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GUIDELINES FOR THE HOUSING BILL

INTRODUCTION

The House and Senate this summer each passed comprehensive housing bills. These bills constitute the most far-reaching housing legislation since the Housing and Community Development Act of 1974, and would shape U.S. housing policy for the 1990s. Conferees now are close to reconciling differences between the two measures. But unless major changes are made, George Bush should veto the Conference bill.

The bills are the most expensive housing legislation in a decade. The House bill (H.R. 1180) costs \$28.7 billion, and the Senate bill (S. 566) costs \$27.9 billion. Because of Administration perseverance, both bills improved substantially between introduction and final passage. But several major provisions still should be either modified or eliminated. Among them:

New Construction. Both bills, especially the House version, authorize substantial funding for housing construction, creating several new programs in the process. These programs, contrary to their supporters' warnings about a national housing shortage, are not needed. New construction in any case is far more expensive than other forms of housing assistance, like vouchers.

Federal Housing Administration (FHA) Reform. The Senate and House bills need to go further in tightening FHA loan underwriting requirements.

HOPE. The focus of U.S. Department of Housing and Urban Development (HUD) Secretary Jack Kemp's initiatives is called Homeownership and Opportunity for People Everywhere, or HOPE. This program could be improved by eliminating penalties against subsidized owners of rental housing projects who elect to pay off their mortgages in advance, and one-to-one replacement requirements that would trigger the building of new public housing units whenever tenant groups become owners of their projects. These provisions work against HOPE's goal of empowering residents in America's most distressed neighborhoods.

Vouchers. Conferees should give strong support for the voucher program, and eliminate disincentives that prevent participating renters from choosing the most economical dwellings.

Low-income Housing Preservation. The motive for “preserving” low-income housing, both in the Senate and House bills, is to prevent such housing from being either upgraded, demolished, or made available for occupancy by those above income eligibility levels. The preservation provisions work in the long run against expanding the supply of affordable housing, and should be scrapped. Other measures should be used to secure housing for Americans with low incomes.

A major housing bill affords Congress the opportunity to create a long-term strategy to improve America’s housing stock, provide housing opportunities for poor households, and energize the housing market. Given the severe budget constraints on the federal government, prudent legislation must achieve its objectives at a reasonable cost to taxpayers. The House and Senate bills currently do not do this. Each proposes a spending authority well above the Administration’s \$23.7 billion request. Despite the useful reforms contained in the legislation, therefore, Bush must not allow Congress to pressure him into signing legislation that will boost the deficit while retaining wasteful provisions.

THE SENATE BILL: THE NATIONAL AFFORDABLE HOUSING ACT (S. 566)

The Senate bill is the less expensive of the two bills, but it still costs about 18 percent more than the Bush Administration’s budget request. It creates, moreover, certain programs similar to those that led to the recent financial scandals at HUD. Too much of the bill reflects the interests of potential sponsors of new, federally-subsidized housing. Too much of it presumes a worsening crisis in housing and homeownership affordability that is not rooted in fact.

Conferees should revise the bill to place far greater emphasis on vouchers and, as a second choice, Section 8 rent certificates as the best methods of helping low-income renters. They should eliminate the Housing Opportunities Program, or, failing that, at least eliminate the provision within it that forces state and local governments to participate in the program as a prerequisite for receiving HOPE funding, and the provisions that make the program one of new construction for the middle-class all but in name. They should also avoid diverting HOPE from Secretary Kemp’s goals. Above all, they should support strategies that help the poor become self-sufficient through work, rather than surviving permanently on the public dole. Independence, more than even a conversion to vouchers, is the route to eventual fiscal responsibility in the HUD budget.

Housing Opportunity Partnership (HOP)

The centerpiece of the Senate's new housing initiatives is the Housing Opportunity Partnership (HOP). Under HOP, Congress would authorize \$2 billion in block grants to states and localities for housing construction, rehabilitation, acquisition, and tenant-based assistance. First-time homeowners as well as renters would be eligible for aid. Some 60 percent of the money would go to local governments; the other 40 percent would go to states.

The bill is much improved over its earlier form. Now 90 percent of the funding must be used to help households with incomes less than 50 percent of the area median, and the remaining 10 percent must go to households with incomes less than 80 percent of the area median. The original bill reserved 50 percent of HOP units for renters with incomes less than 50 percent of the area median, and 80 percent of HOP units for renters with incomes less than 80 percent of the area median.

Necessary Changes: Making assistance available to those most in need is a crucial feature of any acceptable housing bill. The Senate legislation wisely places a cap on the amount of funding per unit, and makes adjustments for such things as the number of bedrooms, and whether the unit is new or rehabilitated. Still, the House-Senate Conference should consider four key changes in the Senate bill before legislation containing HOP is signed by Bush.

First, language in the new bill would make it very difficult to provide vouchers under HOP. The Senate "revised" HOP so that new construction would be permitted only after a state or local government certified that there was still a local housing shortage under local Section 8 rent limits. This revision is cosmetic. At the urging of the construction lobby, the Senate weakened this requirement. New construction would be allowed under any circumstances for large families and for the disabled and allow single-room occupancy units for the homeless. While these groups of Americans should be high on the priority list for housing, new construction would not be the best way to house them. In practice, this provision would mean a high percentage of HOP money would be channelled into new construction, with much less funds available for more economical ways to house these same groups. Also if HOP projects are in low- or moderate-income neighborhoods, and if the focus is on substantial housing rehabilitation, newly-constructed units funded by HOP could comprise up to 20 percent of such programs. These loopholes would create a perpetual rationale for reserving as much money as possible for new construction.

Second, Conferees should reexamine the provision requiring HOP jurisdictions to go through a cumbersome certification process. In its current form, the bill requires the jurisdiction to prove in an annual housing strategy that tenant assistance is essential for expanding the affordable housing supply. This "strings-attached" approach would frustrate communities, severely limiting the availability of tenant-based assistance, especially vouchers. Conferees should remove all restrictions on the use of HOP funds for

tenant-based assistance. Giving grantees the opportunity to use HOP funds for certificates and vouchers, without having to continually justify their action, would be a better way to serve those most in need.¹

Third, Conferees should consider modifying HOP's matching requirements. For new construction under the Senate bill, the federal government would provide two dollars of funding for every dollar provided by state or local governments. This is a change from the Senate's original formula of four-to-one. The federal-local match would be three-to-one for substantial rehabilitation (expenditures of at least \$25,000 per unit), and four-to-one for other rehabilitation or for tenant assistance. To further discourage use of the program to emphasize new construction, the match on new construction should be reduced to one-to-one.

Fourth, home buyers should not be eligible for HOP assistance at the expense of low-income renters, as they are under the current HOP provisions. The affordability crisis facing first-time home buyers has been greatly exaggerated. During 1980-1989, for example, the median purchase price for first-time buyers increased by 71.2 percent, but the median income for these households rose by 84.8 percent.² HOPE, described elsewhere, does provide aid for low-income public housing tenants wishing to buy their apartments. This is a sound policy because ownership is a key to regenerating deteriorating public housing projects. But homeownership for the general population should not be funded. It will direct aid away from the households who most need it, and toward households who are likely eventually to own their own homes anyway.

Voucher Incentives

The Senate bill maintains housing vouchers as a separate program, rather than merging it with the Section 8 certificate program, as the House bill would do. Unlike the House bill, however, the Senate bill would undermine the tenant incentive that makes vouchers superior to Section 8 certificates. The advantage of vouchers is that they do not require a tenant to live in a particular dwelling. The tenant can choose to live in any rental unit anywhere in the country. By contrast, Section 8 certificates require a dwelling to be reserved by participating landlords for eligible tenants.

The Senate bill would prevent tenants from realizing savings by using vouchers for apartments whose rents are below the HUD-designated Fair Market Rent (FMR). If they were to choose less expensive apartments, tenants would receive the voucher, but would pay 30 percent of their income toward rent, as would be the case under the Section 8 Rent Certificate

1 See Senator Connie Mack, "Bringing Aid and Tenants Together," *Washington Times*, July 11, 1990; Kenneth J. Beirne, "Vouchers: A Way to Provide Better Housing for America's Poor," Heritage Foundation *Background* No. 582, May 27, 1987.

2 See *Who's Buying Homes in America: Chicago Title's 14th Annual Survey of Recent Home Buyers* (Chicago: Chicago Title and Trust Company, 1990); also see 1981 edition.

program. Such a prohibition would undermine the basic incentive of the voucher, which is to encourage a tenant to shop around for the best rental bargain possible.

Necessary changes: Conferees should eliminate this disincentive for using vouchers. Vouchers give poor renters the best chance to find gainful employment, and live in the community and neighborhood of their choice. Conferees should also follow the Senate's lead, and keep vouchers separate from other programs.

Homeownership and Opportunity for People Everywhere (HOPE)

HOPE is the centerpiece of the Bush Administration's urban anti-poverty policy, and incorporates many of HUD Secretary Kemp's priorities. The Senate bill provides the full \$1.89 billion three-year request of the Administration for the three central elements of HOPE, \$240 million of it in fiscal 1991.

HOPE 1 - Public Housing. This makes available subsidies for the management and ownership of public housing to low-income tenants. HOPE 1 also would provide grants to rehabilitate vacant public housing units, and provide grants up to \$250,000 per project within public housing projects for job training and small business creation.

HOPE 2 - Multifamily Federal Housing Administration (FHA) Properties. This provides grants for the homesteading of foreclosed FHA multifamily properties to resident groups, cooperatives, and non-profit organizations.

HOPE 3 - Non-HUD-Held Properties. This provides homeownership opportunities for non-profit groups using principally single-family homes owned by other federal agencies, and by state and local government agencies. Grants would be made available to the non-profit groups or to public agencies working in cooperation with them.

Necessary Changes: The HOPE package would be a welcome reform of federal policy for communities.³ Nevertheless, three of its aspects should be improved by Conferees.

First, as the Senate bill is now written, vouchers may be used as a replacement for public units sold under HOPE if the area has a vacancy rate above the national average for all rentals below the Fair Market Rent. The problem with such a provision is that the need for HOPE is greatest precisely in areas where vacancy rates are lowest. Restricting the use of vouchers in this way will hinder the job and residential mobility of low-income tenants in Northeastern and California seaboard cities.

³ John Scanlon, "Kemp's HOPE Package: The Start of a Sound Housing Policy," *Heritage Foundation Issue Bulletin* No. 155, March 29, 1990.

The primary effect of this stipulation would be to benefit state and local officials in these cities, where costs are highest and vacancy rates lowest, and where rent control, growth control, and exclusionary zoning have artificially constrained the housing supply. The voucher limitation would reward such cities by providing them with an excuse to use expensive new construction wherever possible rather than removing regulations that would reduce housing costs for the poor.

Second, the Conference should eliminate the requirement that, regardless of restrictions on the resale of federally-subsidized private units, all units would have to be replaced on a one-to-one basis by a project owner. In the name of keeping the supply of public and subsidized private low-income housing units accessible to the poor, this would merely lock these dwellings into receiving subsidies, and reduce the incentive of their tenants to find permanent full-time employment. It "protects" low-income housing, but at the expense of needed private investment.

Third, Conferees should remove the requirement that any jurisdiction participating in HOPE must also participate in HOP. This stipulation is an attempt by HOP supporters to allocate as much new construction subsidies as possible even if recipients may be reluctant to use them. There is no reason why receiving HOPE funds should be contingent upon receiving funds from any other housing program.

Federal Housing Administration (FHA) Reform

In response to requests by Kemp for Congress to take emergency steps to protect the solvency of the Federal Housing Administration, the federal insurance agency for home buyers, the Senate included commendable provisions in the final bill which would tighten the agency's capitalization and underwriting standards. These would bolster FHA's reserves by acting on several recommendations by Kemp to include a risk-based mortgage insurance premium tied to the down payment level, and restrictions on financing closing costs.⁴

Necessary Changes: While the provision in the Senate legislation would help to strengthen the FHA, it is not clear that they would be sufficient to restore the long-term health of the fund. The Conference Committee should take four additional steps to insure the solvency of the FHA.

⁴ For a summary of the need for such reforms see Ronald Utt, "S. 565: Pushing the Federal Housing Administration Toward Insolvency," *Heritage Foundation Issue Bulletin* No. 148, June 12, 1989.

First, Conferees should raise the reserve fund ratio. The Senate bill authorizes HUD periodically to order an independent study of the Mutual Mortgage Insurance Fund (MMIF), and make adjustments to the FHA premium schedule. The objective would be to achieve a fund reserve level equal to 1.25 percent of the insurance in force within 18 months of the bill's enactment. According to a General Accounting Office study released last year, the reserve fund stood at a meager \$1.2 billion backing \$277 billion of insured loans-in-force,⁵ and has gotten lower since then.⁶ Beginning three years after enactment, the Secretary must report annually to Congress on progress made in reaching a 2 percent capital ratio.

Raising the fund reserve is essential for long-term FHA stability. But it is not clear that a 2 percent ratio would be sufficient to provide adequate equity against adverse economic conditions. Indeed, The Heritage Foundation recommended in 1989 that the ratio be raised to 4 percent.⁷ Conferees should raise the required fund reserve to at least 3 percent to protect the FHA against high-risk speculative borrowing. A higher reserve fund would provide a greater cushion against future defaults, and more important, will reduce the likelihood of them happening.

Second, Conferees should include premiums in the down payment. The bill currently allows the Secretary to charge up to an additional 0.5 percent FHA premium on top of the existing 3.8 percent up-front premium for certain loans. This would discourage high-risk borrowers from applying for assistance. Annual premiums could rise, since FHA, unlike private mortgage insurers, allows borrowers to include closing costs in the mortgage payments. As a result, FHA would be more likely to reject applicants who might otherwise qualify under lax underwriting standards. HUD estimates that monthly payments should rise by about 4 percent for high-risk home buyers. The additional FHA premiums would be collected during the course of the loan, and would not be included in the down payment.

Although charging additional premiums would help to restore FHA's integrity, the Senate bill still allows buyers to finance the premium. This would maintain a situation where many loans have loan-to-value ratios above 95 percent, with buyers inclined to default if the housing market goes sour. Thus, FHA should be allowed to insist that the additional premium be included in the down payment. This would discourage purchases motivated less by a desire for homeownership than by a desire to speculate with as little cash down as possible.

5 U.S. General Accounting Office, *Federal Housing Administration Fund's 1987 State of Financial Position*, GAO/AFMD-89-3, May 1989, p. 3.

6 Ronald Utt, "Cranston-D'Amato's S. 565: Neglecting America's Poor," *Heritage Foundation Issue Bulletin* No. 152, September 22, 1989, p. 9.

7 Ronald Utt, "Limiting the Damage from the Federal Housing Administration Collapse," *Heritage Foundation Backgrounder Update* No. 115, October 12, 1989, p. 3.

Third, Conferees should require higher minimum equities. The bill states that an FHA loan will be no more than 98 percent of the appraised value of the property, and no more than 97 percent in the case of any appraised value in excess of \$50,000. Since FHA allows borrowers to include their closing costs in the mortgage payments, the amount of the mortgage often has exceeded the price of the home. The new loan limits will help to combat “easy money” speculation, but this provision should be strengthened to require a maximum of only 97 percent, and of 95 percent for all amounts exceeding \$50,000.

Finally, the bill should further prohibit payment of distributive shares to borrowers until the Mutual Mortgage Insurance Fund becomes sound again. “Distributive shares” are the excess of premium payments over losses; each share represents a bonus for policy holders who as a group had a good repayment record. HUD estimates that the cost of payment to shareholders will be about \$150 million per year over the next six years. The last year for which premiums exceeded losses was 1979. For this prohibition to be more effective, it should be made retroactive for all mortgages still in force.

Program Terminations

The Senate bill sensibly eliminates the Moderate Rehabilitation program, Section 312 loans, Nehemiah housing grants, Public Housing development grants, Congregate Services, Rental Rehabilitation, Housing Counseling, and Urban Homesteading. These programs have been plagued with inefficiencies. According to a recent analysis of the Moderate Rehabilitation program, for example, cost overruns ranged from \$3,800 to \$13,700 per dwelling unit.⁸ Public housing construction grants would be eliminated by being folded into HOP, a move that the House bill does not match. Indeed, the only program the House bill has slated for termination is Moderate Rehabilitation.

Necessary Changes: Urban homesteading, where HUD donates vacant surplus residential properties to interested homeowners, should be retained and included in HOPE 2. Homesteading is a potentially powerful tool to revive declining neighborhoods and should be encouraged.

Advisory Boards

The Senate bill creates several advisory boards: an 18-member HOP Advisory Board, a 15-member Mortgage Credit Corporation, and a 15-member Public Housing Policies and Regulations Board. The aim of these boards, according to sponsors, would be to provide the oversight necessary to ensure that the programs would run in an efficient and honest manner.

⁸ U.S. General Accounting Office, *Rental Housing: Inefficiencies from Combining Moderate Rehabilitation and Tax Credit Subsidies*, GAO/RCED-90-168, June 1990, p. 1.

Necessary Changes: These boards should not be created. The inevitable political pressure in the selection of their appointees would lead to the kind of influence-peddling in selecting projects that brought scandal to so many HUD programs during the 1980s. In addition, they likely would add delays and costs to the completion of projects. To its credit, the House bill contains no similar provision.

THE HOUSE BILL: THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1990 (H.R.1180)

The House bill, like its Senate counterpart, emphasizes subsidies for construction over tenant assistance. Indeed, it goes further than the Senate bill in creating several new construction programs, and authorizing funding for new public housing construction. These are misguided measures, and largely explain why the House bill is close to one billion dollars more expensive than the Senate's.

The House bill does include, however, several good but incomplete steps toward restoring FHA to financial integrity. But it mandates retaining most currently-subsidized projects as "low-income" — even though such "preservation" works to the detriment of the poor in the long run. In its present form, the House bill has more weaknesses than the Senate bill, and Conferees should work especially hard to remove its anti-market provisions.

New Rental Construction

The House legislation contains two new construction programs: Rental Housing Production and Community Housing Partnership. Both authorize \$300 million for fiscal 1991 in construction subsidies for eligible sponsors.

Such construction programs likely would invite a repeat of past problems in similar programs. As Secretary Kemp wrote in June to Representative Chalmers Wylie, the Ohio Republican, and Ranking Minority Member of the House Banking Committee, "HUD's efforts to continually monitor thousands, indeed millions, of housing units through a top-down bureaucracy is no replacement for market discipline, consumer choice, and economic incentives."⁹

Necessary Changes: Both these new construction programs should be eliminated from the final bill. The larger of the two is the Rental Housing Production program, which provides 25-year loans of no more than 3 percent interest, to subsidize up to 50 percent of a project's costs. It is a revised **version of the Housing Development Action Grant (HoDAG), terminated in 1987,** and would subsidize new construction chiefly for the non-poor. Assistance would be available to for-profit and nonprofit developers, and housing authorities. HUD estimates that only 16 percent of all units would go to

9 Letter from Jack Kemp to Chalmers Wylie, June 6, 1990, p. 3.

“worst-case” households (households with problems in the priority areas of excessive rent burdens, substandard housing, overcrowding, and involuntary displacement). The legislation also prohibits grantees from using funds either for vouchers or for rent certificates, which are far more efficient than production programs in providing housing aid to the poor.

The second program is the Community Housing Partnership program (CHP). This is a new construction, rehabilitation, and acquisition program for both renter and owner-occupancy. There is no provision for tenant-based assistance. Some 85 percent of the funding would be in block grants to state and local governments, and the remaining 15 percent would go to non-profit sponsors. It is the House’s equivalent of HOP. But without strong reforms to prevent waste and abuse, this program, like HOP, will transfer to the state and local levels the graft and influence-peddling seen in federal programs.

Not Enough for the Neediest. On the surface, CHP appears reasonable. One hundred percent of all units would be reserved for low-income households. Twenty-five percent of the units would be set aside for households below 30 percent of the area median income in the rental portion of the program; another 50 percent would be reserved for households below 60 percent of the median; and the remainder would be for those below 80 percent of the median. This represents a slight improvement over the Senate’s HOP proposal. However, up to 40 percent of all CHP units would be eligible for use by first-time home buyers with incomes up to 115 percent of the area or state median (whichever is higher). At least 25 percent of the homeownership funds must be used for families below 80 percent of the median. Much of the funds still would not go to the neediest families. Overall, HUD estimates that only about 13 percent of all CHP money will benefit worst-case households.

Congress instead should fold CHP into the Community Development Block Grant program, ensure that more money directly reaches the poor, and redirect aid toward housing rehabilitation and tenant assistance rather than new construction. There is no need for another new construction subsidy program that would benefit significantly fewer households than under a voucher program, and tie young tenants and owners to their dwellings on a long-term basis rather than giving them a real choice over where they will live. As it stands, through the Low-Income Housing Tax Credit and Section 202 programs, the federal government subsidized about 130,000 units in fiscal 1990 – the largest volume of subsidized rental production since 1979.

The Bush Administration wisely is opposed to such new construction programs owing to their failure to target assistance to those most in need, and their tendency to invite waste and fraud. Bush has threatened to veto the legislation if they are included. He is right to do so.

National Housing Trust Demonstration

The House bill authorizes \$500 million for fiscal 1991 to establish a special fund to assist first-time home buyers through interest rate “buydowns” and downpayment assistance. A buydown allows a borrower to lower the

mortgage interest rate by increasing the down payment. The House measure would use buydowns to ensure that mortgage interest rates would be no higher than 6 percent. No matching grants by state or local government would be required, and assistance would be available to households with up to 115 percent of an area's median income. Moreover, the income eligibility for the buydown is well in excess even of the Senate's generous HOP income eligibility limit.

Necessary Changes: This provision should be dropped from the final bill. The program is based on the faulty premise that millions of first-time, middle-class homeseekers will be unable to afford a home in the absence of such federal assistance. Studies indicate that middle-class homeseekers face no significant affordability "crisis."¹⁰

Public Housing Construction

Unlike the Senate bill, which includes only limited resources for public housing construction (under HOP), the House bill would provide large authorizations for public housing. In fiscal 1991, for instance, the bill provides \$514 million for 6,800 new public housing units, and another \$224 million for 2,800 new Indian housing units. One-quarter of the apartments would be open to families with incomes between 50 and 80 percent of the area median income.

Necessary Changes: There is no need for new public housing units, and no authorization should be included. With a substantial number of vacant public units in many cities, Congress should be more concerned with how to rehabilitate them or sell them off — not how to build new projects.

HOPE

The House bill provides \$310 million for the Administration's HOPE program in fiscal 1991. The House version is superior to the Senate's in several major respects. First, the required federal-to-state/local match is two-to-one, instead of the Senate's three-to-one. Second, the House bill does not require HOPE jurisdictions to participate in the equivalent of HOP. Third, it allows for the conversion of replaced public housing units with five-year certificates. Fourth, it would permit jurisdictions to replace all public housing units sold with five-year certificates, unlike the Senate bill, which permits certificates and vouchers as the replacement only upon adequate proof of a sufficient local housing supply.

Necessary Changes: The House requirement for the replacement of public housing units converted to low-income homeownership is commendable, but does not go far enough. Ideally, there should be no conversion replacement requirement at all.

10 For evidence dispelling the myth of such a crisis, see Carl F. Horowitz, "Washington's Continuing Fiction: A National Housing Shortage," Heritage Foundation *Background* No. 783, August 22, 1990.

Housing for AIDS Victims

H.R. 1180 authorizes the creation of five new housing programs for Acquired Immune Deficiency Syndrome (AIDS) patients at a cost of \$150 million for the first year. One program alone would provide over \$50 million in new Section 8 rent certificates for AIDS sufferers. The Senate version merely requires HUD to develop a strategy for housing AIDS victims, which itself is unnecessary.

Necessary Changes: While compassion for sufferers of AIDS is understandable and proper, the House provisions for special programs are misplaced, and should be eliminated. There is no intrinsic reason to single out one particular class of seriously ill persons for housing funding, rather than another class. Under the logic of this authorization, specific housing assistance also should be extended, for instance, to cancer and heart disease victims as specific, favored groups. The provision is also redundant, since AIDS patients already are eligible for all existing HUD and HOPE programs through standard income eligibility and handicapped status definitions.

FHA Reforms

The House bill contains several commendable proposals similar to those in the Senate version for restoring FHA to a sound financial condition. It also contains an amendment, offered by Bruce Vento, the Minnesota Democrat, and Thomas Ridge, the Pennsylvania Republican, that allegedly would keep FHA financially sound without putting homeownership out of reach for less affluent Americans.

Necessary Changes: The Vento-Ridge provision would do more harm than good. While the measure would reduce the existing up-front FHA insurance fee from 3.8 to 1.35 percent, instituting a 0.6 percent annual fee over the life of the loan, it would keep the down payment and closing costs low. As a result, it would maintain the incentive for investors to speculate with FHA properties, and to walk away from properties in soft markets. In addition, the provision would eliminate any rebate to those who prepay their loans. This would dampen the incentive for prepayment, thus slowing down FHA's recovery. One useful component of the provision, however, would calculate distributive shares payable to homeowners based on the performance of FHA's entire loan portfolio rather than on the performance of the most recent year's book of business. Since future portfolio performance likely will be better than that of past loans still in force, FHA would pay out less money under this arrangement than under the Senate bill.

Low-Income Housing Preservation

Title VIII of the House bill authorizes up to 15 percent of Section 8 existing housing certificates to assist tenants living in subsidized, privately-owned projects threatened with prepayment (that is, owners choosing to pay off their mortgages in advance) involving state mortgage programs. Also, it prohibits an owner from developing (or redeveloping) property to a higher use. Without such a revision, supporters argue, over

300,000 currently assisted rental units would no longer be necessarily available for occupancy by low-income households. With this revision, waiting lists for publicly-assisted units would be reduced.

Necessary Changes: Conferees should drop both these provisions from the final measure. With the intention of protecting low-income housing, the House sees prepayment as a "threat" to tenants who might otherwise have nowhere else to go, instead of an economic opportunity for precisely such tenants. Protecting the access of the poor to specific low-cost housing projects seems a commendable enough goal. Yet the ensuing reality is that government must perpetually subsidize projects, rather than people. As Secretary Kemp argues, "The provision...seems to reflect a 'preservation at any price' philosophy which would effectively reward property owners for a commodity not provided, pay high premiums to protect buildings instead of residents and culminate in an extraordinary cost of over \$33 billion over 20 years."¹¹

A Committee amendment by Doug Barnard, the Georgia Democrat, and Steve Bartlett, the Texas Republican, would improve the legislation, however, by ending mortgage prepayment restrictions on HUD-assisted housing projects, and by allowing owners to prepay their mortgage after 24 months without prior HUD approval. However, another amendment, sponsored by Thomas Carper, the Delaware Democrat, and David Price, the North Carolina Democrat, would allow non-profit groups, resident councils, and public agencies to buy a project at its appraised fair market value if the owner decides not to accept initiatives for continued low-income use. This second provision would in fact seriously weaken the legislation. It would so water down the prepayment amendment as to make it valueless. Barney Frank, the Massachusetts Democrat, has admitted that the amendment would keep prepayment restrictions on all but 10 percent of federally-subsidized rentals.¹²

CONCLUSION

The Senate and House bills institute a number of innovations and reforms, but they also contain many very undesirable provisions. Each bill would cost billions of dollars more than the budget level needed for prudent deficit reduction, exceeding the Bush Administration's already high budget request of \$23.7 billion by about 20 percent. In fact, the Senate and House bills exceed the final HUD budget of the Reagan Administration by 36 percent and 41 percent, respectively.¹³ More troubling, they either create or fail to

11 Jack Kemp, *op. cit.*, p. 7.

12 "House Passes Housing Bill with FHA Reform, Mortgage Prepayment Provisions," *Housing and Development Reporter*, Vol. 18, No. 12, August 6, 1990, p. 218.

13 Jason DeParle, "Congress Hails Its Bills on Housing as a Reversal of a Decade of Neglect," *New York Times*, August 7, 1990.

remove obstacles that prevent the market from effectively operating in low-income neighborhoods.

Before Bush signs major new housing legislation, he must insist that the measure will accomplish several key goals. The measure must:

- ◆ Improve the soundness of FHA's Mutual Mortgage Insurance Fund by tightening its loose purse strings;
- ◆ Provide benefits primarily, if not exclusively, to the poor;
- ◆ Remove restrictions on rental property owners' ability to prepay or sell;
- ◆ Encourage public housing tenants to buy their apartments, and allow them eventually to sell at a profit;
- ◆ Deliver rental assistance for the poor predominantly in the form of vouchers; and
- ◆ Not exceed the Administration's recommended budget.

True Compassion. Congress should recognize that the cornerstone of an anti-poverty housing strategy should be to enable low-income families to become homeowners, and hence anchors in the community, or renters living in the housing of their choice. Conferees must remove anti-market and anti-consumer choice provisions that masquerade as compassion for the poor. The truest form of compassion for the needy is the pursuit of a policy that focuses help on them – not developers or the middle class – and will enable them to become independent. Only in this way can the goals of inner city revitalization be realized.

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