

UPDATE

THE "NEW" CRANSTON-D'AMATO HOUSING BILL: STILL BAD NEWS FOR THE POOR

(Updating *Issue Bulletin* No. 152, "Cranston-D'Amato's S. 565: Neglecting America's Poor," September 22, 1989.)

The Senate next week is likely to take floor action on the National Affordable Housing Act (S.566, formerly S.565), fifteen months after it was introduced. The measure is the major housing legislation now before the Senate. Its principal cosponsors, Alan Cranston, the California Democrat, and Alfonse D'Amato, the New York Republican, portrayed the original version as "an effective new framework for national housing policy." But after the legislation encountered wide criticism, especially for its potential to trigger new housing scandals and for its "reforms" of the Federal Housing Administration, the bill underwent several changes.

The "new" Cranston-D'Amato housing bill, however, is little more than old wine in a new bottle. The revised bill does eliminate some of the earlier bill's more disturbing features, but the changes are more cosmetic than substantive. Moreover, other changes have made the bill far worse.

As a Heritage Foundation *Issue Bulletin* noted last year, the Cranston-D'Amato bill is "a costly and inefficient bill that will perpetuate the management and corruption problems that have plagued HUD [the Department of Housing and Urban Development]...and short-change those with the greatest need." There is little reason to change this assessment after examining the new version. HUD Secretary Jack Kemp, in a June 12th letter to Senator Jake Garn, the Utah Republican who is ranking minority member of the Banking, Housing and Urban Affairs Committee, rightly maintains that it would "repeat [HUD's past scandals] by institutionalizing profiteering and political influence peddling at the local level."

The "new" Cranston-D'Amato bill differs from the original measure in the following ways:

◆ The revised bill is even less explicit than before about the role of the HOME Corporation, the proposed new agency within HUD that would oversee the \$2 billion Housing Opportunity Partnership program (HOP). HOP would provide a housing block grant to states and localities, with which they could subsidize firms to construct or rehabilitate housing targeted toward low- and middle-income households. The central problem with HOP is that it could simply reproduce at the state and local levels the scandal-ridden construction programs now being reformed or dismantled at the federal level. Thus the HOP provision itself likely will do little to help low-income Americans, and much to further enrich the construction industry. At the very least there needs to be very careful federal monitoring and evaluation of HOP. The new bill only calls for a feasibility study on the need for this type of agency.

◆ The revised bill keeps FHA mortgage insurance ceilings at the current level. The original bill would have raised the insurance limit to 95 percent of the median home price in the more expensive markets. But the change, although wisely keeping the focus on new buyers of modest homes,

rather than enabling rich Americans to buy more expensive houses, does not go far enough. In particular, it does not adequately address the proposals to keep FHA solvent that Secretary Kemp made last week before the Housing Subcommittee. The agency's Mutual Mortgage Insurance Fund could very well be depleted within ten years unless the final legislation includes Kemp's proposals.

◆ The original bill called for a merger of the housing voucher and the Section 8 certificate programs. This provision would have transformed vouchers, which encourage tenants to "shop around" for rental bargains, into a dwelling-based program, which does not. In the new bill, vouchers are maintained as a separate program. While this is a step forward, the new bill will eliminate any savings that tenants would realize from families using vouchers to lease apartments whose rents are below the Fair Market Rent (FMR). The FMR is an amount determined by HUD to be the cost of modest-cost rental units in a given market area. It is usually the highest rent that can be charged for that market under the Section 8 program. Families would not be able to recoup the difference between actual rents and Fair Market Rents. This provision would undermine the whole principle of the voucher program, which is to house low-income Americans as efficiently as possible by encouraging tenants to look for moderately priced apartments.

◆ The new bill would remove the 15 percent cap on Section 8 project-based certificates, and instead make all certificates project-based. This would invite precisely the sort of favoritism that plagued so many other HUD programs during the 1980s. And as with several of the other revisions in the new legislation, it would restrict the ability of the poor, especially the working poor, to move to housing that is closer to jobs and schools.

◆ The new bill folds Public Housing New Construction, Rental Rehabilitation, Congregate Services, and the Section 312 Program into the HOP block grant. On the surface, this seems commendable, because it would reduce the layers of bureaucracy in housing programs. However, Senator Cranston has openly stated that if the bill passed, he will take these programs out of HOP during conference sessions with the House. It would appear, then, that this is little more than a "bait-and-switch" maneuver to gain Senate support for the legislation.

◆ The new bill would permit local housing authorities to waive performance rules serving the most needy. Currently, 90 percent of available public housing units are required to go to the most needy. But under the new bill, this minimum figure would be reduced to 50 percent. Thus the legislation would, in fact, reduce the housing available to the poor.

The bill's original flaws substantially remain, and many new deficiencies have been added. The Cranston-D'Amato bill, in short, loads even more cargo onto the very gravy train that led to "HUDscam," and would force Secretary Kemp to make HUD an even bigger open cash register to developers and the middle class while doing even less to help the poor. The Bush Administration has indicated that it might veto the legislation. The White House should make that veto threat much firmer, pointing out to Congress that George Bush and Jack Kemp will not agree to a bill that rewards the rich at the expense of the poor. More specifically, the White House should announce that Bush will sign only a drastically revised housing bill that limits federal housing assistance to households with incomes of less than 50 percent of the area median, and makes that assistance available mainly in the form of rental vouchers. A block grant to states and localities should be used to finance such an expanded voucher program, rather than expensive and potentially corrupt construction, and states and localities should be required to contribute a share of the voucher cost so that they have an incentive to pursue policies to reduce housing costs. With these major reforms, Congress could create legislation that would help lower-income Americans.

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