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Abstract

The housing industry plays an important social and economic role in the United States. Not only do dwellings and their locations denote status in U.S. society, but approximately 4 percent of the nation's Gross Domestic Product is created by residential development. Its effects ripple through the economy. It provides direct employment in construction and related jobs and indirect support for other consumer spending, including home furnishings, appliances, and even garden equipment. The federal government, through surveys conducted by several agencies, among them the U.S. Department of Housing and Urban Development and the U.S. Department of Commerce, keeps close watch on this important industry, monitoring housing starts (usually ranging from 1.2 to 1.8 million units annually), single-family sales, mortgage interest rates, and quality indicators. These statistics provide a picture of the industry, illuminate potential problems, and reveal specific areas for government intervention.

Keywords

housing industry, housing starts, government intervention, mortgage interest rates, community re-investment act

Comments

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EUGENIE L. BIRCH

"Housing Policy for the Next Millennium"

Planning for a New Century (2001)

The housing industry plays an important social and economic role in the United States. Not only do dwellings and their locations denote status in U.S. society, but approximately 4 percent of the nation's Gross Domestic Product is created by residential development. Its effects ripple through the economy. It provides direct employment in construction and related jobs and indirect support for other consumer spending, including home furnishings, appliances, and even garden equipment. The federal government, through surveys conducted by several agencies, among them the U.S. Department of Housing and Urban Development and the U.S. Department of Commerce, keeps close watch on this important industry, monitoring housing starts (usually ranging from 1.2 to 1.8 million units annually), single-family sales, mortgage interest rates, and quality indicators. These statistics provide a picture of the industry, illuminate potential problems, and reveal specific areas for government intervention.

HOW THE DEFINITION OF THE HOUSING PROBLEM HAS EVOLVED

The national discourse on shelter issues is more than sixty years old. It includes ownership, quality, and affordability concerns. When housing first became a public policy issue, less than half of the nation's households owned their own homes, one-third lived in substandard conditions, and a substantial number paid a

disproportionate amount of their incomes to rent or purchase their dwellings. The housing problem was defined as having multiple dimensions requiring several types of solutions. Important distinctions were made between middle and lower income needs, relating homeownership to the former and housing quality to the latter.

Overall, public policy has sought to encourage and protect capital investment in housing, through a series of ameliorative strategies with two goals: providing a decent home for every American and maintaining the housing supply through construction, reconstruction, or rehabilitation of the nation's dwellings. Policies also linked shelter with the elimination of slums and the physical improvement of city neighborhoods.

In pursuing these goals the United States has had, and continues to have, a very strong private-sector bias, with government intervening only in cases of market failure. However, as definitions of market failure have varied over time, so have the scope and focus of government activities.

HOUSING POLICY; HISTORICAL METHODS

Understanding today's housing policy requires a review of the older methods of dealing with market failures and the targeted solutions previously employed.

Although focusing on a particular issue in American society, their evolution reflects changing concepts of the proper role of government in the life of its citizens.

Additionally, some approaches have been more successful than others. Over time, housing policy has moved from adoption of limited, city-based solutions to local problems to more widespread efforts to address national concerns. Policies have employed a battery of tools to deal with the different aspects of the problem, including police power, eminent domain, budgetary resources, plus tax and other financial incentives. Some objectives, such as increasing the rates of middle class ownership and maintaining housing quality, have met with more success than easing housing problems for lower income groups.

Homeownership

Increasing the rates of homeownership has been effective and popular. Centered on using federal influence to improve lending practices and favoring ownership over rental tenure in the federal tax law, these policies have yielded the nation's high number of homeowners.

To improve lending, the federal government created today's modern mortgage system that limits risk for lenders, reduces costs for borrowers, and increases the amount of available capital to finance purchases. During the New Deal, Congress, alarmed by the precipitous decline in housing starts and the dramatic rise in foreclosures, created a multipurpose agency, the Federal Housing Administration (FHA). The FHA developed two programs: It oversaw the development of a massive, self-supporting mortgage insurance program. (This action so increased banks' confidence in their

mortgage pools that they lowered consumers' monthly carrying costs and permitted a greater number of households to qualify for mortgages.) It sponsored the creation of a secondary mortgage market, that is, the discounted purchase of bank mortgages. (This activity, by adding liquidity to the financial markets, created more lending capacity in the banking system, thus allowing banks to issue a greater number of mortgages.)

Legislators and FHA administrators were cautious about this new governmental role in housing. Pledging the moral force or reputation of the government but not authorizing actual budget allocations, they insisted that FHA operations be self-financing. This choice significantly influenced FHA practices, especially with regard to what people and properties qualified for insurance. Policies favored the borrowers least likely to default and real estate that would retain value in case of default. Lending formulas determined that white, middle income, nuclear families purchasing new housing located on greenfields or suburbs were "bankable." Minority, low income, and nontraditional households living in central cities were not. The FHA mapped preferred areas, leaving large urban areas ineligible for FHA insurance.

To favor ownership, Congress permitted homeowners to deduct mortgage interest payments and property levies in calculating their income taxes. It also provided for favorable capital gains treatment for home sales, allowing the sellers to plough profits, tax-free, into new units. These policies proved to be powerful incentives to

Americans, encouraging them to place their savings in their homes rather than in such alternative investments as bank or stock brokerage accounts.

FHA practices combined with federal tax policies reduced the costs of ownership significantly. They also influenced the type and location of the nation's dwellings and played a role in determining the socioeconomic profile of homeowners. Today, 66 percent of the nation's 98 million households own their own homes. Seventy-five percent of homeowners live in single-family structures. According to the 1997 *American Housing Survey* (AHS), of the nation's 99.4 million units of occupied housing, 51 million are in the suburbs, 34 million are in center cities, and the remainder are in rural areas. Of these, suburbs have a substantially greater number of owned units, 37 million or 73 percent of the stock, while center cities have 17 million owned units or 49 percent of the housing stock. There are also important demographic differences among homeowners. Whites occupy 83 percent of all units and have an ownership rate of 71 percent while only 50 percent of African Americans and 44 percent of Hispanics own. For married couples, the rate is 81 percent; for female-headed households it falls to 52 percent.

Housing Quality and Affordability

The attack on poor housing conditions has taken many forms: adoption of housing code enforcement programs, construction of public housing linked with the

elimination of slum dwellings, promotion of rehabilitation through incentives and the creation of income supplements.

In the United States, ensuring minimum standards for dwellings dates from the nineteenth century when municipalities passed building codes aimed at fire prevention and public safety in case of fire. These laws dealt with building materials and construction methods. As time passed, reformers pressed for housing codes that focused on considerations of health and public morality and had strict enforcement programs. The first, New York City's widely emulated Tenement House Act of 1901, mandated basic sanitation (a toilet and running water for each unit), less crowding (no more than one person per room would become a later standard), and light and air (a window in each room, lighted stairwells). For three decades, many cities, especially the larger ones, used housing codes as the primary means of protecting low-income tenants from landlord exploitation. Originally, they applied them only to new construction but gradually extended coverage to all housing.

Housing codes represented a local solution to a local problem. As such, the federal government played no part in promoting housing codes until 1954 when the Housing and Urban Renewal Act mandated code enforcement programs as a precondition for receipt of urban renewal funding.

Today, the federal government still insists on compliance as a condition for new funding arrangements, or for making Section 8 allocations.

Overall, the program has been very successful. By the 1960s, the U.S. Bureau of the Census was able to claim that only 12 to 15 percent of the housing stock was dilapidated or deteriorated. (In fact, while the Census declined to collect statistics about housing conditions after 1960, the U.S. Department of Housing and Urban Development [HUD] continued assessments measuring many features, including the absence of indoor plumbing, central heat, electricity, proper repairs, and sufficient space, in its *American Housing Survey* [AHS] begun in 1974.) Today the AHS reveals that the majority of the nation lives in dwellings conforming to minimum standards established long ago by the American Public Health Association. Only 1 percent lack indoor plumbing—and some of those are probably vacation cottages—and 8 percent of all housing units were reported to have inadequate heating.

Despite these favorable statistics, low-income households do experience more severe housing problems than the rest of the population. For example, among renting households whose incomes are below the poverty level, 12 percent have some kind of heating problem and 2 percent have plumbing deficiencies. Furthermore, deteriorated housing is usually concentrated in specific neighborhoods. Within older cities, especially those in the Rust Belt where the worst housing is either abandoned or torn down, there are still large areas mixing substandard housing, standard

dwellings, and excess vacant land that are usually inhabited by people whom sociologist William Julius Wilson characterizes as the "truly disadvantaged." These neighborhoods represent a major problem whose solution includes housing remediation as one of a battery of ameliorating activities. In addition, some inner-ring or older suburbs face similar risks as new development continues to move to the metropolitan fringe, and some of the new rental housing in outlying areas will go downhill quickly if not maintained.

While some criticize housing codes for raising prices, no one questions that they have successfully raised housing quality in the United States. Local code enforcement remains the principal insurance against new housing deterioration.

During times of crisis, the federal government experimented with delivering public housing, justifying the activity by declaring the need for standard, affordable units. For example, in both World War I and World War II, it built units for defense workers. During the Great Depression, federal public works programs included the construction of low rent housing. The Supreme Court struck down direct construction of public housing by the federal government, but municipalities could still form local housing authorities, which could then receive federal funds..

The Wagner-Steagall Housing Act (1937) adopted this formula in its landmark nonemergency public housing program. Congress authorized the federal government to extend forty-year loans for capital expenses to localities elected to participate.

Overwhelmingly, cities, not suburbs, subscribed to a program that ultimately built about 1.3 million units nationwide. Over the years, the federal government forgave the loans but continued to restrict the authorities' use of the money to construction, not operating costs, maintaining that the rent rolls should cover these latter expenses. Local housing authorities crafted elaborate tenant selection policies to insure balanced budgets. They favored nuclear families with at least one employed wage earner whose salary was in the upper range of low income. While keeping the authorities solvent, these directives disqualified the poorest households.

In the early 1960s, under pressure from many sources, housing authorities modified their tenant selection policies to eliminate income and household composition as admissions criteria. In part, they reacted to critics who insisted that the most needy should qualify for public housing and, in part, to urban renewal leaders who demanded the use of units for relocation programs. Ultimately, Congress passed legislation stipulating that no tenant should pay more than 30 percent of income for rent, regardless of the amount. In many cases, the resulting lowered rents could not cover expenses. Housing authorities met their budgets by deferring maintenance, failing to replace depreciated capital facilities, and reducing services, including

security. They lobbied for additional funding, but having scant popular support, they secured only moderate amounts. The outcome was predictable. Neglected and poorly maintained public housing projects became undesirable to all but the most desperate, often dysfunctional households. They experienced high vacancy rates. In fact, by 1992 HUD's National Commission on Severely Distressed Housing reported that 6 percent (or 86,000 units) of the nation's public housing was so blighted that it was unusable.

Today, the nation's public housing stock represents not only some of the nation's worst housing conditions but also serves as evidence of unintended consequences of cumulative policies. Cities originally built large-scale housing projects on multi-acre sites in order to create islands of stable housing within seemingly unending miles of slums, because total eradication of the surroundings was fiscally impossible. This policy, joined with evolving tenant selection and management practices, resulted in the much maligned situation, the concentration or "ghettoization" of the poor.

To remedy this situation, some housing authorities experimented with scattered-site development. Philadelphia, for example, led the nation in this effort, only to regret this decision because its housing authority was unable to maintain these dispersed dwellings efficiently.

In the postwar period, the federal government tinkered with land prices and interest rates to encourage the construction or rehabilitation of low-and moderate-income units, often in large-scale developments. From 1949, with the passage of the Housing and Slum Clearance Act, to 1973 it attempted a variety of approaches. To lower land prices, the government created the urban renewal program, using a formula where the federal budget covered two-thirds of the costs of acquisition, condemnation, and clearance while the localities (states and cities) made up the difference either in cash, in infrastructure investment, or in other equivalent contributions. When this subsidy proved insufficient or inappropriate, Congress included interest-rate subsidy programs (referred to by their section in the legislation, 221(d)3, 235, 236, and 202 programs) to assist privately constructed housing. For example, the 202 program, still in existence, helps finance multifamily rental housing for senior citizens.

The federal government also experimented in the late 1960s and early 1970s with manufactured housing. It hoped to reduce the costs by employing mass-production efficiencies to limit on-site labor. By and large, these programs were not successful, often meeting extreme resistance from labor unions or facing difficulties in adapting to idiosyncratic local building and housing codes. The picture was not entirely bleak. The widely heralded South Bronx settlement on Charlotte Street employed such units (along with a number of other subsidies) to reconstruct an area many had written off as unredeemable. Manufactured housing is only just now coming into general use, mostly for small buildings. The savings are generally in the amount of time needed to put a house or apartment together on site rather than in the cost of construction.

Responding to a variety of complaints regarding the federal approach, President Richard M. Nixon placed a moratorium on all housing and renewal programs in 1973. Besides scapegoating housing and urban renewal efforts as emblematic of "big government," he responded to criticisms that the categorical grant housing program was too time consuming and centralized, too place-restrictive, and subject to corruption and abuse, and that it did not achieve the desired results. Nixon's approach was embodied in the Housing and Community Development Act of 1974. The government abandoned direct, centralized construction methods. It addressed housing with two new measures administered by the Department of Housing and Urban Development. The first, the Community Development Block Grant, allocated monies by formula to localities that determined their use according to their own priorities within loose federal guidelines. The second, Section 8 certificates, are housing vouchers given either to individuals to rent housing on their own or to landlords who made their buildings accessible to low rent tenants. In 1999, HUD's \$28 billion budget allocations show that Section 8 certificates and Community Development Block Grants constitute the key elements of contemporary housing policy.

By 1999, the Joint Center for Housing Studies, Harvard University, reported that the federal government currently supported 4.5 million dwellings. Of these, 1.3 million were public housing units, 1.8 million were Section 8 certificates or other subsidies tied to specific buildings, and 1.4 million were free-floating Section 8 units (that is

the recipient could use them for any unit anywhere that met federal standards).

Together, assisted housing units compose about 4 percent of the nation's stock.

However, this supply is diminishing and will continue to decline in the coming years.

Between 1995 and 1998, demolition of substandard public housing and the expiration and nonrenewal of building-based Section 8 certificates has led to the loss of 65,000 units. Furthermore, the federal government anticipates additional decreases as Section 8 agreements on about 14,000 properties—1 million units—will soon come up for renewal. Under today's conditions, customary one-year contract renewals, low caps on acceptable rents, and strict code enforcement programs are disincentives for renewal for landlords of buildings in strong rental markets. The enter predicts that forty-four states could lose more than half of their Section 8 subsidized units.

U.S. HOUSING TODAY: THE BIG PROBLEMS ARE AFFORDABILITY AND BALANCED METROPOLITAN DEVELOPMENT

Although national statistics reveal that the partnerships between the federal government and the housing industry have largely overcome two types of shelter problems experienced in the past, low homeownership rates and the high incidence of substandard conditions, housing concerns do persist today. The contemporary definition of the housing problem revolves around affordability. A wide band of the nation's population cannot afford to buy a home. An important subgroup cannot secure shelter by either rental or ownership at the recommended ratios (2.5 times

annual income for purchases or 30 percent of income for rental). Solving the affordability problem involves a series of associated concerns: the social, economic, and physical reconstruction of distressed neighborhoods, where 40 percent or more of the population is at the poverty level, the curtailing of wasteful suburban sprawl, and the addressing of the jobs-housing imbalance. These latter issues require coordinated approaches that integrate housing policy with other public and private actions.

While there is no absolute shortage of housing in the United States, there is a lack of affordable units for certain households. Today's median house price is \$146,000, and the FHA cap on the value of an insurable home is \$208,000. According to the rule of thumb guidelines outlined above, a household should have an income of \$58,000 to \$60,000 to purchase a house at the median price. However, the national median household income of \$37,000 eliminates many. In fact the top price in their range would be \$92,500 and there is a limited supply of these units. (Another related theme is that among current homeowners whose median household income is about \$40,000 or among the 6.1 million homeowners with incomes below the poverty line, ongoing maintenance of their units may become a serious burden.)

Low-income households naturally experience the greatest problems finding affordable housing. As a group, they have a median household income of \$22,000. Not only are they hard-pressed to find a home in their price range (approximately

\$55,000), but units at their affordable rent, \$550 per month at the median, are becoming scarce. In 1998, HUD reported that 5.3 million (or about 5 percent of the nation's households) very-low-income renters were paying 50 percent or more of their income for shelter. Furthermore, the market is worsening: The number of units renting at below \$300 monthly is declining—a 900,000-unit loss occurred between 1996 and 1998 alone—and geographic imbalances are critical; job creation is taking place in suburbs at more than two times the rate in cities. There is no accompanying increase in inexpensive housing in the suburbs leading to a severe jobs-housing mismatch in many areas.

Finally, while the figures are inexact, some 600,000 people are homeless. Their profile reflects low levels of education, few skills, and often difficulties with substance abuse or mental illness; they need not only shelter but also linked services.

RECENT PROGRAMS FOR MAKING HOUSING MORE AFFORDABLE

Today the nation relies on a series of complex and sophisticated programs to meet housing needs. They tend to leverage the participation of the private sector in increasing the supply of affordable housing, broadening participation among those traditionally excluded from homeownership and addressing issues related to severely distressed public housing and the concentration of poor households in distressed neighborhoods.

The Low Income Housing Tax Credit

In the mid-1980s, the federal government developed a new device, the Low Income Housing Tax Credit (LIHTC), included experimentally in the Tax Reform Act of 1986. Popular among housing providers, Congress renewed the program so that it now has a budgetary authority of about \$3 billion annually, sufficient to support 50-60,000 dwelling units per year.

The program is relatively straightforward. The federal government allocates ten-year tax credits to each state according to a formula that allows the equivalent of \$1.25 times the number of people in the state. States approve the use of these credits in individual rental projects. Both the acquisition and rehabilitation of existing stock and the construction of new units qualify. Developers can either use the credits against project income or sell them to others, usually corporations, using the proceeds for equity for their projects. These arrangements have proved popular with both for-profit and not-for-profit housing providers.

This law also recognizes the special needs of distressed neighborhoods (called difficult development areas [DDAs]) by increasing the value of the credits by 30 percent when applied in these places. Certified by HUD, a DDA is any census tract where 50 percent of the households have an income of less than 60 percent of the area's median income. The LIHTC program mandates that developers set aside a certain number of dwellings at lower-than-market rents for 30 years. They must

allocate either 20 percent of the units to households with 50 percent of the area median income or 40 percent of the units to those having 60 percent of the area median income. It also requires that these tenants pay rents no higher than 30 percent of their income.

Targets for the Secondary Mortgage Market

Establishing secondary mortgage market performance goals for government security enterprises (GSEs) is another important method of increasing the supply of affordable housing. Monitored by HUD, the GSEs (Federal National Mortgage Association [Fannie Mae], the Federal Home Loan Mortgage Corporation [Freddie Mac], the Government National Mortgage Authority [Ginnie Mae]) enjoy certain protections under the law and can borrow money at favorable rates. Although all originally created as government entities, Fannie Mae and Freddie Mac are now privately owned and managed while Ginnie Mae is part of HUD. Their activities are significant. Annually, Fannie Mae expends \$1.3 billion and Freddie Mac almost \$1 billion. Fannie Mae and Freddie Mac operate without restriction while Ginnie Mae buys only Department of Veterans Affairs and FHA-insured loans. All balance the tension of limiting risks with making profits. In addition, national regulations allow them to bundle (or assemble) and market their holdings as mortgage-backed securities.

Historically, secondary market operations have tended to focus on conservative investments, that is, new construction on greenfields. (In fact, the whole issue of sprawl can be related to the practice of the nation's capital markets. The "Smart Growth" movement is only beginning to call attention to the effects of these decisions.) However, since HUD can set performance goals for the GSEs, it has recently taken a more aggressive, policy-related stance.

At the beginning of the 1990s, HUD set three targets: (1) 40 percent of GSE activities should be dedicated to purchases of mortgages on low and moderate income units, (2) 21 percent of their efforts should be in metropolitan areas where the family median income is less than or equal to 30 percent of the median family income, and (3) 12 percent of their investments should be for affordable housing. To comply, Fannie Mae created a \$1 trillion initiative. Aiming to help 10 million families over the next few years, it set up regional offices in twenty-five cities to work with local lending institutions to identify and publicize opportunities.

Leveraging Community Block Grants

With the development of these new tools, many cities have packaged Community Development Block Grants with Low Income Housing Tax Credits, secondary mortgage support, income-enhancing efforts including Section 8 certificates, local real estate tax abatements, and other incentives to support housing development. New York City, which spent more than \$50 million in its Mayor's Ten Year Housing

Program in the late 1980s and early 1990s, exemplifies these efforts. Nationwide, community development corporations, which have proliferated in the past decade, are direct beneficiaries of this approach. Clearly, housing program administration now demands sophisticated skills in finance.

Improving Public Housing

So many cities have distressed and otherwise unusable public housing units that the federal government devised the HUD-sponsored HOPE VI program. It uses selective demolition and reconstruction to create mixed-income communities on public housing sites. HUD anticipates eliminating 100,000 deteriorated housing units, or about 8 percent of the total public housing units nationally by 2003. It will replace them with 40,000 on-site moderate-income and market-rate dwellings. Plans also call for providing displaced families with Section 8 Certificates to be used off-site. Some cities are employing New Urbanism principles in their designs to give these new low-income neighborhoods a character similar to middle income traditional suburbs.

Between 1993 and 1999 HUD allocated \$3.7 billion of HOPE VI funds to 274 grants. The bulk of the money, \$3.5 billion, went to the revitalization of 131 sites. In this effort, many housing authorities are combining HUD funding with other financial instruments. The program has had a slow start-up as local officials have struggled with issues of tenant mix, financing, design, and government approvals.

Centennial Place, the former Techwood Homes in Atlanta, and Pleasant View Gardens in Baltimore are examples of successfully completed projects.

The Community Reinvestment Act

The nation has also developed regulatory devices to nudge private sector support for low and moderate income housing, principally, the Community Reinvestment Act (CRA), passed in 1977 and amended in 1989, 1993, and 1999. It requires banks to demonstrate their investment in the communities from which they receive funds. Under this legislation, banks report their mortgage activity, making this information available for public scrutiny. They collect demographic data including race, gender, and income on all mortgage applicants and record their lending processes indicating originations, withdrawals, and denials. Monitored and ranked for their performance, banks seeking to merge or undertake other activities requiring federal permission must show that they have acceptable CRA ratings. Banks have reacted to this law in a number of ways. Some have created internal community development corporations prepared to seek out appropriate opportunities. Others have contributed to intermediary organizations such as New York's Community Preservation Corporation and Philadelphia's Delaware Valley Reinvestment Fund, which manage lending in nontraditional areas. Banks are also regulated by the Financial Institutions Reform, Recovery and Enforcement Act of 1989, legislation designed to prevent the financial crises experienced during the 1980s. Banks must balance their obligations to their depositors while pursuing their community responsibilities.

Targeted Federal Housing Programs

While the federal government no longer funds new public housing units for the general population, it does sustain construction programs for special groups. These include the elderly (Section 202), people with AIDS, the homeless, and people who are disabled. However, these are not major programs in terms of amounts of money.

Finally, there are two HUD programs targeting increased homeowner-ship among underrepresented groups, but they are small and experimental. They include the Home Investment Partnership program and Home Ownership Zone designation that allows localities to apply for extra funding assistance in disadvantaged areas.

Housing Policy Planning and Funding

The United States does not have, nor has it ever had, a coordinated, articulated public accounting or evaluation procedure for its housing policy. HUD issues an urban policy report every two years that includes, among other issues, an assessment of housing. Cities receiving HUD funding prepare a Comprehensive Housing Assessment Study annually. (In this report, the locality identifies its housing problems and articulates short-and long-term strategies for their solution, particularly an accounting for expenditures of HUD funds.) Fannie Mae and Freddie Mac, as private corporations, offer annual reports regarding their activities. HUD recently began a database to inventory housing built under the LIHTC program. CRA activities are collected on a bank-by-bank basis.

WHAT ARE THE RIGHT POLICIES FOR THE FUTURE?

Today, housing problems revolve around issues of affordability and neighborhood quality in distressed areas. Policy analysts focus attention on the cost of housing, its location, and the inequities in homeownership related to race, gender, and income. In many instances, these problems are found most strongly in inner cities: but many are clearly present throughout metropolitan areas.

Rebuilding disadvantaged communities while addressing related housing problems remains among the most critical national issues. A metropolitan area with a "rotten" core will be weaker than its healthier peers as investors seek alternative locations—leading to a hard-to-arrest decline. In America's 100 largest cities, one in seven census tracts, or 14 percent of their land areas, contain concentrated poverty with all its associated ills. Facing huge gaps in jobs and education as well as in housing, many of these areas also experience severe environmental problems related to brownfields or soil contamination. Currently, several federal agencies are engaged in addressing these urban problems. But they often operate independently. Some examples are: HUD (CDBG, Empowerment and Enterprise Zones, HOPE VI projects), Environmental Protection Administration (brown-fields), Small Business Administration (local commercial activities), Health and Human Services (public assistance, health), Education (schools), and Transportation (TEA-21 programs). Closer coordination, based on strategic planning in which housing policy to provide

for mixed income residential areas with rental and ownership opportunities would be one part of a unified approach, is key to reclaiming these areas. The contemporary Smart Growth movement that calls for inner city revitalization along with anti-sprawl measures represents an important beginning and deserves support. Overall, the public and private sector have developed a diverse set of housing policies based on incentives, regulation, and direct investment. Successful approaches not only produce results but also have political support. Creating new programs is unnecessary but putting more energy into the existing ones is essential.

RECOMMENDATIONS

1. Increase the Low Income Housing Tax, Credit.

The LIHTC has been very effective in stimulating dispersed low and moderate-income units. Building on this success, Congress should adjust the ceiling upward, perhaps to \$1.75 per person, provide additional incentives for construction in distressed areas, and reduce incentives for greenfields construction.

2. Continue setting income and geographic targets for GSEs.

Setting income and geographic targets for GSEs is resulting in new markets for mortgage lending. Maintaining this pressure is appropriate, especially if coordinated with Smart Growth efforts to slow down sprawl and focus energy on inner city and in-fill suburban opportunities. Working with LIHTC programs should be encouraged.

3.Extend HOPE VI.

HOPE VI, with its emphasis on community building, should be extended to other failed public housing sites. In an associated effort, realistic adjustments to the Section 8 Certificate program would allow for longer contract renewals and some upward movement in rent caps. Some part of the CDBG funding could also be set aside for use in additional HOPE VI efforts.

4.Continue to enforce the Community Reinvestment Act.

CRA enforcement has also expanded financing horizons and should be maintained. Additional support for technical expertise in local communities would allow development of the sophisticated packages now necessary to finance housing.

5.Institute a coordinated and evaluative policy planning system that monitors and adjusts the battery of programs.

Bolstering HUD's urban policy reporting mechanism, officially extending its coverage to metropolitan areas and incorporating all funding agencies would be improvements that would enable pursuit of national goals to address housing and related issues.