoid all the mistakes of traditional public housing. HOPE VI projects are all low- or medium-rise buildings. They are individually designed, and meet higher quality and amenity standards. To make this possible, HUD authorized higher construction costs for HOPE VI projects than for previous public housing and encouraged local PHAs to combine HOPE VI funding with other revenue sources such as project-based vouchers and the LIHTC. Instead of isolating their residents, HOPE VI projects are designed to blend into their neighborhoods. Some even incorporate neighborhood-oriented retail development. Between 1993 and the completion of the last project in 2006, HOPE VI replaced 150,000 public housing units in 224 projects (HUD, 2004a).

Yet HOPE VI was controversial from its start. Participating PHAs were required to replace demolished units with at least as many new units, but there was no requirement that prior affordability levels be maintained. Quite the opposite: Because HOPE VI sought to deconcentrate poverty by replacing low-income housing with mixed-income housing, many prior tenants would have to pay much higher rents if they chose to return.[22] Nor were there adequate guarantees of replacement housing. All residents of projects slated for demolition were supposed to be provided with another public housing unit or a housing voucher, and HUD did authorize additional vouchers to accommodate those displaced from demolished public housing units, but because of indifferent follow-up, some households fell through the cracks or lost their subsidies. A 2003 study by the General Accounting Office estimated that only 44% of the original public housing tenants would return to occupy HOPE VI units. PHAs were also given increased latitude to enforce strict screening criteria for new and returning HOPE VI tenants. Even allowing for all these difficulties, most evaluators judge the HOPE VI program to have been an overall success, and it forms the basis of HUD's recently announced Choice Neighborhoods program.

Vouchers. When first enacted as part of the Housing and Community Development Act of 1974, the Section 8 Housing Allowance program (now known as the Housing Choice Voucher program, or HCV), represented a significant change of policy course. Previously, rental housing policy had overwhelmingly favored new construction (first, through public housing and later through the Section 236 program), but because of rising construction and operating costs in the former and fraud in the latter, policymakers increasingly favored a more balanced approach combining production with demand-side housing allowances.[23]

The Section 8 Housing Allowance program provides eligible tenants with a monthly allowance to be used to rent an existing, good-quality rental unit in the private market. Allowances are calculated as the difference between 30% of the recipient's household income and the HUD-specified *fair market rent* (FMR) for their city or county.[24] In the original Section 8 program, allowances were sent directly to participating landlords, and could only be used in the city or county of issuance. When the program was renamed HCV in 1998, new vouchers were given directly to tenants, who could withhold them from landlords who did not maintain their units. Vouchers were made portable across issuing agencies within metropolitan areas in 1999.

Today, approximately 2.24 million low- and very-low-income households receive rental housing vouchers under the HCV program. About 45% of these households are headed by people who are elderly or have disabilities (HUD, 2004b). As of 2008, the median household income for voucher holders was $10,512, and the median voucher holder contributed $245 of their income toward a gross rent of $816 (HUD, 2009). By most accounts, the HCV program is effectively administered, with low overhead and compliance costs (Sard, 2001). According to HUD's Office of Policy Development and Research (2000), vouchers cost taxpayers 8% to 19% less per assisted household than public housing.

But vouchers have not lived up to all expectations. When the Section 8 program was first created, it was argued that vouchers would allow low-income and minority households to move from segregated and distressed neighborhoods into neighborhoods that were safer, offered better schools and public services, were closer to available jobs, and were less racially segregated. This has been only partially realized. Voucher holders do live in better and less segregated neighborhoods than public housing tenants, but are still at a marked disadvantage when compared to unsubsidized renters (Devine, Gray, Rubin, & Taghayi, 2003; Pendall, 2000). Nor has the increased portability of vouchers since 1999 enabled significant numbers of voucher holders to move from job-poor central city neighborhoods to job-rich suburban areas (McClure, 2004).[25] There is also concern in some metropolitan areas that voucher portability is reconcentrating poverty and associated problems in suburban neighborhoods. While there is no evidence that this is a national problem (Devine et al., 2003), it is a growing popular concern (Rosin, 2008).

These problems have been made worse by federal neglect. In 1996, with the acquiescence of the Clinton administration, Congress replaced new and expiring five-year voucher commitments with a series of one-year rollovers. This has substantially reduced the program's attractiveness to private landlords, even in markets with high vacancy rates. As a result, the national voucher utilization rate has fallen continuously from its 1993 high of 81% to about 69% in 2001 (Finkel & Buron, 2001).[26]

With voucher rents indexed to local rent levels, the cost of vouchers has gone up steadily. In 1998, vouchers accounted for 36% of HUD's budget; by 2004, their share was 54% (HUD 2004b). Hoping to contain this growth, the Bush administration proposed requiring voucher recipients to pay more than 30% of their incomes for rent, capping the maximum per month voucher amount, and expanding program eligibility to some moderate-income households to reduce the amount of subsidy. None of these proposals were ultimately enacted, but Congress did authorize an administration-sponsored demonstration program allowing eligible households to apply their vouchers to monthly mortgage payments in 2005.

Tax Credits. Vouchers are an effective way to provide rental assistance to low-income households, but they do little to increase the overall supply of affordable housing. Recognizing the need for more supply, Congress, as part of the Tax Reform Act of 1986, authorized the creation of the LIHTC, which enables private and nonprofit developers to raise equity for affordable housing construction by selling tax credits to private corporations.[27] Administered by state housing finance agencies with the per capita credit amount indexed to inflation, the LIHTC program has proven enormously successful, resulting in the construction or substantial rehabilitation of more than 1.6 million affordable housing units since 1987. The overwhelming majority of tax credit housing units are occupied by households making less than half of the city or county's median income (Schwartz, 2007, p. 90). In the absence of the LIHTC program, many of these households would almost certainly pay higher rents.

Tax credit projects are generally indistinguishable from nearby market-rate units and many are of better quality. This limits local opposition to tax credit projects, makes them easier to site, and reduces the stigma associated with living in subsidized housing. But it also raises costs. With the typical tax credit unit costing the U.S. Treasury about $70,000 over a 30-year period, tax credits are considerably more expensive than vouchers, but less expensive than public housing (McClure, 1998; U.S. General Accounting Office, 2002).

Like all housing subsidy programs, the LIHTC program works better at providing housing than at deconcentrating poverty or promoting economic and social mobility. Projects assisted through the LIHTC program are not being developed in neighborhoods where there is a shortage of units in the price range served by the program. Rather, they tend to be located where there is already a surplus. State housing finance agencies and project sponsors have yet to figure out how to produce mixed-income projects; the vast majority of LIHTC developments include no market-rate or unsubsidized units.[28]

The LIHTC program also faces new challenges. State housing finance agencies and project sponsors have yet to figure out ways to operate in today's constrained credit markets. With Fannie Mae and Freddie Mac in receivership and many banks making no taxable profits, buyers of tax credits are few and far between. Two programs have tried to rescue the program. The first is the Tax Credit Assistance Program (TCAP) which permits states to provide short-term loans to cover gap financing needs. It was given $2.25 billion as part of the American Recovery and Reinvestment Act. The second is the Tax Credit Exchange Program (TCEP) program, which allows developers to exchange their unsold credits for 85 cents per tax credit dollar. These stopgap programs have been slow to get off the ground and will have a short life span. Despite constant tinkering with their allocation plans, state housing finance agencies and project sponsors seem perennially unable to direct LIHTC developments to areas where they are most needed. With some of the earliest LIHTC projects now having exceeded their statutory 15-year affordability limits, project sponsors are struggling to find ways to preserve the low-income occupancy of the oldest units in their portfolios.[29]

Remaining Need

The test of any policy or program is how well it produces the desired outcomes, and at what cost. According to the 2007 American Housing Survey (AHS), nearly 16 million out of a total of 35 million renters in 2007 paid 35% or more of their income for rent and utilities, and more than 9 million paid more than 50% (U.S. Census Bureau & HUD, Office of Policy Development and Research, 2008).[30] Among the 6.7 million renters with household incomes between $20,000 and $30,000, the median burden was 37%; and for the 2.8 million renters with incomes between $15,000 and $20,000, it was 47%. Overpaying for rent and poor housing quality go hand in hand. According to the 2007 AHS, the majority of renters living in dwelling units with moderate or severe physical problems also overpaid for rent.

Because the decennial census and AHS report only presubsidy rents and burdens, it is difficult to gauge exactly how well federal policy is meeting these needs. One approach is to compare the number of low-income households overpaying for rent (as a measure of housing need) with the number of households receiving rental housing subsidies.[31] The first measure can be obtained from the 2000 decennial census and the second from HUD's *A Picture of Subsidized Households* for 2000 (HUD, Office of Policy Development and Research, 2006), which covers all subsidized housing programs except FHA programs. Table 4 shows these comparisons by state. Nationwide in 2000, 8.1 million renter households had incomes below $20,000 and paid 35% or more of their incomes for rent, while only 4.7 million households received federal rental housing assistance of any type.[32] This left a deficit of 3.4 million, or 42% of households still in need.

Total unmet need and the percentage of unmet need both vary widely among states. The highest aggregate unmet need in 2000 was 670,000 households in California, while there was no unmet need in Delaware and Puerto Rico. The top 10 states had 2.2 million households whose needs were unmet, with Arizona (75%), Nevada (71%), Oregon (65%), Washington, DC (63%), and Washington (63%) having the highest percentages. The implications of these results are clear. First, federal rental housing assistance falls short of meeting the total need of the nation by at least 40%, indicating, as advocates have been saying for more than 50 years, that federal rental housing assistance is shamefully inadequate. Second, however well individual programs are or are not working, the cumulative distribution of rental housing subsidies is widely disparate, unrelated to total need, and spatially inequitable. Rather than arguing about the relative merits of supply versus demand subsidy approaches, the policy question should be how to better match assistance to need.

Fair Housing

Compared to homeownership and subsidized rental housing, federal involvement in fair housing is relatively recent, dating only from passage of the Fair Housing Act of 1968. Back then, racial discrimination in mortgage lending, brokerage, home sales, and rental housing was rampant and segregation was on the rise. The homeownership rate among African Americans was just 42% compared to 63% overall. HUD's first fair housing audit, conducted in 1977, found that African American households suffered three to four incidents of racial discrimination for every one incident suffered by Whites. As late as 1990, the first year that detailed mortgage origination data were available under the Home Mortgage Disclosure Act (HMDA), African Americans were denied mortgages more than twice as often as Whites of comparable income (Canner & Smith, 1991).

The ensuing years have reduced but not eliminated many of these differentials. Homeownership rates among African Americans reached 49.1% in 2004, before falling slightly to 46.8% in the fourth quarter of 2008 (U.S. Census Bureau, 2009). HUD's most recent fair housing audit, conducted in 2001, found a marked decline in all types of racial discrimination (Turner, Ross, Galster, & Yinger, 2002). The most recent HMDA data showed that the difference in conventional mortgage approval rates between African Americans and Whites had shrunk to 12.7 percentage points. Whites were approved for loans 88.4% of the time, versus 75.7% for African Americans (Schwartz, 2007, p. 230). On the rental side, high vacancy rates have helped reduce landlord discrimination against minority tenants. New subdivisions at the urban edge are increasingly open to minority buyers. Above all, American society has grown more tolerant as it has become more diverse.

Fair Housing Policy in Black and White

Federal fair housing policy aims to end residential discrimination and segregation. The mechanism for ending illegal discrimination is litigation. There is no comparable mechanism for ending segregation. Instead, government directs mortgage credit and subsidies to groups and neighborhoods that were past victims of discrimination.

Litigating Against Discrimination. The touchstone of federal fair housing policy is still the Fair Housing Act of 1968. Enacted just one week after the assassination of Martin Luther King Jr., it prohibits racial discrimination in the sale or rental of housing on the basis of race, religion, or country of origin. To achieve these goals, the Fair Housing Act authorized the Department of Justice to sue landlords, home sellers, real estate agents, lenders, and others involved in selling or leasing housing for compensatory and punitive damages.

In practice, the Fair Housing Act was always less potent than its language implied.[33] In order to gain passage from a wary and divided Congress, it exempted owner-occupied buildings with four or fewer rental units and single-family homes sold without the services of a real estate agent. It further prohibited HUD from undertaking antidiscrimination cases on its own, instead requiring that they be referred to the Department of Justice, and limited the time window within which complaints could be filed to 180 days. It limited the amount of punitive damages to just $1,000, and required plaintiffs to pay all court costs and attorney's fees unless the court determined they could not afford them.

Table 4. Low-income renter households with unmet assistance need, in descending order of needy households not assisted by state, 2000.

State	Renter households with incomes under $20,000 and paying 35% or more of income for rent (A)	Total HUD-assisted rental units (B)	Needy households not assisted (A–B)	% of needy households not assisted ((A–B)/A)
California	1,121,797	449,830	671,967	60
Texas	584,562	249,949	334,613	57
Florida	471,433	179,639	291,794	62
New York	824,692	536,708	287,984	35
Illinois	330,887	216,902	113,985	34
Washington	178,058	66,392	111,666	63
Arizona	143,067	35,752	107,315	75
Ohio	321,298	214,529	106,769	33
Pennsylvania	325,598	219,842	105,756	32
Michigan	234,774	142,026	92,748	40
North Carolina	208,856	118,340	90,516	43
Georgia	209,190	129,898	79,292	38
Oregon	117,317	41,536	75,781	65
Virginia	161,724	99,976	61,748	38
Wisconsin	137,590	77,194	60,396	44
Colorado	113,114	53,477	59,637	53
Louisiana	144,227	87,586	56,641	39
Indiana	149,691	95,185	54,506	36
Missouri	147,680	93,237	54,443	37
New Jersey	210,431	156,100	54,331	26
Oklahoma	100,354	49,134	51,220	51
Tennessee	156,078	106,085	49,993	32
Nevada	61,816	17,920	43,896	71
South Carolina	98,126	59,072	39,054	40
Kansas	65,926	34,199	31,727	48
New Mexico	52,124	24,297	27,827	53
Utah	42,195	15,903	26,292	62
Alabama	118,112	91,906	26,206	22
Iowa	66,357	41,474	24,883	37
Kentucky	105,652	80,795	24,857	24
Arkansas	75,783	51,135	24,648	33
Mississippi	71,915	50,866	21,049	29
DC	31,949	11,883	20,066	63
Idaho	30,379	11,569	18,810	62
Maryland	119,881	101,781	18,100	15
Nebraska	42,109	24,226	17,883	42
West Virginia	47,775	33,117	14,658	31
Montana	27,039	13,298	13,741	51
Minnesota	100,921	89,303	11,618	12
Massachusetts	186,402	174,833	11,569	6
Maine	34,495	25,550	8,945	26
Hawaii	30,727	23,196	7,531	25
New Hampshire	26,586	19,574	7,012	26
Alaska	13,847	7,324	6,523	47
Wyoming	11,805	6,028	5,777	49
Vermont	16,398	11,406	4,992	30
South Dakota	18,243	13,325	4,918	27
North Dakota	17,593	12,847	4,746	27
Connecticut	88,341	85,321	3,020	3
Rhode Island	39,015	36,934	2,081	5

Table 4. (continued).

State	Renter households with incomes under $20,000 and paying 35% or more of income for rent (A)	Total HUD-assisted rental units (B)	Needy households not assisted (A–B)	% of needy households not assisted ((A–B)/A)
Delaware	16,166	30,937	–14,771	–91
Puerto Rico	84,544	107,330	–22,786	–27
U.S. total	8,134,639	4,726,666	3,407,973	42

Sources: Column A is from the U.S. Census Bureau (2000) and Column B is from HUD's Office of Policy Development and Research (2006).

Coupled with a small enforcement budget for HUD and an often-disinterested Department of Justice, the effect of these limitations was to shift the enforcement burden almost entirely to those alleging discrimination. These shortcomings would not be rectified for another 20 years, until the passage of the Fair Housing Act Amendments of 1988, which extended the statute of limitations for private lawsuits from one to two years, eliminated the prior $1,000 limit on punitive damages, allowed HUD regional offices to undertake investigations and refer complaints rather than having to wait for the Justice Department, and established procedures by which administrative law judges could hear complaints and assess damages.

Part of the difficulty in enforcing fair housing laws is that overt acts of discrimination are hard to document. Instead, discrimination often occurs through inaction, as when an African American household is not told about housing opportunities in a White neighborhood, or when a mortgage loan approval for a minority family is not forthcoming. To get a better handle on the incidence and severity of housing discrimination, HUD conducted fair housing audits in 1977, 1989, and 2000. All three followed similar formats: matched pairs of otherwise similar White and minority households seeking to rent or buy housing or obtain a loan would be sent to landlords, home sellers, real estate agents, and mortgage lenders.

The initial audit, the Housing Market Practices Survey of 1977, found rampant racial discrimination against African Americans. Overall, Blacks seeking to rent a home faced a discriminating landlord or broker once in every four inquiries. Black homebuyers faced discrimination once in every five or six inquiries. Since housing searches typically include multiple inquiries, the cumulative incidence of discrimination per housing search would commonly exceed 50% (Wienk, Reid, Simonson, & Eggers, 1979).

The most recent audit, conducted in 2000, found that although most forms of housing discrimination had declined significantly since the prior audit in 1989, Black and Hispanic renters and homebuyers still experienced discrimination in housing transactions.[34] Black renters faced discriminatory practices 22% of the time, while Black homebuyers faced discriminatory practices 17% of the time. The comparable percentages for Hispanic renters and homebuyers were 26% and 20% (Turner et al., 2002).

It is not obvious how much of this drop can be attributed to federal enforcement. Whether out of fear of litigation or a desire to be more progressive, the real estate industry has made significant efforts to end overtly discriminatory practices. At the same time, less overt methods such as steering (real estate agents directing White and minority households to different neighborhoods) continue to be a problem (Schwartz, 2007, p. 226). Some question whether the audit methodology, which is skewed toward formal real estate businesses, can capture the full range of discriminatory practices (Turner et al., 2002).

Expanding Residential Lending and Mobility. HMDA, enacted in 1975 and the CRA, enacted in 1977, offered other approaches to reducing segregation. HMDA requires lending institutions to report mortgage loan data annually. The CRA allows community groups to comment to the Federal Reserve Board on how well banks seeking permission to merge have met their community lending responsibilities. HUD officials also took the lead in arguing (before an initially unresponsive Congress) that Fannie Mae and Freddie Mac should be required to do more to make mortgage credit available to underserved groups and neighborhoods. In 1992, Congress adopted the first of a series of agreements with the GSEs to escalate community lending targets. No one has yet put a cumulative dollar value on the benefits of these initiatives, but according to a report by the National Community Reinvestment Coalition (2002), more than $1.5 trillion of community lending agreements between lenders and community advocates have been signed since CRA was enacted in 1977 (Schwartz 2007, p. 244). The Joint Center for Housing Studies, Harvard University (2002) concluded that, "CRA-regulated lenders originate more home-purchase loans to lower income people and communities that they would if CRA did not exist" (p. iv).

Progress on the rental side has been more uneven. A series of initiatives to help low- and moderate-income renters move from disadvantaged center-city neighborhoods to mixed-income suburban communities, most notably the Chicago-based Gautreaux Program, and HUD's Moving-to-Opportunity (MTO) demonstration program,[35] have met with only mixed success. MTO participants reported higher levels of satisfaction with their post-move housing and neighborhood arrangements than a control group of non-movers, but overall, MTO participation had only a small effect on the long-term employment, earnings, or educational outcomes of movers (Orr et al., 2003). Nor did MTO lead to a reduction in racial segregation. The majority of MTO movers (who were African American) moved into predominantly African American neighborhoods. As Schwartz (2007) concludes from his review of efforts like Gautreaux and MTO (p. 173), if the policy goal is to reduce income segregation and improve residential outcomes, perhaps the easiest and most effective way of doing so would be to increase voucher payments to levels that would allow renting in middle-income neighborhoods.

Fair housing was set back somewhat in 1994 when the Comptroller of the Currency exempted federally chartered lenders from state predatory lending regulations. Similarly, the Office of Thrift Supervision unilaterally raised the threshold for banks subject to CRA review from $250 million in assets to $1 billion in 2003, greatly reducing the number of mortgage lenders affected.

New Challenges

Residential Segregation is Declining. After rising to levels known as *hyper-segregation*, in which members of different groups are extremely unlikely to come into contact with each other on a daily basis outside of work (Massey & Denton, 1989), residential segregation by race is now finally declining (see Table 5). Between 1980 and 2000, the level of Black–White housing segregation across all major metropolitan areas declined from an average dissimilarity index[36] value of 0.73 in 1980 to 0.68 in 1990 to 0.64 in 2000 (Iceland & Weinberg, 2002). Although the decline is occurring everywhere, it is occurring at different rates in different locations.

Several factors seem to be driving these positive changes. One is the growing willingness of Whites, especially younger and better-educated Whites, to live among racial and ethnic minorities (Farley, Fielding, & Krysan, 1997). Many American cities report success attracting young Whites, including families, back to previously minority urban neighborhoods. Another is the growth of

Table 5. Dissimilarity indices for Blacks and Whites and for Hispanics and Whites, by region and for large MSAs, 1990 and 2000.

	Dissimilarity indices			
	Black/White 1990	**Black/White 2000**	**Hispanic/White 1990**	**Hispanic/White 2000**
MSAs[a] in each region				
Northeast	0.60	0.43	0.57	0.45
Midwest	0.60	0.32	0.55	0.35
South	0.54	0.30	0.51	0.35
West	0.44	0.35	0.39	0.38
MSAs with the largest populations in 2000				
New York, NY CMSA	0.81	0.66	0.81	0.67
Los Angeles-Long Beach, CA MSA	0.73	0.61	0.66	0.63
Chicago, IL-Gary, IN MSA	0.84	0.62	0.80	0.61
Boston-Worcester, MA CMSA	0.69	0.55	0.66	0.59
Philadelphia, PA-Camden, NJ CMSA	0.77	0.62	0.72	0.60
Detroit-Flint-Ann Arbor, MI NSA	0.87	0.40	0.85	0.46
Dallas-Ft. Worth, TX MSA	0.62	0.50	0.59	0.54
Miami-Fort Lauderdale, FL MSA	0.69	0.50	0.69	0.44
Washington, DC MSA	0.65	0.42	0.62	0.48
Houston-Galveston, TX MSA	0.66	0.49	0.66	0.55

Sources: Iceland and Weinberger (2002, Tables 1 and 3) and U.S. Census Bureau (2005).

Notes:

a. MSAs as defined in 2000.

overlapping immigrant enclaves, many of which have been established in or adjacent to previously segregated neighborhoods. Still another is increased availability of mortgage credit to moderate-income and minority borrowers, many of whom have sought out mixed-race, urban neighborhoods where their home-buying dollars go farthest.

Not all the news is good. As de Souza Briggs (2005, p. 24) notes, rates of Black–White segregation remain distressingly high in absolute terms, particularly in the urban centers of the Northeast and Midwest. As Charles (2005) puts it, "[M]ost Whites still prefer predominantly or overwhelmingly White neighborhoods, while most non-Whites prefer more co-ethnic (non-White) neighbors than Whites would be willing to tolerate" (p. 72). Of equal concern, for some reason rates of racial and ethnic isolation among immigrant groups, after falling for decades, now seem to be on the rise (de Souza Briggs, 2005, p. 25).

But Income Segregation Is Rising. Segregation by race is giving way to segregation by income as the dominant pattern of metropolitan household sorting. As first reported by Massey and Fischer (2003), and more recently by Brookings (Berube & Kneebone, 2006), the nation's less-well-off households are becoming increasingly concentrated in locations with poor access to employment, including the far fringes of metropolitan areas and job-deficient central-city neighborhoods. Analysts report that these trends are driven by gentrification in older urban and suburban neighborhoods, increasing traffic congestion around growing suburban employment centers and a growing demand among all demographic groups for established neighborhoods with good schools, good services, moderate commutes, and homes that maintain their value (Berube & Kneebone, 2008; Stoll, 2005).

Current federal housing policies have little ability to take on income segregation. The Fair Housing Act of 1968 and its 1988 amendments do not explicitly address income disparities. The CRA and subsequent fair lending initiatives have targeted low-income neighborhoods and underserved communities, but their focus has been on promoting homeownership, not income integration or neighborhood stability. By enabling holders of rental vouchers to procure housing outside the issuing jurisdiction, the HCV program has expanded renter mobility options, but there has been no effort to make sure such housing is actually available. Tax credit projects can theoretically go anywhere, but in practice, they tend to be built in lower-income neighborhoods (Deng, 2005). HOPE VI substitutes mixed-income development for public housing, but because most projects are replaced on site, opportunities for community-level income integration are limited. Inclusionary zoning, the one policy initiative that does promote residential income integration (by requiring private developers to include a mix of affordable units in their market-rate projects) is a local approach, not a federal one.

Predatory Lending and Foreclosures: Too Little, Too Late. Starting in the early 1990s, fair housing advocates began hearing complaints about predatory lending practices in which mortgage brokers and private lenders pressured low-income and minority homeowners to take on additional mortgage debt at high rates and with onerous repayment provisions. After a series of efforts by individual states to curtail predatory lending, Congress passed the Home Ownership and Equity Protection Act (HOEPA) in 1995. HOEPA requires banks and other issuers of high-interest mortgage and home equity loans (defined as rates more than eight percentage points above comparable Treasury bonds) to disclose all loan terms upfront, to disclose that failing to meet all loan terms may result in foreclosure, and to provide potential borrowers with a fixed period within which they may cancel their contract. It further prohibits lenders from charging onerous prepayment penalties or from automatically converting fixed and adjustable-rate loans to balloon payment or negative amortization loans. Federal enforcement of HOEPA was relatively lenient, leading 36 states (and a number of individual municipalities) to adopt their own laws regulating predatory mortgage lending. Even so, predatory lending continued to rise, abetted in part by low interest rates, lender competition and the increasing ease with which vulnerable borrowers could qualify for loans they might not fully understand.

Racial and spatial patterns of predatory and subprime lending are now revealing themselves through foreclosures. Although the available evidence is far from comprehensive, it appears that those most adversely affected by the current foreclosure wave are minority homebuyers living in older urban neighborhoods and new suburbs (Gerardi & Willen, 2008). Some of those who have lost their homes are moving in with relatives or staying in their communities as renters. Others are pulling up stakes altogether. All have suffered a substantial loss of wealth and many will have great difficulty becoming homeowners again. In cities like Detroit, MI, and Newark, NJ, foreclosures and abandonment are hastening a longer term process of urban depopulation and decline. In newer cities and suburbs in Florida, California, Nevada, and Arizona, foreclosures are adding to demographic and social instability. Except for HUD's NSP, Congress and recent administrations have been unwilling to address the cumulative effects of foreclosures and their potential impacts on neighborhood stability and the geography of housing opportunity.

This has not stopped some communities from acting on their own. Philadelphia, for example, has implemented a neighborhood-based program to reach subprime borrowers before they default, and to help them renegotiate their loans. Elected officials in Memphis are currently suing one of the nation's largest banks, Wells Fargo, alleging that it and its subsidiaries intentionally singled out Black homeowners for high-interest subprime mortgages knowing that many would ultimately default.

Rethinking Federal Housing Policy

Learning from Past Successes and Failures

The federal government's eighty-year involvement in housing policy presents ample opportunity to learn from success and failure. As Congress and the President move forward to rebuild federal housing policy from the wreckage of the housing bubble, they would do well to review some of the most important lessons of the past.

Build On What Works. Over its long life, federal housing policy has generated five programs that have worked consistently well through multiple presidential administrations and market cycles. They are: FHA mortgage insurance, rental housing vouchers, the LIHTC program, HOPE VI, and the CRA. These programs should form the centerpiece of future federal housing policies.

Focus on Providing Affordable Housing for Low- and Moderate-Income Families and Provide the Funding to Meet That Goal. The private housing market has done a consistently good job financing and building quality homes for middle and upper-income households. Except for increased regulation of financial products and supporting an active secondary mortgage market, there is no longer much need for housing programs for households earning 80% or more of area median income. The same cannot be said for assisting less affluent households. Either because of programmatic design flaws (e.g., public housing, Section 236, HOME) or consistent underfunding (e.g., public housing, vouchers, HOME, fair housing, and the LIHTC in some places), the housing needs of low- and moderate-income households remain as great today as they were 30 years ago. Given sufficient priority, sufficient funding, and small adjustments to existing programs to make them work better, these needs can be met at a reasonable cost to the American taxpayer.

Avoid Grandiose and Ideological Ambitions and Programs. Federal housing policy has run completely off the rails only twice in its history, and in both cases the cause was grandiose ambitions. The first time was in 1949 when Congress committed itself to eradicating slums through urban renewal and replacing them with blocks and blocks of large-scale public housing. The second time was when two presidents, Bill Clinton and George W. Bush, pushed too hard to promote homeownership for groups who would have been better off renting. In both cases, grandiose rhetoric and ambitions outpaced measured program design.

Use Fewer and More Coordinated Programs. There is a great tendency at all levels of government to try to solve problems with new programs. In the case of housing, this has led to a proliferation of programs, each with its own bureaucracy and set of rules. These programs can work well individually, especially when they are adequately funded, but they rarely work well together. This is particularly true for subsidized rental housing programs. Rather than invent new housing programs for specific groups or to meet particular needs (e.g., the 1988 McKinney Act for the homeless, the HOME program in 1990, the NHTF in 2008) and then underfund them, Congress should look for ways support, extend, and connect successful existing programs such as FHA mortgage insurance, the LIHTC and the CRA.

Tax Credits, Not Tax Deductions. The problem with tax deductions is that they are hard to target and difficult to limit. The homeowner mortgage interest deduction and capital gains exclusion do little to promote homeownership while emptying the federal treasury and providing huge windfalls to those who need them least. Because they are easier to regulate and do not vary with household or business marginal tax rates, tax credits provide a more direct, controllable, and progressive method for affecting household and business behavior than do tax deductions.

Promote Residential Filtering. Residential segregation has fallen most in growing metropolitan areas. Sprawling suburban housing construction may be bad for farmland and traffic congestion, but it has been good for expanding housing opportunities and residential mobility. Congress should take note of this and enact policies and programs that incentivize the broadest range of housing construction types in both cities and suburbs.

Recommendations: Make What Works, Work Better

We organized this article around three questions concerning the future of federal housing policies and programs. It is now time to return to those questions.

1. Should the Federal Government Continue to Disproportionately Advantage Homeownership Over Renting? Our answer to this question is both "yes" and "no." The federal government should continue to responsibly promote homeownership for those moderate-income households who benefit most from it, but not at the expense of shortchanging renters. Programmatically, the government should help the nation's housing markets quickly find bottom, privatize aspects of the secondary mortgage market, and move to eliminate the mortgage interest deduction and replace it with a 10-year homeownership tax credit. Each of these ideas is presented in greater detail below.

The quicker a housing bust finds a bottom, the faster a recovery can begin. In a perfect world, the federal government would have already acted forcefully to slow the rate of mortgage defaults to deter foreclosed houses from coming back onto the market and further depressing prices. But so far, neither the modest end-of-the-Bush administration voluntary mortgage renegotiation program, nor the Obama administration's larger and more ambitious (but essentially similar) Making Home Affordable program have gained sufficient traction. The gap between what defaulting borrowers can afford and what foreclosing lenders want is just too wide. The one approach that has been shown to work, allowing bankruptcy court judges to renegotiate mortgage amounts and terms on an individual basis, has been taken off the table by Congress at the behest of banking industry lobbyists. Lacking this leverage, the federal government should continue to keep mortgage rates low, jawbone risk-averse lenders into originating mortgages to qualified buyers, insure that the secondary mortgage market remains liquid (even if this means keeping Fannie Mae and Freddie Mac in receivership), and gradually make down-payment and underwriting criteria more stringent to insure that new moderate-income borrowers do not get in over their heads.

Foreclosures result in evictions and, until replacement buyers are found, rising vacancies. These in turn encourage housing disinvestment and adversely affect neighborhood quality. At some point, this dynamic becomes impossible to reverse. To halt this process, HUD should standardize an expanded NSP permitting foreclosed homeowners to remain in their homes as renters, with federal funds covering the gap between the monthly mortgage payment (based on a 30-year loan and current appraisal) and 30% of the household's income for a period of up to two years, or until the household moves voluntarily. This would allow many foreclosed homes to remain occupied, forestall neighborhood decline, and help maintain property values.

Once the housing market has stabilized, the federal government must repurpose the secondary mortgage market in a more sustainable form. Like other financial institutions deemed too big to fail, Fannie Mae and Freddie Mac in their current form pose systemic risks to taxpayers and the entire financial system. Maintaining them as government-owned or government-sponsored entities will not address this problem. They should be gradually wound down and their assets either sold to investors or converted to a new standardized issuance modeled on Ginnie Mae securities. These new securities could then be sold to government-certified (but not government-sponsored) public, private, and foreign investment pools and institutions. Buyers of these certified pools would have to meet minimum capital reserve requirements and agree not to repackage the securities into CDOs or other derivatives. Insurance on the underlying mortgages could be purchased from FHA or a private mortgage insurer with premiums based on down-payment and loan terms. If necessary, a new federal agency could provide additional risk-based wrap insurance[37] for the full security at a higher premium.

The shift to a standardized security would simplify loan processing and underwriting, making it easier for investors to understand exactly what they were buying. Uncertified packagers could continue to issue securities backed by more exotic mortgages, and to the extent the market demanded it, issue mortgage-backed derivatives. These reforms would insure the continued provision of needed liquidity to a growing housing market while explicitly segmenting the secondary market into a lower-risk segment of insured securities available to certified buyers; and a higher-risk, uninsured segment in which the onus would be on security buyers to understand what they were buying.

In the longer term, the goal of federal homeownership policy should be to direct homeownership subsidies to households with much to gain from becoming homeowners but who are unable to do so without government help. The evidence is reasonably clear that these are young families with annual incomes between $40,000 and $75,000 (depending on the local cost of living) with at least one steady wage earner, and who have managed to accrue some savings for a down payment. We offer four suggestions for how federal policy might assist these households. First, Congress should eliminate the mortgage interest deduction entirely, and replace it with a 10-year homeownership tax credit available to first-time homebuyers (or homebuyers relocating to more expensive housing markets) with incomes below $80,000.[38] Second, Congress should consider limiting the current capital gains exclusion on the sale of a primary residence. There are certainly some households for whom paying capital gains tax presents a financial burden, but these are mostly households moving from an inexpensive metropolitan area to a more expensive one and are already accommodated by the current system. There is no evidence that the current costly capital gains exclusion promotes additional homeownership, but some evidence that it encourages excessive housing consumption. Third, Congress should consider how to better align mortgage underwriting criteria across all federal programs and agencies promoting homeownership, including those of a strengthened CRA. All of these institutions have a common interest in maximizing the availability of mortgage loans to the borrowers who can ultimately repay them, and in developing and enforcing consistent underwriting standards. Harmonizing underwriting procedures would not only expand the availability of mortgage capital, but would limit opportunities for commission-driven mortgage brokers and lenders to engage in risky and predatory lending practices. Last, the federal government should better integrate FHA homeownership insurance into whatever secondary mortgage market institutions replace Fannie Mae and Freddie Mac.

2. Should the Federal Government Substantially Reconfigure Its Various Low-Income Rental Housing Subsidy Programs, or Perhaps Make Them Fungible? Our answer is "yes" to either approach. Vouchers are still the most flexible and cost-effective way of providing affordable rental housing to low-income households, but they are not popular in Congress or with private landlords. And, with vouchers still issued by traditional housing agencies, they are not as portable as they could or should be. For both of these reasons, the spatial gap between voucher needs and voucher commitments has widened considerably. Congress should move to improve the current program, first, by administering the HCV program at a metropolitan rather than municipal scale to foster greater mobility and outreach; second, by providing counseling to participating households to help them find neighborhoods with better employment and education opportunities; and third, by requiring that some proportion of able-bodied, nonelderly voucher receivers with children be required to move to higher opportunity neighborhoods.

In the event that these changes are sufficient to improve voucher outcomes, Congress should consider converting the present program to a household-based tax credit by which all eligible low-income renters (e.g., those with incomes less than 50% of area median income) would be able to claim a tax credit equal to the difference between their county fair market rent and 30% of their household income. As with the current Earned Income Tax Credit (EITC) program, households with insufficient income to make use of the program as an actual credit against taxes paid would receive a subsidy for the difference. This would eliminate the current need for periodic commitment renewals and, we hope, increase program utilization. Implicit in this change is that voucher program would become an entitlement. To prevent entitlement creep, FMRs would either have to be reset downward slightly to discourage some households from becoming overly reliant on the program, or there could be a lifetime cap on the total credits available. A quick and dirty calculation suggests that a voucher entitlement program based in the code would cost an additional $15 to $20 billion per year.[39]

Even though the LIHTC program is much more expensive than vouchers per assisted household, its success in securing the construction of 1.6 million units of high-quality, permanently affordable housing merits its continuation and expansion. Federal law currently limits LIHTC allocations to $2.25 per state resident regardless of local housing needs or construction costs. This penalizes good affordable housing developers operating in supportive communities in high-cost metropolitan areas. By indexing LIHTC allocations to local construction costs, by replacing the high-cost area adjustment factor of 30% with performance incentives, and by requiring a local match instead of penalizing projects for obtaining gap financing from local sources, the LIHTC program could incentivize greater efficiencies and financial participation by local governments. To broaden the base of tax credit investors, Congress should consider liberalizing the program's passive loss limitation restrictions to encourage the formation of additional private syndicates purchasing housing tax credits. Rather than using precious LIHTC funds to pay twice for the same project, the Internal Revenue Service should amend its economic substance test to make it easier for communities (in partnership with nonprofits and community development corporations) to use local monies (including HOME funds and those potentially made available under the NHTF) to purchase LIHTC projects which would otherwise revert to the private market. Last, the LIHTC program should be modified to make mixed-income housing not only possible, but advantageous, by creating incentives for mixed-income developments and providing for the use of project-based vouchers to help the truly poor reside in a small portion of the units in these developments.

Vouchers and tax credits alone cannot do the full job, especially in declining neighborhoods where obsolescence and disinvestment remain major problems. It is in these neighborhoods where HOPE VI projects have initiated major turnarounds. Accordingly, HUD should work with local PHAs to develop a 5–10 year national plan to transform half of the nation's remaining public housing projects into the next generation of HOPE VI mixed-income, neighborhood-based, affordable housing developments. Priority should be given to communities with strong PHAs, many troubled or obsolete public housing projects, and programs in place to catalyze additional private development. Learning from hard experience, these plans should also include adequate provisions for relocation assistance. A program somewhat similar to this, although less selective than we recommend, was recently announced by HUD under the title, Choice Neighborhoods.

Once this new generation of HOPE VI projects is initiated, HUD should begin the process of selling viable public housing projects to qualified nonprofit sponsors. The typical PHA remains far less efficient or competent than the typical LIHTC sponsor. The nonprofit housing sector has been substantially professionalized over the last twenty years while many PHAs remain hidebound bureaucracies. There are certainly some current PHAs that do not fit this description, and they should be allowed to remain in business, reconstituted as nonprofit housing corporations.

3. Should Federal Fair Housing Policy Be Expanded To Address Issues of Economic as Well as Racial Segregation? Our answer to this question is a resounding "yes." Although the full story will have to await the results of the 2010 Census, there is strong evidence that the combination of immigration, gentrification, separation between concentrations of jobs and housing, restrictive land use controls, and housing price speculation have all combined to reduce housing mobility for low-, moderate-, and middle-income households.

Instead of requiring high-priced communities to build more affordable housing, as suggested by Glaeser and Gyourko (2008), all market-rate developers in communities receiving Community Development Block Grants could be required implement *inclusionary zoning* (IZ), setting aside a certain percentage of units for moderate-income renters or homebuyers. Developers, not surprisingly, uniformly oppose IZ because it requires them to solve a problem they did not create; but, perhaps they could accept one like that in Montgomery County, MD. Since 1973, Montgomery County has required private developers to set aside 15% of their production for affordable housing, and, to date, the program has generated construction of more than 10,000 affordable units (Brown, 2001). Even with this ordinance in place, Montgomery County continues to provide excellent opportunities for developers and investors, suggesting that the same rising property values that help land owners and developers can also be used to promote economic diversity. IZ is not a panacea (and it does require adopting some level of phased resale restrictions to prevent buyers of initially discounted units from reselling them at market value), but overall, as experiences in more than 150 communities now indicate, it need not be a regulatory burden either.

Beyond promoting inclusionary zoning, HUD, in concert with the Department of Justice, should significantly step up its enforcement of the nation's fair housing laws and broaden its efforts on fair housing to include working against predatory lending. Housing discrimination against Black and Hispanic homebuyers and renters has been reduced but not been eliminated, and housing conditions for farm workers remain truly appalling (Vallejos, Quandt, & Arcury, 2009).

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Notes

1. This estimate is drawn from data compiled by the Mortgage Bankers Association and published in a report to Congress by the U.S. Department of Housing and Urban Development, Office of Policy Development and Research (2010). It is important to note than many mortgage payment delinquencies do not result in default or foreclosure, and that many foreclosures do not result in families losing their homes. By the first quarter of 2009, the 90-day delinquency rate had risen to 4% of all residential mortgages.
2. This discrepancy does not reflect differences in housing need. Nationwide, homeowner median income is twice that of renters: $59,886 to $28,921 (U.S. Census Bureau & U.S. Department of Housing and Urban Development Office of Policy Development and Research, 2008, Tables 3-20 and 3-21). Whereas the typical homeowner paid 20% of their income for housing-related expenses (U.S. Census Bureau & U.S. Department of Housing and Urban Development Office of Policy Development and Research, 2008, Table 3-13), the typical renter paid 30% (U.S. Census Bureau & U.S. Department of Housing and Urban Development Office of Policy Development and Research, 2008, Table 4-13). On the quality side, the share of owners and renters reporting that their units had had major structural problems was the same: 6% (U.S. Census Bureau & U.S. Department of Housing and Urban Development Office of Policy Development and Research, 2008, Tables 3-2 and 4-2).
3. Numerous excellent housing policy histories are available, including Carliner (1998), DiPasquale and Keyes (1990), Hayes (1985, 1995), Orlebeke (2000), and especially, Schwartz (2007).
4. Following Cohen, March, and Olsen (1972) this has come to be known as the "garbage can" model of policy formulation.
5. The 1974 National Housing Policy Review resulted in one of the most significant changes in urban policy history, substantially replacing existing production-oriented housing program with the demand-oriented Section 8 housing allowance program.
6. Husock (2003) is a similarly short, but far more ideological critique of federal housing programs.
7. To fund the increase in voucher expenditures, Glaeser and Gyourko (2008) proposed reducing the maximum home value against which homeowners could deduct mortgage interest on their income taxes to $300,000, but only in high-price low-construction-cost areas.
8. As an alternative, Glaeser and Gyourko (2008) propose that the federal government cut off all aid (not just housing assistance) to communities with high-priced housing and little housing construction. To avoid such an outcome, communities could agree to adopt more housing-friendly zoning and subdivision codes.

9. The "hard to house" are defined as those with incomes less than 30% of area median income for whom health, physical, or service needs drive their housing requirements (Brophy & Godsil, 2009, p. 74).

10. This interpretation is reinforced by the fact that Congress required the GSEs to increase their purchases of mortgage loans to underserved households in 1993, presumably in exchange for the continued granting of this guarantee and subsidy.

11. Some historians date the beginning of federal efforts to promote homeownership to the 1917 creation of the federal income tax system, but the deduction established for interest covered all interest payments, not just those on residential mortgages.

12. One of the great advertising lines of the "Own Your Own Home" campaign was, "To install your wife in a home of her own is a convincing demonstration of your affection and consideration for her comfort and happiness" (Vale, 2007, p. 27).

13. Most residential mortgages originated before 1934 were either simple-interest, balloon mortgages (in which monthly payments cover only interest and principal was repaid at the end of the loan in a balloon payment) or fully-amortizing loans of shorter terms like 10 years.

14. Data on bank lending activity is available to the public under the provisions of the Home Mortgage Disclosure Act (HMDA) of 1975. Initial HMDA data releases included information on loan approvals but not applications. In 1993, Congress amended HMDA to require banks to also list information on mortgage applications.

15. As of 2006, they included the following provisions: a) more than 50% of housing units financed by mortgages purchased by the GSEs must be for families with incomes not greater than the area median; b) at least 23% of housing units financed by GSE mortgage purchases must be for low- or very-low-income families; and c) at least 38% of housing units financed by GSE mortgage purchases must be for homes in central cities, rural areas, or other underserved areas, based on income and minority concentrations.

16. Whereas Fannie Mae and Freddie Mac securities issuances were more stringently underwritten and carried the implicit guarantee of the federal government, private issuances (such as those by Bear Stearns, Lehman Brothers, Morgan Stanley, and Goldman Sachs) included a much higher proportion of uninsured, high-risk loans. As housing prices started falling in 2006, it was the GSEs' congressionally mandated ownership of these high-risk securities, and not their prior issuance activity, that most adversely affected their balance sheets, leading ultimately to a complete federal takeover in September 2008.

17. Implemented on a trial basis in 2005, the Bush proposals proved less attractive and more expensive than anticipated and were discontinued in 2007.

18. See Newman (2010) for a discussion of data on mortgage foreclosures.

19. As of the first quarter of 2009, the value of U.S. residential real estate had declined to $15.7 trillion (Federal Reserve Board, 2009).

20. To fill the funding gaps between these three programs as well as to give state and local governments a greater say in how rental housing subsidies are spent, Congress created the HOME program in 1990 as part of the Cranston-Gonzales National Housing Affordability Act. HOME provides formula grants to eligible states and localities to fund a wide range of activities that build, buy, or rehabilitate affordable housing for rent or homeownership; or provide direct rental assistance to low-income households. HOME funds are awarded annually as formula grants to eligible jurisdictions. Total HOME allocations in 2009 were just under $1.85 billion (HUD, Office of Policy Development and Research, 2010). Funded by Fannie Mae and Freddie Mac based on their volume of security issuances and administered by HUD, the NHTF distributes grants to states to provide housing for low and extremely low-income households, with a production goal of 1.5 million new affordable homes by 2018.

21. In *Rucker v. Davis* (2001), the Ninth Circuit Court of Appeals declared the one-strike law to be unconstitutional in cases where the criminal wrongdoing in question was actually committed by someone other than a legal tenant of the unit, such as the tenant's grown child or guest. This ruling was overturned in 2002 by the United States Supreme Court.

22. Estimates of the share of HOPE VI units offered at rents comparable to those tenants had paid previously in traditional public housing ranged from 39% to 50% (Popkin, Katz, Cunningham, Brown, Gustafson, & Turner, 2004).

23. As originally enacted, Section 8 was an umbrella program which, in addition to housing allowances, included two construction programs. Altogether, the Section 8 New Construction and Section 8 Substantial Rehabilitation programs produced 1.3 million units, a portfolio nearly as large as the entire stock of public housing. The funding for this program was canceled in the Reagan budget cuts of 1982 and was effectively replaced with the adoption of the LIHTC program in 1986. Currently, HUD also funds a project-based Section 8 program, which allocates vouchers to units in new projects rather than tenants.

24. HUD publishes FMRs annually for each housing unit size for all metropolitan counties. FMR is defined as the 40th percentile of the rent distribution for standard-quality rental housing units occupied by households who moved to their present residence within the past 15 months. FMR includes shelter rent plus the cost of all tenant-paid utilities except telephone, cable or satellite television, and Internet service.

25. There is some evidence from the Gautreaux, Holman, and Moving-to-Opportunity demonstration programs that combining vouchers with counseling, landlord recruitment, and other services results in better rental mobility and opportunity outcomes than rental vouchers alone (Schwartz, 2007, p. 172)

26. HUD no longer publishes average voucher utilization rates for the nation. Instead, utilization rates are reported for samples of public housing authorities.

27. The LIHTC program includes two types of annual credits: 9% credits for projects receiving no other federal funds or subsidies, and 4% credits for projects with other federal subsidies or that were financed using tax exempt bonds. Credits are prorated by the share of project units affordable to households with incomes that are 60% (or, at the developer's election, 50%) or less of the area median income. Credits are allocated on a competitive basis by state housing finance agencies and are capped at $2.25 per state resident per year. Credits can be taken for the first 10 years, although the units themselves must remain affordable for at least 15 years. In addition to new construction, credits may be used for substantial rehabilitation of older projects.

28. Although desirable for social policy reasons, the specifics of the LIHTC program mitigate against mixed-income housing.

29. Many state housing finance agencies stipulate longer periods of affordability than 15 years.

30. For the clearest analysis of the income incidence of affordable housing need, see Nelson (1994).

31. This comparison assumes that all those receiving housing assistance are low-income households with excess rent burdens and are eligible for assistance. While true in the main, there are a significant number of long-time residents of public housing and low-income housing credit units who have been allowed to remain in their units even after their incomes have risen above the ceiling levels.

32. Millions of households with incomes above $20,000 in 2000 were eligible for rental housing assistance, so, if anything, this method understates the level of rental housing need.

33. Yinger (1999) provides a concise summary of the enforcement provisions of the Fair Housing Act of 1968.
34. The 1989 and 2000 audits used similar methods, but the 1979 audit took a different approach, so direct comparisons of its results with those of the 1989 and 2001 audits are problematic.
35. Born out of a 1966 fair housing consent decree, the Gautreaux Program provided Section 8 vouchers to 7,000 families living in central Chicago to enable them to move to predominantly White neighborhoods in the suburbs. Follow-up evaluations showed significant improvements, particularly for children, compared to a group who did not move (Rosenbaum, 1995). Most notably, whereas only 4% of the children of non-movers eventually attended four-year colleges, 27% of the children of Gautreaux families went on to college. Inspired in large measure by the success of the Gautreaux program, in 1993 HUD commissioned the MTO experiment in which several thousand families living in public housing or project-based Section 8 housing were given supplemental vouchers and counseling to enable them to move to low-poverty neighborhoods of their choosing. As with Gautreaux, MTO compared mover outcomes to those of a non-mover control group; unlike Gautreaux, however, MTO focused on issues of poverty, not race.
36. A dissimilarity index measures how evenly two groups are distributed across subareas of a larger geographic area. It can be interpreted as the percentage of one of the groups that would have to move in order for both groups to be evenly distributed across all subareas. Dissimilarity index values vary between 0 (complete integration) and 1 (complete segregation).
37. FHA insures lenders against borrower default. *Wrap insurance* is additional insurance that covers pools of individually-insured mortgages. Because the underlying mortgages are individually insured, wrap premiums can be suitably reduced.
38. For households with incomes above $80,000, the mortgage interest deduction is most often a windfall rather than an incentive for saving to become homeowners. Concern over the U.S. budget deficit will increase the scrutiny of this expensive program.
39. For each state listed in Table 4, the number of needy households not currently being assisted was multiplied by the average monthly Section 8 federal assistance amount (as reported in HUD, Office of Policy Development and Research, 2006) for that state in 2000. Federal assistance amounts ranged from $263 per month in Arkansas to over $600 per month in New York. State totals were then summed to yield a national total of $17 billion.

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