The Heritage Foundation MEMO TO: President-Elect Clinton

No. 6

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A STRATEGY FOR SOUND HOUSING POLICY

We have to start indigenous economic development and housing strategies in these [inner city] areas. There are all kinds of housing programs that are at work that are empowering people. I think the Congress made a mistake in not passing more of Jack Kemp's housing initiatives to do more for low income working people, to give them the right to own their own homes and secure their own neighborhoods.

Bill Clinton, remarks at Georgetown University, Washington, D.C., December 12, 1991.

EXECUTIVE SUMMARY

You were elected, President-elect Clinton, in large measure because ordinary Americans have grown concerned about the basic things of family life: a job, health care, a good education for their children—and a decent and affordable home. Even with today's low mortgage interest rates, too many young renter households who wish to buy a home cannot find one within their price range. And too many renter households live in neighborhoods, especially in large cities, in which fear and despair, rather than security and hope, rule the day. You have an opportunity to deal with these concerns.

To accomplish real change, however, you must first base policy on an accurate assessment of housing conditions. This means ignoring the attempted rewrite of history being undertaken by numerous interest groups. You must reject the absurd claim that federal spending on housing assistance has declined. The budgets of the Department of Housing and Urban Development (HUD) and other federal housing agencies actually increased substantially during the past twelve years. HUD spending, most of which consists of housing subsidies, rose from $14.9 billion to $22.8 billion during fiscal years 1981-1991. The Office of Management and Budget (OMB) projects spending to reach $28.1 billion in fiscal 1993. Moreover, housing, both to own and to rent, has become more, not less affordable in recent years, especially with mortgage interest rates lower in 1992 than in any year since 1973.

Your policies also must not play into the hands of Washington's special interest groups, who all too often use the rhetoric of concern for American families, and for the homeless, to secure huge subsidies for developers and local political machines. But already they are cheering your election as a potential windfall. Remarks Thomas Cochran, executive director of the U.S. Conference of Mayors: "The important thing to understand is the sentiment and feeling mayors have for HUD. They consider it to be their agency."[1] The U.S. Conference of Mayors this past

1 Quoted in Ann Mariano, "Housing Activists View Cisneros as Advocate for Change," *The Washington Post*, December 26, 1992.

year has promoted its own $35 billion urban "Marshall Plan." They expect you to fund it. But such a proposal merely would sap the economic vitality of cities in the name of saving them. And caving in to such special interests and their supporters in Congress, who are eager to exploit a change in Administration, means you risk a rerun of the scandals that plagued federal housing subsidy programs in the 1980s.

A reform of housing policies will be no easy task. Despite HUD Secretary Jack Kemp's efforts to root out waste, inefficiency, and corruption in federal housing programs, many of the old problems remain. While Secretary Kemp took necessary steps to clean house, considerably more work needs to be done by the successor you have nominated, former San Antonio mayor Henry Cisneros.

You clearly understand that a strong economy is the best guarantor of an ample and affordable supply of housing. Federal housing policy, like other areas of domestic policy, should be guided by fiscal prudence, not by an erroneous assumption that government is the best provider of supposedly vast unmet needs.

You also appreciate that the best housing policy in poor neighborhoods is one which empowers poor families while reducing the power of federal and local bureaucrats. Your support for many of the empowerment initiatives of Jack Kemp is a hopeful signal that you intend to fight for them, despite the opposition in Congress of many members of your own party.

To achieve affordable housing for Americans, your housing policy must include:

Action 1: Crack down on inefficiency, waste, and corruption in federal mortgage insurance and subsidy programs. Many of the problems plaguing HUD programs that came to light during the 1980s were dealt with by Jack Kemp. But many remain in various mortgage insurance programs of the Federal Housing Administration (FHA), which is part of HUD. Problems are also occurring in other housing-related agencies, such as the Farmers Home Administration (FmHA) and the Department of Veterans Affairs (VA). Legislation and further management reforms are needed, including closer scrutiny of constituency pressure from Capitol Hill.

Action 2: Continue Jack Kemp's agenda for giving residents of public and subsidized housing more control over their projects. In the campaign, you voiced your strong support for resident management of HUD-funded projects. To make resident management and ownership more widespread, however, you will need to challenge the congressional committees and housing authority interest groups that seek to thwart Kemp's initiatives.

Action 3: Eliminate drug dealers from public housing. You must make clear that you will not tolerate the presence of drug dealers, many of them violent, who prey upon innocent tenants. You should fight to rein in the ability of federally subsidized lawyers to defend convicted drug dealers.

Action 4: Press for legislation phasing out subsidies for construction, reconstruction, and rehabilitation of public and subsidized housing, and instead support wider use of vouchers and certificates. Rental vouchers and certificates give low-income families choice over where they live. Such income-support programs are far less expensive than new construction programs. But be careful. Vouchers and certificates still are an expensive way of assisting the poor. Such programs need to be part of a general overhaul of welfare and income assistance.

Action 5: Avoid schemes that would reduce or eliminate homeowner tax breaks; if they are instituted, use extra revenues to cut taxes, not subsidize more housing. The Congressional Budget Office (CBO), among others, has proposed just such schemes. Any reduction in the mortgage-interest deduction and other tax "subsidies" should be matched, dollar for dollar, with across-the-board tax cuts. These cuts can be matched by cuts in wasteful and duplicative federal spending.

Action 6: Refuse to establish HUD's new secondary mortgage market office until it demonstrates a willingness to avoid heavy-handed management of Fannie Mae and Freddie Mac. As part of the Housing and Community Development Act of 1992 (P.L. 102-550), Congress created the Office of Federal Housing Enterprise Oversight, to micromanage the operations of Fannie Mae and Freddie Mac. These are profitable, stockholder-owned, federally chartered corporations, and do not require this level of federal oversight. Congress simply created another layer of bureaucracy. Tell Congress to get rid of it, or (more likely) failing that, to avoid heavy-handed regulation.

Action 7: Urge Congress to repeal the requirements for "preservation" of subsidized rental projects, and instead provide vouchers to displaced tenants. The Low-Income Housing Preservation and Resident Homeownership Act, which was part of the National Affordable Housing Act of 1990, all but mandates that some 360,000 units, built mainly during the late 1960s and early 1970s, be leased to income-eligible households at reduced rents. In practice, this represents a windfall for many project owners because the legislation requires HUD to subsidize these landlords, even if they prepay their mortgages, by making up the difference between reduced and market rents. Instead, you should allow all landlords to prepay, if they choose to do so, release them from all obligations to lease to low-income households, and provide three-year vouchers to any household displaced by higher rents.

Action 8: Adopt the recommendations of the Advisory Commission on Regulatory Barriers to Affordable Housing. This bipartisan commission, established by Secretary Kemp, was chaired by former New Jersey Republican Governor Thomas Kean, with former Ohio Democratic Representative Thomas Ashley serving as vice-chairman. The Commission's final report, released in July 1991, made several dozen recommendations for government at all levels to reduce regulatory burdens adding to housing costs. One of its main recommendations was legislation to condition receipt of certain forms of state and local housing assistance from HUD upon removal of overly burdensome regulations on buildings and land. The 1990 National Affordable Housing Act's Comprehensive Housing Affordability Strategy (CHAS) requirements must be modified to do this.

Action 9: Ignore calls to delay Resolution Trust Corporation (RTC) auctions of residential properties. Some housing officials and community groups are urging you to earmark RTC properties for sale to housing advocacy groups and public agencies. But holding off sale of RTC-held properties, whether to achieve maximum bids or to reserve them for specific buyers, could depress local real estate markets. Stockpiling properties could cost taxpayers needless billions of dollars. Taxpayers should not have to bear additional burdens for the bad housing loans of closed thrift institutions.

Action 10: Use federal subsidies for the homeless primarily to treat the mentally ill and substance abusers, not to subsidize housing costs. Homelessness is mainly the result not of a housing shortage, but of welfare and mental health systems that allow serious mental health problems, including severe substance-abuse problems, to go untreated. Urge Congress to fund programs under the McKinney Homeless Assistance Act that provide long-term shelter and care to the mentally ill. Do not use the existence of "street people" as an excuse to embark on expensive housing construction programs — the homeless will gain little or nothing from them.

These ten recommendations rest on a basic principle: limited federal intervention in the housing market is sound policy. Housing problems require solutions other than more handouts to developers and middle-class homebuyers. The United States is the best-housed nation in the world.[2] Where there are shortages in housing, they tend to be the result of an overabundance of bureaucracy. Thus, while reforms certainly are needed, you must resist the pressure for massive new construction programs. As you consider reforms to slice through housing bureaucracy at all levels of government, you must be prepared to overcome resistance from entrenched bureaucrats in your Administration and developer lobbies on Capitol Hill.

To do this, you must resist overheated rhetoric claiming that America has a worsening housing affordability crisis, and that drastic, coercive, and expensive steps must be taken by Washington to solve the crisis. Some liberals and developers are practically salivating at the thought of HUD becoming a cash cow for construction and rehabilitation programs. They are falsely alleging that the federal government under Ronald Reagan and George Bush "neglected" housing issues for twelve years. In this way they can boost HUD spending to ever record-high levels. Moreover, they seek to expand exactly the kinds of programs that increase, not decrease, welfare dependency.

You have promised fiscal and personal responsibility to be major themes in your administration's domestic policy. If you are to make good on this promise, you must allow housing markets to function more freely, using federal action as a means of ensuring that opportunities are available to all, and you must make sure that housing help goes to those who really need it, not middlemen. If you do that much, while confronting the powerful housing lobby, you will have made a great contribution to America's housing policy.

What Really Happened Under Reagan and Bush

In stark contrast to the picture painted by many interest groups, the past twelve years have seen improving housing affordability. Moreover, federal spending on housing increased steadily and substantially during the period.

You have been told, of course, that housing funds were slashed during the Reagan and Bush years, making housing unaffordable for tens of millions of Americans and rendering homeless millions more. Liberals in Congress frequently have made this charge. For example, Represen-

2 See Robert Rector, "How the Poor Really Live: Lessons for Welfare Reform," Heritage Foundation *Backgrounder* No. 875, January 31, 1992, pp. 4-15.

tative Charles Schumer, the New York Democrat, declared in 1989: "The Reagan Administration systematically decimated the nation's [low-income] housing supply."[3]

Joining the chorus of such claims are lobbyists and supporters of real-estate trade organizations, such as the National Association of Realtors, and state and local government organizations, such as the U.S. Conference of Mayors and the Council of Large Public Housing Authorities. The Reagan Administration's modest steps to rein in wasteful and expensive federal housing programs were denounced even as HUD outlays kept rising.

The media also will expect you to reverse the supposed collapse of federal support for housing, and end the resultant misery. As ABC News Assignment Editor Susana Ramirez recently announced: "In the last few years, I have watched as this country changed from the land of milk and honey that my parents willed to me, to a landscape of homeless and underprivileged reminiscent of the worst of the Third World."[4]

There is one problem with such rhetoric. It is patently false. The claims that federal spending declined, that housing became less affordable, and that a shortage of housing led to millions of Americans becoming homeless, do not withstand any scrutiny. If you are to develop a sound housing policy, you must reject this mythology.

MYTH #1: Federal housing spending was slashed in the 1980s. FACT: It increased.

The cuts in the federal government's housing budget were reductions in authorizations, not spending. Authorizations permit a federal agency to incur obligations to spend an amount over some specified or unspecified period. Outlays represent the actual funds that an agency spends in a given fiscal year. As an analogy, an authorization is a credit limit on a household's ability to borrow; an outlay is the amount that the household draws on that account.[5]

Congress did authorize a spending ceiling for HUD in fiscal 1983 of $16.6 billion, a total less than half the $34.2 billion of fiscal 1981. This reflected a cut in authorizations for new housing construction of roughly 80 percent. Special interests and advocates for developers constantly refer to this as "evidence" of massive cutbacks. Yet HUD outlays—that is, actual money spent on housing—continued to increase.

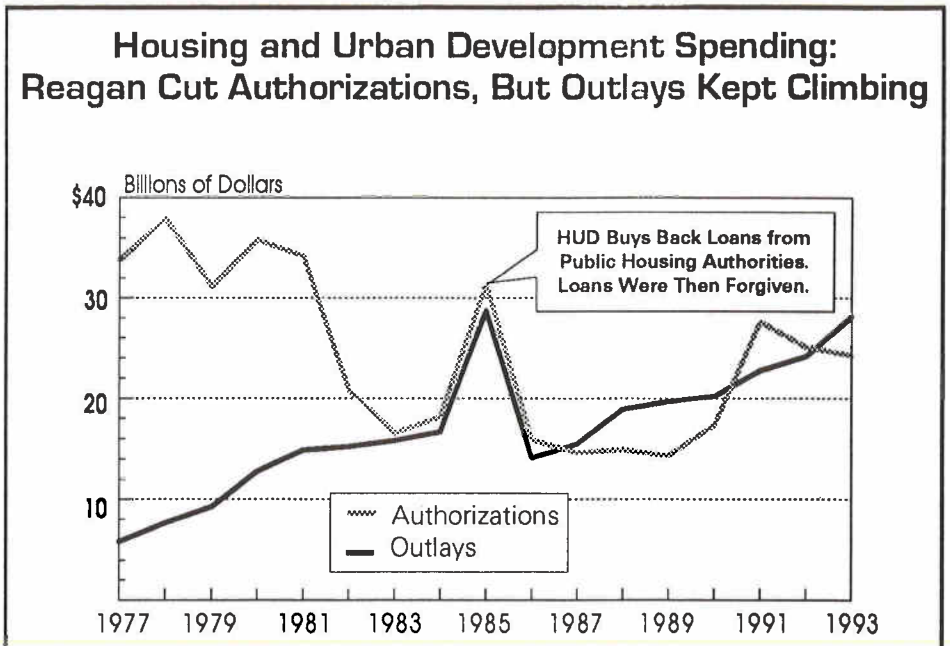
The main reason for this change in authorization was the cancellation of the Section 8 New Construction program. That program was locking the federal government into huge, multi-decade commitments to subsidize rents for low-income renter households in new, privately built projects. The Reagan Administration asked Congress to terminate the program, which had resulted since its inception in the mid-1970s in enormous per-unit costs.

Although authorizations were sharply curbed in the early 1980s, HUD outlays actually increased throughout the 1980s, and are climbing at an even faster rate now. As Chart 1 indicates, the HUD budget (that is, outlays) was a then-record-high $14.9 billion in fiscal 1981; when President Reagan left office in 1989, outlays had risen to $19.7 billion—they were not cut by some 70 percent to 85 percent, as many housing advocates wildly claim. Spending has since accelerated. By the end of the current 1993 fiscal year, the Office of Management and Budget expects the total to exceed $28 billion.

3 Quoted in Carl F. Horowitz, "Inventing Homelessness," *National Review*, August 31, 1992, p. 48.

4 ABC News *World News Now* commentary, November 13, 1992. Reprinted in Media Research Center (Alexandria, Virginia) *Notable Quotables*, November 23, 1992.

5 For a good application of how this distinction has been muddied in HUD programs, see John F. Cogan and Timothy J. Muris, "The Great Budget Shell Game," *The American Enterprise*, November/December 1990, pp. 47-48.

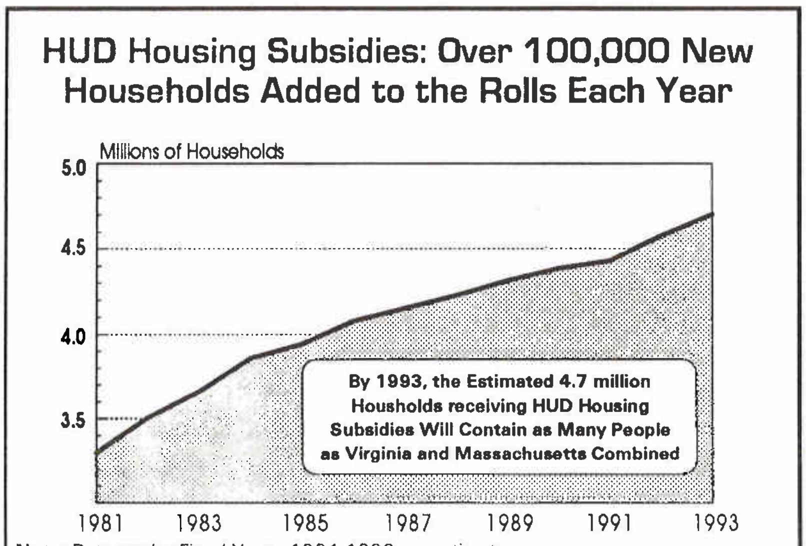


Note: Data are for Fiscal Years. 1992-1993 are estimates.
Source: *Budget of the U.S. Government: Fiscal Year 1993*, Historical Tables.

A direct result of this change in policy is that HUD's low-income housing subsidy programs increasingly are serving more households. Whereas only some 3.3 million households were receiving subsidies in fiscal 1981, over 4.3 million households were receiving subsidies in fiscal 1989. The total is expected to rise to over 4.7 million by the close of fiscal 1993. While a sound federal housing policy, of course, ultimately would reduce the need for subsidies, the claim that the number of households receiving HUD housing subsidies fell over the past twelve years is false.

MYTH #2: Housing is becoming less affordable.
FACT: Housing costs have declined.

The cost of housing, whether to own or to rent, never reached crisis proportions at any time during the past twelve years. In fact, since the mid-1980s, the cost of housing has become steadily more reasonable. Mortgage rates, for example, which averaged 14 percent to 15 percent during 1981-1982, after rising rapidly during the Carter years, have steadily declined. They stood at under 8 percent for much of 1992. From July through September 1992, thirty-year, fixed-rate home purchase mortgages averaged only 7.88 percent.[6] By contrast, the rate averaged about 12.5 percent in 1980.



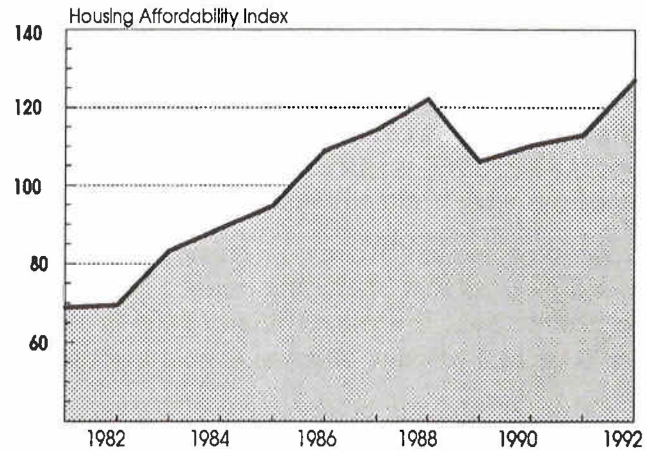
Note: Data are for Fiscal Years. 1991-1993 are estimates.
Source: U.S. Department of Housing and Urban Development, *Expanding the Opportunities for Empowerment: New Choices for Residents.*

For this and other reasons, the cost of owning a

6 "Average American Family More Able to Buy Home," *The Washington Times*, November 17, 1992.

home thus has become more reasonable. One of the best indicators of homeownership affordability is the National Association of Realtors' Housing Affordability Index. The Index is a monthly nationwide survey that measures the ability of a family earning a median income to buy a median-priced existing home. An Index of 100 means that median family income equals the amount needed to purchase a median-priced home using conventional financing and a 20 percent down payment. Thus, any figure above 100 means that median income is more than is needed to buy such a home.

Americans Can Afford Better Homes: Incomes Are Outstripping Home Prices



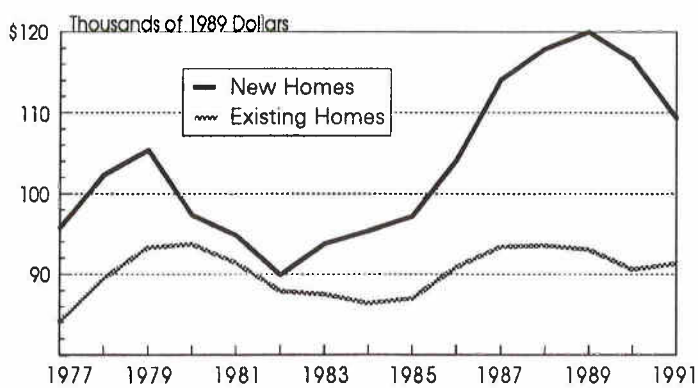
Note: 1992 figures are for the 3rd Quarter. The index is a ratio of the median family income and the median price of a home. The higher the index, the more affordable is American housing.

Source: National Association of Realtors, *Home Sales*, monthly.

Heritage DataChart

Since the mid-1980s, American families generally have seen good news on the homebuying front. In 1981, the Index stood at a meager 68.9, meaning that a median-income family had only 68.9 percent of the income necessary to qualify for the purchase of a median-priced home (see Chart 3). By 1985, the Index had risen to 94.8. The Index rose dramatically to 108.9 in 1986, and remained stable for the next four years. From 110.2 in 1990, the Index climbed to 127.0 in the third quarter of 1992, almost double the 1981 figure, and a near-record-high quarterly figure. Not since 1974 has homeownership been this affordable.[7]

Median Sale Prices of Single Family Homes: New Home Prices Are on Their Way Back Down



Source: U.S. Bureau of the Census, *Construction Reports*, Series C-25, "New One-Family Houses Sold and For Sale," and National Association of Realtors, *Home Sales*, 1992.

Heritage DataChart

More good news comes from the Joint Center for Housing Studies of Harvard University. Since 1988 the Joint Center has released an annual monograph entitled *The State of the Nation's Housing*. The 1992 edition, relying on various federal and private data sources, indicates that the annual cost of owning a single-family home, in constant 1989 dollars, after taking into account mortgage interest and other costs, housing quality, income taxes, and expected appreciation, fell from $8,885 to $7,806 between 1982 and 1991, a dip of approximately 12 percent.[8]

7 *Ibid.*

8 See *The State of the Nation's Housing 1992* (Cambridge, Mass.: Joint Center for Housing Studies of Harvard University, 1992), Table A-1, p. 28. Indeed, the drop would have been far greater if expected appreciation had not fallen by so much during 1989-91.

The Harvard 1992 report, using Census Bureau and NAR data, reveals that in constant 1989 dollars, the median sales price of both new and existing single-family homes barely has changed since the beginning of the 1980s, and in fact went down during 1989-1991 It was during the late 1970s, in fact, when prices went up most rapidly.

It is important to remember that these figures refer to price only, and do not reflect the steady decrease in mortgage interest rates since the early 1980s. If they took into account the full costs of ownership, the fall in prices would be even more dramatic. The overall fall in existing home prices since 1980 is particularly encouraging, since the least well-off homebuyers typically select from what is already built, rather than from new dwellings.

Renting also has become increasingly affordable. The 1992 Harvard study also found that monthly gross rent (including utilities and other costs) in constant 1989 dollars rose from $358 in 1980 to $411 in 1988, falling to $406 in 1991.[9] Thus, inflation-adjusted rent has risen since 1980 by 13.4 percent, or by an annual average of slightly more than 1 percent.

Critics of housing policy in the 1980s point to the Harvard study documenting this rise in real rents, plus a rise in the ratio of rent to renter-household income from 27.2 percent to 30.1 percent during 1980-1991, as proof that renters are falling behind. But that conclusion is misleading for two reasons.

First, the rent-to-income ratio stood at 30.3 percent in 1987. Thus, for the last four years it has declined.

Second, and more important, the Census Bureau's data on income among poverty households, upon which the Harvard reports rely, are seriously flawed. Households below the Bureau's poverty line receive enormous cash and non-cash sources of government support that are not reported as income. As a recent Heritage Foundation analysis showed, in 1990 only $32.5 billion of the over $225 billion in combined federal, state, and local assistance to low-income persons was actually counted as income. In total, over $190 billion worth of assistance was not included in the poverty data.[10] Because of this huge deficiency in the measurement of income, the rent-to-income ratios produced by the Harvard Joint Center are artificially high.

MYTH #3: There are millions of homeless Americans, due to high housing costs.

Purportedly a tragic by-product of HUD spending "cuts," the growth in the number of homeless persons has been wildly exaggerated and unsubstantiated. Yet for the past decade, based on a reckless claim in the early 1980s by the late political activist, Mitch Snyder, many housing advocates insist that housing policies during the 1980s have caused some 3 million Americans to be without shelter. This claim has been recited consistently, but it is completely without foundation.

Several studies show a very different picture. For example, HUD in 1984 completed a major study on homelessness, concluding that the best nationwide estimate was between 250,000 and 350,000 homeless persons.[11] Several years later Martha Burt and Barbara Cohen, of the Wash-

9 *Ibid.*

10 Robert Rector, "How the New Census Report Dramatically Overstates Poverty in America," Heritage Foundation *Executive Memorandum* No. 339, August 31, 1992; Rector, "The Paradox of Poverty: How We Spent $3.5 Trillion Without Changing the Poverty Rate," *Heritage Lecture* No. 410, 1992. Some $40 billion of the over $225 billion in anti-poverty assistance went to persons in institutional settings, mainly nursing homes.

11 U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *A Report to the Secretary on the Homeless and Emergency Shelters* (Washington, D.C.: U.S. Department of Housing and Urban Development, May 1984).

ington, D.C.-based Urban Institute, concluded that at most America had 600,000 homeless persons at any given time.[12] Admitting that she may have overstated matters, Burt has since revised this estimate downward to a range of 354,700 to 461,800.[13]

Even this estimate may be too high. The Census Bureau's special count of the homeless in March 1990 revealed only about 240,000 homeless persons nationwide in shelters and on the streets.[14] Many homeless activists, predictably, accused the Bureau of leaving large numbers of homeless persons uncounted, yet none of them put forward evidence to support this claim.[15]

Quite separate from the numbers of the homeless are the characteristics of the homeless. Lobbyists for more spending on the housing industry typically exploit the increased visibility of homelessness as an argument for "restoring" HUD spending. Yet numerous studies show that housing is not the central issue. There are, assuming the Census Bureau's estimate is correct, almost 40 vacant year-round dwellings for every homeless person. Far more important as causes of homelessness are serious untreated personal problems, including alcoholism, drug abuse, and mental illness.

Numerous studies have shown the same thing: The homeless are not "just like us," but instead require special help. The National Institute on Alcohol Abuse and Alcoholism, in a review of literature on substance abuse and related illness among the homeless, concludes, for instance, that "around two-thirds of the men and a third of the women" have an alcohol problem.[16] A RAND Corporation study of homelessness in three California counties found that the incidence of alcohol abuse, drug abuse, and both, among the homeless was, respectively, 57 percent, 48 percent, and 22 percent.[17] Even the liberal U.S. Conference of Mayors, in its most recent annual report on homelessness in the nation's cities, estimated that 41 percent of the homeless are substance abusers.[18] The homeless often have criminal records. University of Massachusetts sociologist Peter Rossi found in a review of sixteen studies that an average of 42 percent of the homeless had spent some jail or prison time.[19]

The most vexing aspect of homelessness is the prevalence of "street people" with untreated mental illnesses. These are people with profound problems that require professional psychiatric treatment.[20]

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12 Martha R. Burt and Barbara Cohen, *America's Homeless: Numbers, Characteristics, and Programs That Serve Them* (Washington, D.C.: Urban Institute Press, 1989).

13 Martha R. Burt, "Developing the Estimate of 500,000-600,000 Homeless People in the United States in 1987," in Cynthia M. Taeuber, ed., *Enumerating Homeless Persons: Methods and Data Needs* (Washington, D.C.: U.S. Department of Commerce, Bureau of the Census, March 1991), pp. 130-38.

14 This figure actually represents an upward revision from an earlier estimate of about 230,000. See U.S. Bureau of the Census, *1990 Census of Population and Housing Data Paper Listing* (CPH-L-22 through 72), reprinted in U.S. Bureau of the Census, *Statistical Abstract of the United States: 1992*, 112th ed. (Washington, D.C.: U.S. Government Printing Office, 1992), p. 57.

15 See Carl F. Horowitz, "Homelessness Myth Can't Ignore the Numbers," *Houston Chronicle*, May 6, 1991.

16 Pamela J. Fischer, *Alcohol, Drug Abuse and Mental Health Problems Among Homeless Persons: A Review of the Literature, 1980-1990 (Executive Summary)* (Rockville, Maryland: U.S. Department of Health and Human Services, Alcohol, Drug Abuse and Mental Health Administration, March 1991).

17 George Vernez et al., *Review of California's Program for the Homeless Mentally Disabled* (Santa Monica, CA: RAND Corporation, 1988).

18 Cynthia Reed-Pinckney, *A Status Report on Hunger and Homelessness in America's Cities: 1992* (Washington, D.C.: U.S. Conference of Mayors, 1992).

19 Peter Rossi, *Without Shelter: Homelessness in the 1980s* (New York: Priority Press Publications, 1989), p. 24. The figure would likely be a good deal higher if women and children were excluded from the data. These data also revealed high incidences of substance abuse among the homeless.

20 Such diseases are those that affect a person's perception of himself as well as external reality. They principally cover the various kinds of schizophrenia and manic-depressive psychosis, the latter also known as "bipolar disorder." These are both physical as psychiatric problems, as they greatly impair human brain processes. See Richard W. White, Jr., *Rude Awakenings: What the*

Initially very much the product of the widespread deinstitutionalization from mental hospitals, their presence has been aggravated by misguided community mental health policies, plus court decisions that grant the mentally ill a "right" to freeze to death.

Most experts agree that roughly one-third of the homeless are seriously mentally ill.[21] Yet this may be an understatement. One study of psychiatric disorders among residents in Baltimore homeless shelters showed that some 40 percent of the women had at least one major personality disorder;[22] another study of the homeless in Boston revealed the ratio to be about 70 percent among homeless women.[23] Even homeless advocates themselves, such as lawyer Robert Hayes, founder of the National Coalition for the Homeless, have admitted to underplaying mental illness, for political reasons, as an explanation for homelessness.[24]

Since the issue is far more complicated than "a lack of housing," it follows that solutions to the problem primarily must lie outside housing construction, whether public or private. The reality is that there are solutions. As a general rule, the best approaches are those least hampered by well-meaning federal rules. When government dictates in fine detail the operations of shelters, halfway houses, and detoxification clinics, it diminishes their effectiveness. This is because of paperwork requirements, and the fact that bureaucrats are far removed from the actual problem.

Examples of successful approaches to helping the homeless get back on their feet include:

✦ The Robert Wood Johnson Foundation, during the 1980s, conducted a nineteen-city demonstration outreach program. The program offered medical services to the homeless in the areas that they frequent, rather than scattering such service provision around an entire city. By building up trust among the homeless, community outreach workers were able to coax many among the homeless to leave the streets and come into a clinic for treatment.[25]

✦ A Los Angeles-based charity, A Community of Friends, operates a four-unit apartment complex for the mentally handicapped, fronted by a five-bedroom house in nearby Hollywood. Residents pay about $320 in monthly rent. Residents receive assistance with employment searches, episodic health care, and counseling.[26]

A TEN-POINT EMPOWERMENT STRATEGY FOR HOUSING POLICY

Working with the new Congress, Mr. Clinton, you can insure that housing supply, conditions, and affordability—already in good shape—continue to improve. But it will not be easy. HUD is viewed as an open cash register by many in the real estate industry. You will need to hold the line against housing industry lobbyists and their friends on congressional committees

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Homeless Crisis *Tells Us* (San Francisco: Institute for Contemporary Studies, ICS Press, 1992), p. 22. Other excellent treatments of the homeless mentally ill include: E. Fuller Torrey, M.D., *Nowhere to Go: The Tragic Odyssey of the Homeless Mentally Ill* (New York: Harper & Row, 1988); Rael Jean Isaac and Virginia C. Armat, *Madness in the Streets: How Psychiatry and the Law Abandoned the Mentally Ill* (New York: Free Press, 1990).

21 White, *op. cit.*, pp. 21-22. A prominent study arguing that one-third are chronically mentally ill is Rossi, *op. cit.*, p. 24.

22 William R. Breakey et al., "Health and Mental Health Problems of Homeless Men and Women in Baltimore," *Journal of the American Medical Association*, 1989, pp. 1352-57.

23 Ellen L. Bassuk et al., "Characteristics of Sheltered Homeless Families," *American Journal of Public Health*, 1986, pp. 1097-1101. See also D.J. Baumann et al., *The Austin Homeless: Final Report Provided to the Hogg Foundation for Mental Health* (Austin, Tex: Hogg Foundation for Mental Health, 1985).

24 See Gina Kolata, "Twins of the Streets: Homelessness and Addiction," *The New York Times*, May 22, 1989.

25 Statement of David Whitman, *Rethinking Policy on Homelessness*, in *Heritage Lecture* No. 194, A Conference Sponsored by the Heritage Foundation and *The American Spectator*, 1989, p. 46.

26 See R. Daniel Foster, "Housing the Neglected: New Concepts Offer Promise to the Mentally Ill," *HOPE*, November-December 1992, pp. 30-34.

if your reforms are to make housing more affordable to ordinary Americans. To do this, your policy should be based on two broad approaches.

The first is to make housing generally more affordable through sound fiscal policy, not subsidies. Low levels of spending, taxation, and regulation do far more to help Americans afford good housing than do housing subsidy programs of any kind.

The second is to strengthen neighborhoods, and improve the housing within them, by policies that empower the poor. These are strategies to enable the poor, especially the urban poor, to take greater control and responsibility for their own lives.

A national housing agenda based on these approaches suggests a ten-point strategy for your Administration.

Action 1: Crack down on inefficiency, waste, and corruption in federal mortgage insurance and subsidy programs.

You should do this by urging Congress to rescind several recent measures now signed into law that make FHA in particular more susceptible to abuse.

Congressional hearings in 1989 investigated the incidence of massive waste and fraud in HUD-subsidized housing programs. These programs, which involved FHA mortgage insurance, were benefitting high-priced "consultants" with political connections on Capitol Hill and in HUD, and contractors and subcontractors in the real estate industry who were using program money as their personal slush funds. The result was the loss of billions of dollars—over $4 billion in 1988 alone—in FHA mortgage insurance programs.[27]

Congress responded with the HUD Reform Act of 1989 (P.L. 101-235), which required HUD to undertake basic reforms in managing its programs, and to report to Congress on the progress in achieving them. HUD Secretary Jack Kemp has overseen this agenda to restore credibility to this agency, and has made substantial progress.

Still, more has to be done. The General Accounting Office (GAO), after reviewing HUD programs, concluded in a January 1992 report: "Four departmentwide deficiencies remain largely unresolved and continue to threaten the integrity of the overall operations of HUD and its specific programs. These deficiencies are inadequate information and financial management systems, weak internal controls, inappropriate organizational structure, and insufficient staffing."[28]

HUD is not the only federal housing agency with problems. The Farmers Home Administration (FmHA), a housing and development agency within the Department of Agriculture that provides mortgage insurance and direct loans for rural projects, has experienced major cost-accountability problems in its own housing programs. A 1991 GAO audit of FmHA operations indicated between 8 percent and 12 percent of that agency's housing program portfolio during 1987-1989 had to be written off as uncollectible, a figure well in excess of conventional mortgage defaults.[29]

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27 See U.S. General Accounting Office, *GAO Audits of Accounting and Financial Management Systems at the Federal Housing Administration*, GAO/T-AFMD-89-14, September 1989. FHA, created in 1934, since the late 1960s has been part of HUD. This was not the first time FHA scams came to light. There had been massive fraud, for example, in the late 1960s and early 1970s in FHA-insured HUD production programs known as Section 235 and Section 236.

28 U.S. General Accounting Office, *HUD Reforms: Progress Made Since the HUD Scandals but Much Work Remains*, GAO/RCED-92-46, January 1992, p. 2.

29 U.S. General Accounting Office, *Financial Audit: Farmers Home Administration's Financial Statements for 1989 and 1988*, GAO/AFMD-91-36, May 1991, p. 13.

Meanwhile, the GAO concluded in late 1991 that the housing programs of the Department of Veterans Affairs (VA) are draining the public coffers.[30] That agency's mortgage programs are meant to enable war veterans to buy homes. The programs either guarantee partial payment of loans in the event of default or provide direct loans to veterans. The GAO projected VA mortgage programs to cost taxpayers almost $4 billion over five years. This amount is in addition to $3.6 billion that Congress had appropriated since 1984 to cover VA losses. The GAO report cited program management deficiencies and rising default rates as principal culprits.

Given the many problems inherent in socializing the cost and mortgage risk of housing production and sales, you should instruct your cabinet secretaries to restrict borrower and lender eligibility in all FHA, FmHA, and VA housing programs. This means requiring more, not less, in the way of borrower down payments. Unfortunately, the fiscal 1993 HUD appropriations bill (H.R. 5679), now law, contains a provision that prohibits HUD from limiting any closing costs that can be financed in an FHA mortgage. The 1990 National Affordable Housing Act permitted a borrower to finance only up to 57 percent of closing costs. HUD Secretary Jack Kemp rightly has pointed out that returning to the old ways will "undermine the integrity" of FHA.[31] Meanwhile, last year's Housing and Community Development Act created two FHA multifamily demonstration programs in which qualified lenders would enter into risk-sharing and other arrangements to boost production of housing. Such programs strongly resemble the FHA "coinsurance" program of the 1980s that led to so much taxpayer-financed scandal, and should not be instituted. Equally onerous, the Act raised the purchase limit on FHA single-family homes to up to 95 percent of an area's median home price.

Mr. Clinton, if you are serious about reining in waste and fraud, you must not allow big-government "advocates" of affordable housing to transform FHA back into what it had been during the years of scandal. You likewise must resist their efforts in making other housing agencies sources of "easy money." Remember that the federal mortgage insurance agencies were set up to manage self-sustaining insurance funds; taxpayers should not be subsidizing them at all.

Action 2: Continue Jack Kemp's agenda for giving residents of public and subsidized housing more control over their projects.

HUD subsidizes most of the nation's more than 1.4 million public housing dwellings and some 1.8 million privately owned multifamily and single-family dwellings built or rehabilitated with HUD funds.

Many projects, especially public housing projects in large cities, are poorly run by bureaucratic fiefdoms. The evidence is in the widespread physical and social decay. Despite increasing amounts of money—Congress appropriated a record-high $5.4 billion in fiscal 1993 to cover public housing operating and modernization costs—management problems still remain. The National Commission on Severely Distressed Public Housing (NCSDPH), created by Congress as part of the HUD Reform Act, issued a scathing final report this August, indicating that the worst public housing projects were uninhabitable.[32] Their research was based in part on visits to projects in more than 25 cities, and interviews with their residents.

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30 U.S. General Accounting Office, *Financial Audit: VA Housing Credit Assistance Program Financial Statements for Fiscal Year 1989 and 1988*, GAO/AFMD-92-2, October 1991. See summary of report in Ann Mariano, "VA Loan Fund Shortfall Could Reach $3.9 Billion," *The Washington Post*, December 7, 1991.

31 Quoted in "Housing Bill Goes to President; Hill Aides Confident of Signing," *Housing and Development Reporter*, October 26, 1992, p. 463.

32 *The Final Report of the National Commission on Severely Distressed Public Housing: A Report to the Congress and the Secretary of Housing and Urban Development* (Washington, D.C.: U.S. Government Printing Office, August 1992).

To deal with this, you should instruct your new HUD Secretary and his top staff to continue and expand the HOPE (Homeownership and Opportunity for People Everywhere) program, enacted by Congress as Title IV of the National Affordable Housing Act of 1990. This program provides matching planning and implementation (that is, rehabilitation) grants to resident and other nonprofit organizations. It enables such groups, who do a better job than PHAs,[33] to manage and ultimately own public housing (HOPE 1), private multifamily (HOPE 2), and private single-family (HOPE 3) projects, taking them off federal hands in the process. These three programs have received a combined $351 million in each of fiscal years 1992 and 1993.

At the same time, you should pressure Congress not to authorize new federal spending to prop up existing projects. For example, HUD plans to spend some $600 million over the next five years to reconstruct high-rise public housing in Chicago, despite the fact that these projects for years had decayed largely because of mismanagement by the Chicago Housing Authority.[34] Another example: The NCSDPH recommends $7.5 billion in new HUD spending (in 1992 dollars) over the next ten years on "distressed" public housing nationwide, again much of it in decrepit condition due to housing authority mismanagement. The objectives of such new spending could be better realized, with lower subsidies, through HOPE.

Action 3: Eliminate drug dealers from public housing.

Too many public housing projects have become safe havens for drug dealers, many of whom are violent and rob tenants and visitors alike. Gun battles between rival drug dealers are causing residents in some projects to become prisoners in their own apartments.[35]

Part of the problem can be traced to the lack of incentives found in public ownership. Bureaucrats, even dedicated ones, do not have any ownership commitment to projects and are less motivated to protect the housing projects than the residents who live there—a problem that HOPE addresses.

Another major reason is that federal policy is confused. On the one hand, the federal government is subsidizing lawyers through the Legal Services Corporation (LSC), many of whom fight to prevent eviction from public housing of tenants already convicted of drug dealing. On the other hand, the Anti-Drug Abuse Act of 1988 explicitly prohibits residence in public housing by persons engaging in criminal activity, including drug dealing. From the standpoint of public policy, the situation is absurd. Yet Congress consistently refuses to address this confusion, continuing to fund LSC without any changes in policy.

You should ask Congress to continue funding the Public Housing Drug Elimination Program, established in the 1988 Anti-Drug Abuse Act. The program received $175 million in funding for fiscal 1993. But further, you should give strong support to those aggressive public housing authorities who are willing to tackle the problem of drug-infested public housing. A good model is the work of Vincent Lane, chairman of the Chicago Housing Authority. Lane has initiated unannounced "sweeps" of Chicago projects to rid them of drug dealers, many not even on apartment leases. As a result, much of Chicago's public housing is more livable now than when Lane took over some four years ago.[36] You should also press for legislation placing restrictions

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33 See John Scanlon, "People Power in the Projects," Heritage Foundation *Backgrounder* No. 728, March 8, 1990.

34 Michael Abramowitz, "High-Rises to Hell," *The Washington Post*, November 22, 1992.

35 See Carl F. Horowitz, "How to Evict Drug Dealers from Public Housing," Heritage Foundation *Backgrounder* No. 880, February 12, 1992.

36 See Andrew Cooper, *Enabling the Underclass: Vince Lane's Campaign to Restore Rights and Responsibilities in Chicago's Public Housing* (Washington, D.C.: Progressive Policy Institute, Public Entrepreneurship Series No. 2, December 1990).

on the Legal Services Corporation's financing of lawyers to defend drug dealers in housing projects.

Action 4: Press for legislation phasing out construction, reconstruction, and rehabilitation of public and subsidized housing, and instead support wider use of vouchers and certificates.

One of the most tempting arguments about the notion of a "shortage" of affordable housing is that if only government built more new housing or rehabilitated more existing housing, either directly or by subsidizing rents in privately owned dwellings, the shortage would be alleviated. Experience has shown, however, that this is an exceptionally expensive way of doing things.

Pushing up the cost are opportunities for political graft, often disguised as "project overhead." *U.S. News & World Report* editor David Gergen in 1989 reported that overhead costs for HUD-sponsored housing construction run to "40 percent and beyond," a figure contrasting with the administrative costs of the Social Security program, which is less than 1 percent.[37] Such has been the case for many years. A 1970s investigative report of HUD housing programs indicated that bureaucratic blundering, lax regulatory oversight, and thievery cost taxpayers more than $600 million by 1976.[38] Many of the project sponsors at that time contributed heavily to political candidates.[39]

Research shows that rent certificates and vouchers reach roughly twice as many needy households as HUD-assisted new construction.[40] Both the voucher and certificate programs subsidize tenants using the existing rental stock. Under these similar, though not identical, programs, HUD allocates "rent stamps" to public housing authorities, who in turn enter into contract with participating landlords. Eligible tenants apply the assistance toward rent among a wide choice of available apartments. Each voucher or certificate is usable for up to five years. Congress has appropriated funding for fiscal 1993 to create over 35,000 new or "incremental" vouchers and certificates, divided fairly evenly among the two. The cost of each is about $600 million. This $1.2 billion is in addition to funds to renew existing contracts for another year.

To house more families more efficiently, you should ask Congress to cancel the $700 million going for public housing development in fiscal year 1993 ($300 million for the oddly named "HOPE VI" program) and use the money instead for vouchers. Far more tenants could be assisted through such action. You should also ask Congress to reduce the maximum period of voucher and certificate use from five to three years, and make vouchers available to households on a one-time basis only. To use your own metaphor, a household's reliance on assistance should be a temporary "hand-up," not a long-term handout. Given that the five-year cost of each program is potentially well over $30,000 per recipient, this action would be a modest, overdue, cost-saving step.

Further, you should tie such assistance to a "workfare" requirement. No household should be eligible to receive a voucher unless an adult is employed or willing to undergo job training.

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37 David R. Gergen, "The Lessons of the HUD Scandal," *U.S. News & World Report*, August 7, 1989, p. 64.

38 See, for example, Donald Robinson, "The Great Giveaway at HUD," *Reader's Digest*, December 1976, pp. 81-85.

39 For evidence, see Warren Brookes, "A Bum Rap for HUDscam?" *The Washington Times*, June 7, 1989.

40 Office of Management and Budget, *Federal Housing Policy and Opportunities for Privatization* (Washington, D.C.: President's Commission on Privatization, October 20, 1987), p. 32.

Action 5: Avoid schemes that would reduce or eliminate homeowner tax breaks; if they are instituted, use extra revenues to cut taxes, not subsidize more housing.

The largest federal housing benefit goes to predominantly middle-class and upper-middle-class homeowners. This "subsidy" represents the various income tax deductions, deferrals and exclusions that homeowners can itemize on their tax returns. The Joint Committee on Taxation estimates that during 1993-1997 the cumulative revenues foregone from various homeowner tax breaks will exceed $440 billion.[41]

In recent years, the Congressional Budget Office (CBO), and other research advocacy organizations have recommended reducing or eliminating certain homeowner tax breaks, including the mortgage interest deduction. The CBO, in its 1992 report on spending and revenue options, for example, proposes eliminating the mortgage deduction altogether, which the CBO says would raise over $250 billion in new federal revenues over 1993-1997.[42] University of North Carolina City and Regional Planning professor Michael Stegman would cap the mortgage interest deduction for all homeowner-taxpayers at the 15 percent tax bracket, and tax 30 percent on capital gains from the sale of a home. Stegman's measures, respectively, would raise $15 billion and $10 billion in new taxes annually.[43]

Any change of this kind would hit existing homeowners because it would reduce home values. But if you want to make the burden of taxation more equitable, you should combine any limitation in the deduction with income tax rate cuts across all income levels. The Heritage Foundation's Prosperity Plan, released early in 1992, showed how taxes could be cut, especially for working families, while still achieving a balanced budget.[44]

Action 6: Refuse to establish HUD's new secondary mortgage market office until it demonstrates a willingness to avoid heavy-handed management of Fannie Mae and Freddie Mac.

Congress included in last year's Housing and Community Development Act restrictions on the operations of the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"), and the creation of an office within HUD, the Office of Federal Housing Enterprise Oversight (OFHEO), to oversee the performance of each.

Fannie Mae and Freddie Mac, both known as "secondary mortgage lenders," are shareholder-owned private corporations, chartered by the federal government. Their main function is to buy mortgages from banks and other lenders, and then sell them as securities to outside investors. By doing this, they enable more lenders to originate new mortgages to homebuyers.

Fannie Mae and Freddie Mac are "Government-Sponsored Enterprises" (GSEs), in that they enjoy certain privileges not available to other firms who do the same things that they

41 Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 1993-1997* (JCS-8-92) (Washington, D.C.: U.S. Government Printing Office, April 24, 1992), p. 13.

42 Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options*, A Report to the Senate and House Committees on the Budget as Required by Public Law 93-344 (Washington, D.C.: U.S. Government Printing Office, February 1992), pp. 294-296.

43 Michael A. Stegman, *More Housing, More Fairly: Report of the Twentieth Century Fund Task Force on Affordable Housing* (New York: Twentieth Century Fund Press, 1991), p. 18.

44 Scott A. Hodge, ed., *A Prosperity Plan for America: How to Strengthen Family Finances, Revive the Economy and Balance the Budget* (Washington, D.C.: The Heritage Foundation, 1992).

do.[45] The GSE provisions in the Act raise the minimum portion of Fannie Mae and Freddie Mac assets that must be capitalized in order to reduce the risk of a potential savings and loan-style bailout. They also require Fannie Mae and Freddie Mac to devote a larger portion of their purchases to loans on homes that Congress deems "affordable." Since these firms enjoy certain federally sponsored advantages in doing business, liberals argue, they should be willing to come under much stricter federal scrutiny and control.

The problem with these provisions is that they make two large, well-run companies federal agencies in all but name. While concern over the solvency of Fannie Mae and Freddie Mac is proper and understandable, by holding them to strict federal oversight, with the ever-looming prospect of more control if desired results do not materialize, Congress will be hindering the ability of these GSEs to engage in mortgage purchasing.

If you cannot convince Congress to rescind the new ground rules, you should urge Congress to enact sunset provisions in the law. Beyond that, you should instruct your new HUD Secretary and OFHEO senior staff to schedule frequent meetings with GSE executives with the goal of making regulation as flexible as possible.

Action 7: Urge Congress to repeal requirements for "preservation" of subsidized rental projects, and instead provide vouchers to displaced tenants.

Congress enacted Title VI of the 1990 National Affordable Housing Act, also known as the Low-Income Housing Preservation and Resident Homeownership Act (LIHPRHA), to ensure that some 360,000 privately owned, federally subsidized apartments, built mainly during the late 1960s and early 1970s, remain available at "affordable" rents. These projects were built under HUD's Section 221(d)(3), 221(d)(3) Below Market Interest Rate, and Section 236 rent-subsidy programs. Congress recognized that project sponsors had the right to prepay their mortgages after twenty years of operation, and so relieve themselves of having to lease only to poor households. Fearing a shortage of affordable housing, lawmakers enacted the measure to restrict the circumstances under which prepayment could be made.

Under the law, HUD offers project owners "fair market incentives" in order to retain coverage of the housing under subsidy program rules, and offers them a "fair market price" if the owners choose to sell. Owners eligible to sell their project, and who elect to do so, must give resident or other nonprofit groups first preference as buyers. If a sale displaces any tenants as a result of higher rents, HUD must compensate these tenants with vouchers.

Despite its admirable intentions, LIHPRHA was a mistake. With the intent of helping low-income tenants, in practice it bribes landlords with public subsidies (fiscal 1993 appropriation: $600 million) to keep their dwellings at below-market rents. This represents a large subsidy to keep rental housing "affordable" in perpetuity. As owners of projects become eligible over the course of this decade to prepay their mortgages, many will apply for substantial LIHPRHA assistance. HUD projected in 1990 that the program will cost taxpayers some $33 billion over twenty years.[46] A better alternative would be to return all of these units to the market where the landlord elects to do so, using federal assistance only for tenants displaced by higher rents. Also, the federal government should not extend pre-

45 See Carl F. Horowitz, "H.R. 2900—Does It Reduce the Risk of Fannie Mae and Freddie Mac Failure?" Heritage Foundation *Issue Bulletin* No. 168, November 26, 1991. Originally, the GSE provisions were part of a House-sponsored bill, H.R. 2900.

46 Letter from Secretary Jack Kemp to Rep. Chalmers Wylie (R-OH), June 6, 1990, p. 7.

payment provisions to apartments built under federally assisted housing programs beyond those the LIHPRHA currently covers.

Action 8: Adopt the recommendations of the Advisory Commission on Regulatory Barriers to Affordable Housing.

Housing is more expensive than it should be, especially in certain regions, because of costly regulation at all levels of government.

In July 1991 the Advisory Commission on Regulatory Barriers to Affordable Housing released its final report. It pointed out numerous examples of federal, state, and local overregulation of housing and vacant land. Examples:

- ✓ Land developers in central Florida must add a $15,000 surcharge to the price of a new home to cover the costs of excessive regulation.
- ✓ A proposal to build 51 two-family houses in Brooklyn, New York, took 22 months to gain environmental approval, even though a full environmental impact statement was not needed.
- ✓ The permit approval process for residential development in Orange County, California, typically adds $20,000 to the cost of a single-family unit.

The Commission's report called upon the federal government to take several steps to eliminate, reduce, or streamline such regulation. It called for substantial participation by the states to carry out the federal agenda, as states are closer to actual problems that homebuilders face.[47]

Your Administration should continue using HUD as a bully pulpit to promote deregulation at all levels of government. While there are limits as to how far Washington can intrude into the affairs of state and local governments for this purpose, your Administration can follow through on several steps that Jack Kemp has initiated.

You should at least do three things. First, condition housing assistance to states and localities upon their removal of onerous regulations. This action requires congressional approval. By amending the 1990 housing legislation concerning Comprehensive Housing Affordability Strategy (CHAS) requirements to make receipt by states and localities of certain forms of HUD housing assistance contingent upon a demonstration of progress in reducing unnecessary housing regulation, Congress will be making a substantial contribution toward lowering the compliance and delay costs of housing production.[48] Second, increase the profile of HUD's Regulatory Reform for Affordable Housing Information Center, established early in 1992. This Center provides information on reducing regulatory costs. Third, waive certain federal regulations that apply to housing development in those states and localities that have demonstrated ample commitment to reducing their own regulatory burdens. The best way to do this would be to create an inter-agency council of sub-Cabinet members of federal agencies, such as HUD, the Environmental Protection Agency, and the Army Corps of Engi-

47 Advisory Commission on Regulatory Barriers to Affordable Housing, *"Not In My Back Yard": Removing Barriers to Affordable Housing* (Washington, D.C.: U.S. Government Printing Office, July 1991). See also Carl F. Horowitz, "From the Kemp Commission: Sound Advice for Removing Barriers to Affordable Housing," Heritage Foundation *Backgrounder* No. 848, August 26, 1991.

48 Currently, the 1990 National Affordable Housing Act prohibits any use of CHAS to condition federal housing assistance upon state and local efforts toward lessening certain forms of land use and housing regulation. Thus, such a policy change requires a repeal of, not simply an addition to, legislation.

neers. This board would review projects on a case-by-case basis to authorize "fast-track" approval for those that seem to be hampered by excessive regulation. A similar inter-agency council, established by Ronald Reagan, has helped cut through red tape to launch many innovative state welfare reforms.

Action 9: Ignore calls to delay Resolution Trust Corporation (RTC) auctions of residential properties.

The federal government is in the unenviable position of being the landlord of many thousands of dwelling units built with mortgages underwritten by bankrupt thrift institutions, especially in states such as Texas and Florida, where so many savings and loan associations failed. Partly in response to this mounting inventory of homes and apartments falling into federal hands, Congress in 1989 enacted P.L. 101-73, the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). FIRREA, among other things, created the Resolution Trust Corporation. The Corporation's basic function is to sell or merge troubled thrift institutions (that is, savings & loan associations and savings banks), and sell the institutions' assets to outside buyers.[49] By the end of 1991 the RTC had acquired $357 billion in assets, with some 64 percent of this total liquidated in sales. Some $24 billion, or almost 7 percent of this figure, represented real estate holdings. Of that $24 billion, $1.3 billion represented single-family homes.[50]

In 1990 the General Accounting Office warned that the eventual cost to the federal government of the RTC's operations would be some $325 billion, possibly $500 billion.[51] The RTC is automatically set to cease operations by the close of 1996, so it is essential that its work be completed as soon as possible, and at minimum cost to taxpayers.

One way to accomplish this is to continue auctioning off RTC properties to take these housing assets off the government's hands. While the Corporation has sold off a substantial amount of housing, it still has a large backlog, and it continues to acquire new properties as the S & L toll rises.

In continuing to sell off assets of shut-down thrifts, you should not let Congress suffocate the RTC, which thus far has been well-run. You can take a significant step in this direction by liberalizing sale requirements under the RTC's Affordable Housing Program to avoid delays in the disposition process. The program requires a ninety-day marketing period to give first preference of purchase to certain public agencies, and non-profit and for-profit groups. In the event no such buyers can be found during this period, it also requires that the RTC thereafter "actively market eligible single family properties for sale to lower-income families."

You should persuade Congress to amend FIRREA to repeal both the initial ninety-day restriction on purchases, and the affirmative marketing requirements. While well-intended,

49 By the end of this summer RTC already had liquidated over 650 savings & loans with some $220 billion in deposits. See Susan Schmidt, "RTC Sales Said Well Under Book Value," *The Washington Post*, September 11, 1992.

50 RTC includes multifamily residential properties under the category of commercial real estate. Such real estate, which includes as well office, retail, hotel/motel, and industrial properties, totalled $7.7 billion by the close of 1991. 167 multifamily properties were sold off in 1991. See Statement of Richard L. Fogel, Assistant Comptroller General, General Government Programs, *Resolution Trust Corporation: Performance Assessment for 1991*, GAO/T-GGD-92-14 (Washington, D.C.: U.S. General Accounting Office, February 26, 1992), Chart 7.

51 Statement of Charles A. Bowsher, Comptroller General of the United States, *Resolving the Savings and Loan Crisis: Billions More and Additional Reforms Needed* (Washington, D.C.: U.S. General Accounting Office, GAO/T-AFMD-90-15, April 6, 1990).

these requirements invariably politicize the buyer-selection process, and worse, run the risk of stockpiling properties.

There is no justification for stockpiling properties, whether to speculate on future price rises or to give first preference to "affordable-housing" sponsors who would operate the properties by restricting residence through an income ceiling.[52] The RTC property disposition program should not become a federal rent and price control scheme all but in name. FIRREA already requires the RTC to dispose of its assets at market value; this is so that the RTC does not set off "fire sales."[53]

Action 10: Use federal subsidies for the homeless primarily to treat the mentally ill and substance abusers, not to subsidize housing costs.

As explained earlier, the incidence of homelessness is far less the result of a shortage of housing than of untreated personal problems. Many of today's street people are the tragic residue of deinstitutionalization from mental hospitals, and a misguided federal community mental health program that focuses on the "worried well" rather than the truly mentally ill. What federal policy should be doing is creating non-institutional environments, staffed by trained people willing to treat problems rather than symptoms.

Congress in 1987 enacted the Stewart B. McKinney Homeless Assistance Act (P.L. 100-77) as a response to growing public concern over the homelessness problem. This legislation was designed to coordinate anti-homelessness programs between federal agencies, and between these agencies and state and local agencies. Among other things, the Act created the Interagency Council on the Homeless, which operates under HUD's roof. HUD is the largest recipient of McKinney funds; Congress for fiscal 1993 appropriated about $570 million for HUD anti-homelessness program activities. However, other federal agencies, such as the Department of Agriculture, the Department of Health and Human Services, and the Federal Emergency Management Agency, also receive funding.

The problem with McKinney programs thus far is that they have required too little monitoring of progress in treatment of the homeless. As a result, the likelihood is high that the federal government may unwittingly be contributing toward homelessness becoming a way of life, rather than solving the problems of street people.[54]

You can take a major step toward getting control of the problem by asking Congress to replace several existing anti-homelessness HUD programs—Emergency Shelter Grants, Transitional Housing for the Homeless, and Section 8 Mod Rehab (SRO housing)—and to enact the Safe Havens for the Homeless program. The first three programs are getting some $300 million this year for doing little more than granting housing subsidies. By contrast, Safe Havens, proposed for the first time for fiscal 1993 at the urging of Jack Kemp, received zero funds (Kemp had requested $50 million).

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52 As an example, single-family properties in the Affordable Housing Program valued below $67,500 must be held off the market for at least ninety days, so as to give lower-income households or qualified nonprofit or government sponsors of affordable housing programs the right of first refusal for any sale.

53 For evidence that rapid property disposition, at least in the short run, can depress values of nearby properties, see Kerry D. Vandell and Timothy J. Riddiough, "The Impact of RTC Dispositions on Local Housing and Real Estate Markets," *Housing Policy Debate*, Vol. 2, No. 1 (1991), pp. 49-92. The authors looked at the effect of RTC sales on property values in the Dallas, Denver, and Oklahoma City areas.

54 U.S. General Accounting Office, *Homelessness: Transitional Housing Shows Initial Success but Long-Term Effects Unknown*, GAO/RCED-91-200, September 1991.

Safe Havens, if enacted, would provide very inexpensive housing in shelters with a capacity of no more than 25 seriously mentally ill residents currently unable or unwilling to participate in a transitional housing program. These homes would have trained staff who would emphasize self-sufficiency, not a handout; residents would be required to learn basic work skills, as well as personal hygiene and sobriety, as "ladders" back toward a normal life, away from jail, large shelters, or the streets.

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