

Second
Edition

**HOUSING POLICY IN
THE
UNITED STATES**



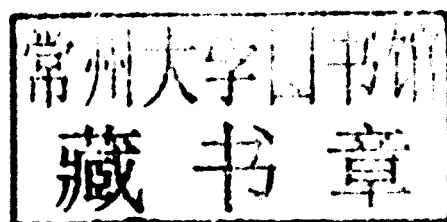
Alex F. Schwartz

Housing Policy in the United States

Second Edition

Alex F. Schwartz

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Housing Policy in the United States

The most widely used and most widely referenced book on *Housing Policy in the United States* has now been substantially revised to examine the turmoil resulting from the collapse of the housing market in 2007 and the related financial crisis. The text covers the impact of the crisis in depth, including policy changes put in place and proposed by the Obama administration. This new edition also includes the latest data on housing trends and program budgets, and an expanded discussion of homelessness.

Alex F. Schwartz is Associate Professor at Milano The New School for Management and Urban Policy and Chairman of the school's Department of Urban Policy Analysis and Management.

Dedicated to the memory of

Gale Cincotta

Co-Founder, National People's Action and National Training and Information
Center

and

Cushing Dolbeare

Founder, National Low Income Housing Coalition

Preface

This second edition of *Housing Policy in the United States*, like the first edition, is written to provide a broad overview of the field, synthesizing a wide range of material to highlight the essential problems, concepts, programs, and debates that define the aims, challenges, and accomplishments of housing policy. But whereas the first edition presented what I considered to be “settled facts,” the housing and financial crises that erupted in 2007, about a year after publication of the first edition, have washed away many of these “facts.” Moreover, several of the financial institutions that had anchored the housing finance system have also been wiped out by the crises, or rescued and reconstituted by the federal government. Legislatively, things are also in flux. The federal government has passed several important laws regarding homeless policy and mortgage foreclosure prevention, and several significant bills are still pending, including a proposal to revamp the regulatory system for almost all aspects of finance, including housing: Very little can be said to be settled today.

In this second edition, I discuss how the housing and financial crises have affected various dimensions of housing policy. It traces the effect of the crisis on housing construction and other aspects of the housing market. I discuss the emergence and collapse of the housing bubble, the rise and fall of subprime lending, and the consequent surge of mortgage foreclosure. I also examine how the crisis has impaired the market for the Low-Income Housing Tax Credits and tax-exempt bonds, two of the most important sources of financing for affordable housing, and I assess the desirability of low-income homeownership in light of the mortgage crisis and the collapse of home values. I also summarize the most important laws and regulations that the Bush and Obama administrations and Congress have put forth to combat the crisis.

In addition to redrawing the landscape of U.S. housing policy in light of the housing and mortgage crises, this edition also brings the reader up to date on major federal, state, and local programs as they relate to the provision and preservation of low-income housing as well as to racial discrimination. The second edition also expands on the first edition’s coverage of homelessness and related policies. Finally, virtually all of the data presented in the first edition have been brought up to date.

The housing and mortgage crises have rendered a significant portion of the first edition obsolete. This second edition will enable students and practitioners to make better sense of housing policy in a very turbulent time. To be sure, much is still unsettled. The future of such key institutions as Fannie Mae and Freddie Mac is still very much up in the air. The regulatory response to the crisis is still emerging: several important bills were still pending as this second edition was completed. The ultimate length and severity of the downturn in housing prices and the extent to which mortgage foreclosures will continue to mount is also uncertain. The Obama administration has also proposed several new initiatives to be spearheaded by the Department of Housing and Urban Development, changes that are still awaiting Congressional approval. Nevertheless, while the second edition will need to be complemented by other sources to capture the final outcome of the housing and mortgage crises, and the programmatic changes effected by the Obama administration, I have written the second edition of *Housing Policy in the United States* to serve as a platform from which to grasp these changes.

Acknowledgments

This book grew out of my course on U.S. housing policy, which I have taught at the New School since 1993. My thanks go to the students who took the course over the years. I have learned much from them, and am gratified to see them enter the fields of housing policy and community development. I am especially pleased to cite the work of one former student, Maya Brennan, in this second edition.

I am also grateful for the insights and inspiration provided by my teachers and colleagues in the field of housing policy. They include David Listokin, George Sternlieb, Susan Fainstein, Rachel Bratt, Langley Keyes, Avis Vidal, Edwin Melendez, and Bill Traylor. I would also like to thank my current and former colleagues at the New School for their friendship and support. Special thanks go to Kirk McBride for providing unpublished data on the geography of subsidized housing, to Dan Immergluck for sharing his extensive knowledge of the mortgage crisis, and for reviewing the chapters on housing finance and discrimination, and to Greg Russ for his review of the chapters of public housing and vouchers. I am also grateful to the National Council of State Housing Finance Agencies, the National Housing Trust, and the U.S. Department of Housing and Urban Development for providing useful data and other information on several programs. Thanks also to editor Stephen Rutter and editorial assistant Leah Babb-Rosenfeld for their support and encouragement and to production manager Lynn Goeller for expediting the publication of this second edition. For the “before” and “after” photographs of Hope VI developments I am grateful to Pat Lewis of the Council of Large Public Housing Authorities, to Edwin Lowndes of the Housing Authority of Kansas City, and to Jan Pasek of the Philadelphia Housing Authority.

I owe much to my family. I can’t thank my wife, Jennifer Fleischner, enough for her love and generosity. She inspired me to write the first edition, and she sacrificed what little free time she had as a busy professor and the mother of a toddler to allow me to spend countless evenings and weekends writing the second edition. My daughter, Annie, had to bear with me as I wrote the first edition. It was my son Irwin’s turn with the second edition. Finally, I continue to benefit from the very close reading my father, Charles Schwartz, gave to the manuscript of the first edition.

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INTRODUCTION

In its preamble to the 1949 Housing Act, Congress declared its goal of “a decent home in a suitable living environment for every American family.” In the 60 years since this legislation was passed, the federal government has helped fund the construction and rehabilitation of more than 5 million housing units for low-income households and provided rental vouchers to nearly 2 million additional families. Yet, the nation’s housing problems remain acute. In 2005, 42 million households lived in physically deficient housing, spent 30% or more of their income on housing, or were homeless (HUD 2007, 2009n). Put differently, about 100 million Americans—almost 35% of the nation’s population and more than double the number lacking health insurance—confronted serious housing problems or had no housing at all (U.S. Census Bureau 2008a).¹

This book tells the unfinished story of how the United States has tried to address the nation’s housing problems. It looks at the primary policies and programs designed to make decent and affordable housing available to Americans of modest means. It examines the strengths and weaknesses of these policies and programs and the challenges that still remain. The book takes a broad view of housing policy, focusing not only on specific housing subsidy programs, such as public housing, but also on the federal income tax code and regulations affecting mortgage lending, land use decisions, real estate transactions, and other activities integral to the housing market. Although some of these broader aspects of housing policy provide financial incentives for investments in affordable housing, others attempt to make housing available to low-income and minority households and communities by penalizing discriminatory practices and through other regulatory interventions.

Put simply, then, this book is about policies and programs designed to help low-income and other disadvantaged individuals and households access decent and affordable housing. It examines programs and policies that subsidize housing for low-income households or that attempt to break down institutional barriers, such as discriminatory practices in the real estate industry, that impede access to housing.

The book is intended to be a general overview of housing policy. It is beyond its scope to delve deeply into programmatic details or to cover all aspects of the field in equal depth. The focus is on federal and, to a lesser degree, state and local programs and policies that subsidize housing for low-income households or otherwise attempt to make housing accessible to this population. Much less attention is given to policies

concerned with the physical aspects of housing, such as design standards and building regulations—except when they are explicitly employed to promote affordable housing. The book does not examine in detail the operation of housing markets or provide a comprehensive legislative history of housing policy.

Although the field of housing policy is relatively small—especially in comparison to such areas as health care and education—it is fragmented and specialized. Most of the field's literature is technical and focused on particular subtopics, such as public housing redevelopment, the expiration of federal housing subsidy contracts, mortgage lending regulation, homelessness, and racial discrimination. Although these studies certainly cover key topics in housing policy, they do so at greater length, at a higher level of detail, and with more technical jargon than is desirable for a general introduction to the field. I hope this text can serve as a guide to housing policy and provide a point of departure to more specialized readings.

Why Housing Matters

Few things intersect with and influence as many aspects of life as housing does: it is far more than shelter from the elements. As home, housing is the primary setting for family and domestic life, a place of refuge and relaxation from the routines of work and school, a private space. It is also loaded with symbolic value, as a marker of status and an expression of style. Housing is also valued for its location, for the access it provides to schools, parks, transportation, and shopping; and for the opportunity to live in the neighborhood of one's choice. Housing is also a major asset for homeowners, the most widespread form of personal wealth.

Although good housing in a good neighborhood is certainly no guarantee against tragedy and misfortune, inadequate housing increases one's vulnerability to a wide range of troubles. Physically deficient housing is associated with many health hazards. Ingestion of lead paint by children can lead to serious learning disabilities and behavioral problems. Dampness, mold, and cold can cause asthma, allergies, and other respiratory problems, as can rodent and cockroach infestations. Inadequate or excessive heat can raise the risk of health problems such as cardiovascular disease (Acevedo-Garcia & Osypuk 2008; Bratt 2000; Kreiger & Higgins 2002; Lubell et al. 2007; Newman 2008a, 2008b).

Research on the link between housing conditions and mental health is less extensive, but also indicates adverse consequences from inadequate or crowded conditions. Unstable housing conditions that cause families to move frequently are stressful and often interfere with education and employment (Lubell, Crain, & Cohen 2007; Lubell & Brennan 2007; Rothstein 2000). When low-income families face high rent burdens, they have little money left to meet other needs. Vulnerability to crime is strongly influenced by residential location. People who live in distressed neighborhoods face a greater risk of being robbed, assaulted—or worse—than inhabitants of more affluent areas do (Bratt 2000).

Perhaps the importance of housing for the well-being of individuals and families is brought into sharpest relief in light of the depredations of homelessness. The homeless are at much greater risk of physical and mental illness, substance abuse, assault, and, in the case of children, frequent and prolonged absences from school. The mere lack of a mailing address makes it immeasurably more difficult to apply for jobs or public assistance, or to enroll children in school (Bingham, Green, & White 1987; Cunningham 2009; Hoch 1998; Urban Institute 1999).

Housing and the Environment

As a major part of the national economy and the predominant land use, housing affects the environment profoundly. For one, it is a major source of carbon dioxide (CO₂) and other greenhouse gas emissions, the principal cause of global warming. Residential heating, cooling, and electrical consumption alone accounted for 18% of all greenhouse gas emissions in the United States in 2007. Housing also accounts for a major portion of the greenhouse gases generated by transportation, which comprised 28% of total emissions in 2007, and is the fastest growing source as well (Energy Information Administration 2008; see also Ewing & Rong 2008). "Household travel," as explained by the Federal Highway Administration, "accounts for the vast majority (over 80 percent) of miles traveled on our nation's roadways and three-quarters of the CO₂ emissions from 'on-road' sources" (Carbon Footprint of Daily Travel 2009).

The amount of greenhouse gases produced by household travel depends on (1) the number and fuel efficiency of cars a household owns; (2) the extent to which people travel by car as opposed to other modes of transportation; and (3) the number of miles driven. Residential settlement patterns influence the latter two of these factors. Densely settled areas, especially when housing is located near workplaces, schools, stores, and other destinations, are most conducive to public transit, walking, and bicycling. And when people do drive, the distances traveled tend to be shorter. For example, the Federal Highway Administration estimates that households residing in very high density areas with 5,000 to 10,000 households per square mile generate about half the CO₂ in their daily travel than households residing in very low-density areas with 30 to 250 households per square mile. Moreover, households residing within one-quarter mile of public transit generate about 25% less CO₂ through their travel than households living further away (Carbon Footprint of Daily Travel 2009). Similarly, a study of transportation patterns in 83 large metropolitan areas found that after accounting for income and other demographic factors, residents in the most compact regions drove far less than their counterparts in the most sprawling regions. For example, Portland, OR had 30% fewer vehicles miles driven per resident than did Atlanta, GA, one of the least dense metropolitan areas. At a more local scale, a study of travel patterns in King County, Washington found that residents of the county's most "walkable" neighborhoods drove 26% fewer miles per day than their counterparts in the more auto-dependent sections of the county (Ewing, Bartholomew, Winkelmann, Walters,

& Chen 2007). If the United States is to succeed in curtailing its greenhouse gas emissions and slow global warming, housing development will need to become more compact and better integrated with other land uses (Ewing et al. 2007). This will require a reversal of longstanding development patterns in which single-family housing is built at increasingly low densities, and housing is segregated from most other land uses.²

The Economic Importance of Housing

Housing is a mainstay of the U.S. economy, consistently accounting for more than one fifth of the gross domestic product (GDP) (see Figure 1.1). In 2007, residential construction and remodeling comprised 5% of GDP. An additional 11% derived from rental payments and equivalent expenditures made by homeowners. Spending on furniture, appliances, utilities, and other expenses for household operation contributed another 7% to GDP. The total value of the nation's housing stock, at \$17.8 trillion in 2007, comprised 53% of all private fixed assets (Bureau of Economic Analysis 2009b). Residential construction in 2008 accounted for about 4.9 million jobs, \$368 billion in income, and \$142 billion in federal, state, and local tax revenue (Liu & Emrath, based on housing completion data for 2008).

At the local and regional level, housing is also critically important. The construction, development, and sale of housing generate employment, income, and tax revenue. In addition to the employment and income generated directly through construction activity, housing development generates indirect economic benefits from the expenditures of construction workers and vendors on locally supplied goods and services. Other economic benefits derive from the consumer spending of the households residing in new housing. The National Association of Home Builders estimates that construction of 100 new single-family homes in the average metropolitan area generates about 324 full-time-equivalent jobs for the local community during the construction period and about \$21 million in income for local businesses and workers. The subsequent expenditures of the households that come to live in these 100 new homes generate an additional 53 jobs and \$743,000 in income annually (National Association of Home Builders 2009).

Residential construction is also a major source of revenue for all levels of government. Nationally, single-family home building generated about \$118.2 billion in taxes and fees (estimate based on NAHB estimates and housing completions data) (Liu & Emrath 2008). The development of 100 single-family homes generates about \$2.2 million in local government revenue during the year of construction. Afterward, the 100 units generate about \$743,000 annually for local governments through property taxes as well as other taxes and fees paid by homeowners (National Association of Home Builders 2009).

The housing sector helped sustain the national economy during the weak recovery that followed the recession of 2000, but it was also a key element behind the econ-