HUD at 50

CREATING PATHWAYS TO OPPORTUNITY

U.S. Department of Housing and Urban Development | Office of Policy Development and Research

HUD at 50:
Creating Pathways to Opportunity

October 2015

Disclaimer

Preface

Lynn M. Ross

When I joined the U.S. Department of Housing and Urban Development in May 2014, one of the first things my team shared with me was that HUD would be celebrating its 50th anniversary in 2015. Although there were many ideas on the table about how our office, the Office of Policy Development and Research (PD&R), should commemorate this milestone, one idea in particular immediately rose to the top of the list. Now, after more than a year in development, I am pleased to share the results of that project—*HUD at 50: Creating Pathways to Opportunity.*

This volume looks back on HUD's history and looks forward to ways the agency might evolve. If you are familiar with the mission and the work of PD&R, you will not be surprised to learn that this book includes thorough analyses of not only how programs succeeded, but also how they sometimes fell short and what was done in response. I hope you will take the time to engage with the analysis and ideas contained throughout this volume. We've organized this book so you can read the thematic chapters in any order—although you can certainly read it cover to cover.

Much as HUD's programs and policies require collaboration and teamwork, many people contributed to bringing this book to fruition. I especially want to thank Rachelle Levitt and Keith Fudge for their leadership on this effort overall, and Michelle Matuga for managing the design process. I also want to thank Claire Desjardins, Regina Gray, David Hardiman, Courtney Jones, Pamela Lee, and Chase Sackett. Each served as a chapter coordinator and provided our authors with writing, editing, and research support as needed. Thanks also go to Secretary Julián Castro and PD&R Assistant Secretary Kathy O'Regan for not only contributing the introduction and conclusion, respectively, but also for supporting this book throughout its development. Finally, PD&R is indebted to the all of the authors for volunteering their time and expertise to support this effort with their insightful work.

Lynn M. Ross, AICP, serves as the Deputy Assistant Secretary for Policy Development in the Office of Policy Development and Research (PD&R) at the U.S. Department of Housing and Urban Development. Throughout her career, Ms. Ross has led housing and urban planning research, policy development, and technical assistance efforts designed to expand access to housing affordability and inclusive communities. Prior to joining HUD in 2014, Ms. Ross served as the executive director of the Terwilliger Center for Housing at the Urban Land Institute. Her prior work includes serving as chief operating officer for the National Housing Conference and the Center for Housing Policy and advisory service manager at the American Planning Association.

As HUD reflects on 50 years of service, it is natural to consider what is next for the agency. How will our work continue to evolve to meet the needs of those we serve? What policies and programs will shape our next 50 years? Well, that is history in the making.

On behalf of our entire team, I thank you for reading and invite you to please join me online at huduser.gov/hud50th for more information on HUD's 50th anniversary.

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Introduction

Julián Castro

A stable home serves as the foundation of our lives. It's where we begin every morning and where we end every night. It's where we raise our families and build our futures. It provides us with the security to look towards a brighter tomorrow, and the peace of mind to pursue our dreams. For 50 years, the U.S. Department of Housing and Urban Development (HUD) has helped millions of Americans secure a place to call home.

HUD was born during a time of great change and challenge for our nation. The elevation of the Home and Housing Finance Agency into a Cabinet-level department was first proposed by the Kennedy Administration, but its realization as part of President Johnson's War on Poverty was undeniably rooted in the events of the mid-sixties. While millions suffered from poverty and the legacy of segregation, suburban growth and a Great Migration of African-Americans were transforming our urban landscape. At the turn of the 20th century, 11 million Americans lived in cities. By 1965, that number had grown to 40 million. Years of organizing, boycotts, and peaceful protest had resulted in the Civil Rights Act of 1964. But realizing its equal-rights provisions required confronting ugly violence, often from government authorities, as the world saw during the Selma to Montgomery marches in March 1965.

When President Lyndon Johnson signed the Housing and Urban Development Act of 1965, he set a national goal to "make sure that every family in America lives in a home of dignity and a neighborhood of pride, a community of opportunity and a city of promise and hope." Our Department has dedicated itself towards fulfilling this vision.

Since HUD was created, it has helped communities around the nation address the most pressing challenges facing their residents. Though HUD's programs have evolved over the years, our core functions—providing assisted housing, promoting responsible homeownership, ensuring fair housing, and fostering community development—have remained at the heart of our mission. Consider just a few of our accomplishments:

- HUD and the Federal Housing Administration have insured more than 44 million home mortgages and more than 47,000 multifamily-project mortgages, making it possible for Americans of modest means to own a home.

Julián Castro was sworn in as the 16th Secretary of the U.S. Department of Housing and Urban Development on July 28, 2014. In this role, Castro oversees 8,000 employees and a budget of $46 billion, using a performance-driven approach to achieve the Department's mission of expanding opportunity for all Americans. Before HUD, Secretary Castro served as Mayor of the City of San Antonio. During his tenure, he became known as a national leader in urban development and in 2010 was named to the World Economic Forum's list of Young Global Leaders.

- In the last 20 years, HUD has provided housing assistance to more than 35 million individuals through our Public Housing, Housing Choice Voucher, Project-Based Rental Assistance, Supportive Housing for the Elderly, and Supportive Housing for Persons with Disabilities programs.
- Since 1974, HUD's Community Development Block Grant initiative has invested nearly $150 billion toward a broad range of activities, including the rehabilitation of affordable housing, the construction of vital public facilities, and the expansion of business and employment opportunities.
- Since the passage of the McKinney Homeless Assistance Act in 1987, HUD has awarded more than $14 billion to thousands of local housing and service organizations that combat homelessness across the United States.
- In the last 20 years, the investigative efforts of HUD and its state and local partners have fought housing discrimination on behalf of more than 90,000 Americans, resulting in more than $105 million in compensation.
- HUD has funded the building of nearly 87,000 housing units in Native American reservations and tribal areas, and currently provides shelter for about one-quarter of Native Americans living in these communities.

These incredible results are the product of our Department's greatest assets: our employees. HUD's extraordinary team has dedicated their time and talent to making a difference for those we serve. And they've done so in partnership with local leaders from across the nation, including nonprofit organizations, private industry, and academic institutions.

Today, our work is more important than ever. We are living in a Century of Cities. The U.S. Census Bureau projects that, by the year 2050, America's population will increase by approximately 80 million people—60 million of whom are likely to live in urban areas. This growth presents our Department with considerable challenges, but I know that we will rise to the occasion by employing new and innovative strategies to enhance our communities, and create a nation that is stronger and more resilient than ever.

At the same time, our population's demographic and geographic changes have yielded other complex challenges for communities of all sizes. The resources available to confront poverty in the suburbs, for example, are typically not as well developed as those for central cities that have historically had a higher percentage of low-income residents. And while some tribal communities share common traits with rural places, differences in governance structure and needs will often demand very different approaches to assistance. Our agency is committed to serving all types of American communities by partnering and adapting to local conditions, not issuing one-size-fits-all edicts from Washington.

In order to ensure that America will thrive in this Century of Cities, HUD must use every tool at its disposal. We must study the great issues of our time, evaluate the potential of promising new approaches, and apply these lessons towards shaping our policies. Thorough research—

from government, nonprofits, private firms, and universities alike—is essential to prioritizing our resources and to maximizing our impact.

As a demonstration of our commitment to research, it is my pleasure to present *HUD at 50: Creating Pathways to Opportunity,* a look back at our agency's 50-year history and forward to its future. The first chapter, authored by Dr. Jill Khadduri of Abt Associates, lays out the Department's history in detail through the priorities and legacy of each administration. The remaining five chapters address themes that are central to HUD's mission and describe how we've altered our policies to meet the changing needs of the American people.

- Dr. Ingrid Gould Ellen and Jessica Yager, J.D., of New York University's Furman Center examine how HUD's treatment of race and poverty have reflected broader shifts in American attitudes, with a focus on rental housing programs and fair housing law.
- Dr. Raphael Bostic of the University of Southern California's Sol Price School of Public Policy takes a long view of urban development over our nation's history, looking especially at the rise, fall, and rebirth of cities.
- Dr. Susan Wachter of the Wharton School at the University of Pennsylvania and Arthur Acolin, a Ph.D. student at the University of Southern California's Sol Price School of Public Policy, chronicle the evolution of the federal role in homeownership and mortgage finance, from HUD's inception through the system's reforms following the Great Recession.
- Marge Turner, Mary Cunningham, and Susan Popkin of the Urban Institute consider HUD's critical work serving vulnerable populations—especially our ongoing work to end homelessness—and the need to expand access for poor families to opportunity-rich neighborhoods.
- Finally, Erika Poethig, Dr. Rolf Pendall, and Dr. Pam Blumenthal—also from the Urban Institute—analyze the interactions between demographic shifts and housing policy, including the changing needs posed by domestic migration and the aging population.

All of these authors are noted policy experts in fields connected to housing, such as finance, urban planning, and community development. Many have also held senior positions within HUD. I'm grateful that such an accomplished group of researchers have volunteered their insight and skill to analyze HUD's impact. They've considered how the changes in American life have altered HUD's approaches—and they've been honest in addressing cases where HUD and federal housing policies have fallen short. Most significantly, each author provides valuable insight about the next 50 years of HUD, anticipating the challenges we may face in the future.

I want to thank Kathy O'Regan, HUD's Assistant Secretary of Policy Development and Research, and the many members of her team who edited and reviewed this important effort. More broadly, I'd like to thank all of HUD's incredible staff, past and present. From our agency's founding—through different administrations and political climates—these devoted public servants have committed themselves to supporting their communities and improving the lives of their neighbors.

America has progressed a great deal since HUD's founding, but many of the issues that prompted our creation continue to persist. Recent events in our nation, from Baltimore to Ferguson, demonstrate the role that our Department must play in building neighborhoods, fostering community trust, and promoting economic development. And HUD will continue to be there to answer the call.

Our mission is about more than just bricks and mortar. A good home touches every aspect of someone's life—the jobs they find, the transportation they can access, the education their children receive, and the health of their family. That's why HUD is the Department of Opportunity, and that's why we'll continue to support the hopes and dreams of the American people.

Chapter 1 The Founding and Evolution of HUD: 50 Years, 1965–2015

Jill Khadduri

This is an institutional history of the U.S. Department of Housing and Urban Development (HUD), focused on the development of HUD's major policies and programs over the 50 years from its founding in 1965 to 2015. The chapter emphasizes how the successive secretaries of HUD and the political administrations they operated within shaped the agency and its programmatic responses to housing and urban issues. It attempts to place the evolution of HUD within the contexts of the housing, housing finance, and community development industries; other governmental institutions, including the U.S. Congress and other levels of government; and the most urgent housing and urban problems perceived during each secretary's tenure. This chapter benefits from hindsight on which policies and programs appear to have had lasting importance. However, it does not focus on the outcomes of HUD policies and is not an assessment of HUD's effectiveness in dealing with the issues of poverty, urban distress, housing quality and affordability, and fair housing over the past 50 years.

1. Creating HUD to Respond to Mid-Century Urban Problems

In September 1965, Congress responded to a request from President Lyndon Baines Johnson to signal the federal government's commitment to addressing the problems of cities by elevating the Housing and Home Finance Agency (HHFA) to the status of a Cabinet-

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level department. The U.S. Department of Housing and Urban Development (HUD) was an organizational feature of Johnson's War on Poverty, following the creation a year earlier of an Office of Economic Opportunity to administer the Community Action Program, Volunteers in Service to America (VISTA), and other anti-poverty programs. Like many Great Society measures, a Cabinet-level urban affairs department was a Kennedy Administration proposal that had languished before Johnson made it part of his aggressive legislative agenda (Pritchett, 2008; von Hoffman, 2009). HHFA's head, Robert C. Weaver, became the first Secretary of HUD and the first African-American to hold Cabinet rank.

Urban Problems in the Mid-Twentieth Century

Postwar America saw several interrelated trends that highlighted the need for an agency to link federal housing policy and programs to the health of cities: (1) a relative loss in population and decline in fiscal resources of many U.S. cities, (2) a rapid growth in homeownership concentrated in suburbs, (3) persistent and growing residential segregation between black and white Americans, and (4) increasingly evident inequality of opportunity, as many African-Americans living in cities were left behind by postwar prosperity.

The 1968 report of the National Commission on Urban Problems (also known as the Douglas Commission) provides a contemporaneous view of the challenges. The Commission documented the disparity in population growth rates between central cities and suburbs during the 1950s and the increasing percentages of central city populations that were racial and ethnic minorities. The Commission also pointed to a dispersal of employment centers that made them inaccessible to many urban residents (Douglas Commission, 1968). In addition to becoming poorer, cities had begun to lose population in the 1950s (Bradbury, Downs, and Small, 1982). The Douglas Commission pointed to the rising poverty rates in central cities, fueled by high unemployment among African-Americans concentrated in city neighborhoods, as limiting the fiscal capacity of cities to solve their problems without federal assistance (Douglas Commission, 1968).

The growth of suburbs had been a gradual phenomenon starting in the nineteenth century and encouraged by the development of transportation systems that made journeys to work of several miles easy and inexpensive (Jackson, 1985). Large numbers of African-Americans migrated from the South to northern cities in the early twentieth century. Most whites already living in northern cities were unwilling to accept black families as neighbors, and this unwillingness led to the emergence of large black ghettos within cities and further encouraged out-migration of whites (Massey and Denton, 1993). Combined with a decline in cities' ability to annex their perimeters, these factors resulted in large income and racial disparities between cities and suburbs by the 1930s (Jackson, 1985). The patterns grew more pronounced during the 1950s and 1960s, with continued in-migration of blacks to northern cities and out-migration of whites to the suburbs (Massey and Denton, 1993).

Rapid growth in jobs and incomes following World War II led to a boom in housing construction and a sharp increase in the percentage of U.S. households that owned their homes. The fixed rate, level-payment mortgage, made standard during the 1930s by the Federal Housing Administration (FHA), contributed to the postwar housing boom. FHA practices also helped concentrate the housing boom in the suburbs. In its early years FHA codified the existing practices of the mortgage lending industry that reflected the presumed bases for real estate value and risk and applied those standards in an inflexible way (Greer, 2012). This had profound effects on urban configurations. For example, FHA applied different underwriting standards to central city and suburban neighborhoods, and provided less favorable terms for multifamily than single-family housing and for newly constructed than existing residential structures (Jackson, 1985; Carliner, 1998; Immergluck, 2009). The growth of the interstate highway system starting in the mid-1950s further encouraged population dispersal away from city centers.

Legal segregation exacerbated the patterns. HUD was created before the Fair Housing Act of 1968 made housing discrimination illegal across sales and rental markets. African-Americans who could afford to live outside segregated enclaves were prevented from doing so, sometimes by violence but more often by real estate practices that were widespread and not yet against the law (Massey and Denton, 1993). FHA provided mortgage insurance for new subdivisions of single-family houses that often were sold only to white families (Pritchett, 2008). At its creation, HUD inherited highly segregated housing markets and urban configurations.

Public Housing and Urban Renewal

By the 1930s the problems of cities had already elicited a policy response that had started as part of the New Deal and was renewed in 1949. The focus was on slum clearance and the replacement of dilapidated housing with new buildings built with federal government subsidies and owned by local public authorities.

The Public Housing program began in 1937 as a Depression-era job creation program that was also designed to improve housing conditions for people with modest incomes who would nonetheless be able to pay enough rent to cover the housing's operating expenses (Jackson, 1985; Weicher, 1980; HUD 1982). Construction of public housing began slowly in the late 1930s and accelerated after World War II.

Several factors combined to turn city public housing into ghettos of poor people and minorities: (1) the close association with urban renewal, which steered displaced households to public housing, (2) the high density and modest design standards of much of the public housing stock, (3) the lagging education, employment, and income of inner city African-Americans, and (4) policies that built separate public housing projects for black and white residents (HUD, 1982; Schill, 1993; Hirsch, 2000; Pritchett, 2008).

The Housing Act of 1949 strengthened the relationship between clearance of slum housing and its replacement with public housing located in the same communities. Renamed Urban Renewal in 1954, the program focused on getting rid of slums without dealing with the underlying structural problems that had created urban ghettos. The Housing Act of 1949's goal of “a decent home and a suitable living environment for every American family” was rhetoric that went far beyond the reach of its programmatic tools. By HUD’s creation in 1965, the Urban Renewal Program was widely regarded as a failure both because of the long time it took to complete its projects and because those projects were seen as destroying the social fabric of communities while benefitting developers of commercial buildings and of housing for higher-income households (Douglas Commission, 1968; Pritchett, 2008; von Hoffman, 2009; Orlebeke and Weicher, 2014).

FHA Insurance and Private-Sector Development of Low-Income Housing

The largest role the newly created HUD inherited from HHFA—in numbers of affected households and thus in political importance—was FHA insurance for the mortgages of single-family homeownership properties. The overall homeownership rate had risen from 43.6 percent in 1940 to 61.9 percent in 1960 (Thompson, 2006). FHA insurance played a major role in the post-World War II homeownership boom. FHA’s share of the mortgage market fluctuated—for example, as loans with VA guarantees became even more attractive than FHA loans to the many eligible veterans—but together FHA and VA accounted for a substantial share of the mortgage market in the 1950s and into the 1960s.

Despite the importance of FHA, the creation of HUD had little to do with single-family finance. The housing finance system was in the middle of the “thrift era,” in which the majority of loans to buyers of single-family homes were made by savings and loan institutions supported by their ability to borrow from the Federal Home Loan Banks. Whether or not they included FHA insurance, loan products followed the standards FHA created starting in the 1930s: covering a high percentage of the value of the home and amortizing fully over 30 years at a fixed interest rate (Immergluck, 2009; Wartell and Willis, 2014). It was not yet a completely national system; because of the local nature of institutions originating mortgages, interest rates charged were subject to some regional variation. The thrifts were beginning to experience cash flow risk because of increases in the volatility of interest rates and inflation in the 1960s (Lea, 1996; Schwartz, 2015). But this was not an impetus for the creation of HUD.

The multifamily side of FHA mortgage insurance, in contrast, had begun to be linked to the production of new rental housing believed to be part of the solution to the problems of cities. By the time HUD was created, the federal government had begun experimenting with using FHA insurance as a tool for the production of affordable rental housing, based on the view that the private sector would build housing for low-income households better and faster than public housing authorities.[1] The Section 221(d)(3) program, enacted in 1961, had a component that provided a subsidy to private developers of rental housing through below-market interest rate loans with FHA insurance. During the next decade, the program would subsidize the construction of more than 170,000 units. However, the program was unattractive from a

[1] This view led somewhat later to the somewhat later creation of a “turnkey” approach to developing public housing in which public housing authorities would not act as the developer but instead take over ownership and operation after a housing project was built.

budgetary standpoint because the full amount of the loan was considered a current-year expenditure of federal funds (Coan, 1969; Orlebeke, 2000; Edson, 2011).

The 221(d)(3) below-market interest rate (BMIR) program was aimed at a somewhat higher-income group than public housing. The interest subsidy left a need for rental income sufficient to retire debt and cover operating costs. Those rents were affordable for many households with modest incomes, but not for the poorest households. The Omnibus Houisng Act of 1965 authorized rent supplements that could be paid on behalf of occupants who could not afford 221(d)(3) rents. But only modest appropriations were forthcoming, and only 31,000 units received subsidies (Weicher, 1980; Orlebeke, 2000; von Hoffman, 2009 and 2011). The act also created a program called Section 23, which permitted the public housing authorities that built and managed public housing to lease privately owned housing on behalf of low-income residents (Orlebeke, 2000; Edson, 2011). Again, appropriations for Section 23 were limited. It would not be until the enactment of the Section 8 programs in 1974 that rent subsidies tied directly to tenant incomes would begin to reach large numbers of households.

The 221(d)(3) program represented a shift in subsidized housing production away from the public ownership model, as did a program of direct loans from HUD to sponsors of housing for the elderly, Section 202, enacted in 1959.[2] By the mid-1960s an industry of private nonprofit and for-profit developers of low-income housing had begun to emerge. In 1964 the National Association of Home Builders (NAHB) dropped its former opposition to federal subsidies for low-income housing (von Hoffman, 2009). To satisfy NAHB, the Johnson Administration agreed to reverse the earlier proposed name for the new Cabinet department, putting "Housing" ahead of "Urban Development." In another bow to the housing industry, FHA retained its separate identity after the creation of HUD, with a subcabinet officer carrying the title of FHA Commissioner to this day (Bonastia, 2006; Thompson, 2006; von Hoffman, 2009).

2. Defining a Housing Agency With an Urban Mission, 1965–1968

The first HUD Secretary, Robert C. Weaver, was both an experienced administrator of housing programs and a civil rights leader, with government experience dating back to the New Deal and continuing in New York State and New York City governments in the 1950s. President John F. Kennedy appointed Weaver to head the Housing and Home Finance Agency (HHFA) in 1961. Before accepting that job, Weaver had asked for two commitments: (1) an executive order banning racial discrimination in federal housing programs and (2) serious consideration of himself as the head of the new Cabinet-level department of urban affairs. The creation of such a department was a promise Kennedy made during his campaign. Once the legislation establishing HUD was enacted, Lyndon Johnson hesitated before naming Weaver as

[2] As of 2015, a Section 202 program with a somewhat different subsidy design continues to produce some housing developments for the elderly.

Secretary. Following a 4-month hiatus, Johnson made the appointment in January 1966, in part because of the widespread expectation in the civil rights community that Weaver would get the job (Pritchett, 2008).

Robert Wood, an MIT professor who had chaired a Johnson-appointed Task Force on Metropolitan and Urban Problems, was named Undersecretary at the same time Weaver was named Secretary. Weaver and Wood worked as a congenial team, sharing staff and focusing on different aspects of the new department's mission. Close associates describe Weaver as a practical person who had learned from his long experience with badly implemented initiatives, while Wood was a "visionary" (Ink, 2015). Weaver resigned before the inauguration of Richard Nixon in 1969 in order to permit Wood to receive a recess appointment and become, briefly, HUD's second Secretary.

Creating an Organization

As of 1965 HHFA had four separate bureaus headed by commissioners and running essentially separate programs. Grant making was highly centralized within those "stovepipes," and each program had separate rules that minimized the discretion of local or state officials. One of the reasons congressional supporters gave for the creation of a Cabinet-level urban department was to overcome "jumbled lines of authority within the Housing and Home Finance Agency,"[3] and Weaver himself had described HHFA as a "bureaucratic monstrosity" (Pritchett, 2008). Weaver had attempted, with limited success, to make HHFA a more unified operation. One of the challenges was that FHA was only nominally part of HHFA, with operations funded through premiums from insuring mortgages and with strong ties to the housing industry (Pritchett, 2008). FHA had 70 percent of the staff of the newly created HUD (Ink, 2015).

The Johnson White House appointed a highly regarded public administrator, Dwight Ink, as HUD's Assistant Secretary for Administration, in order to help Weaver and Wood make the creation of HUD more than just a symbolic gesture and instead to make it possible to implement missions that cut across subcabinet-level organizations within the agency. Decentralization of authority was the reorganization's hallmark, creating regional administrators with line authority over individual grant making, while the "subcabinet" of program assistant secretaries made policy. Weaver strongly supported that plan, while Wood reportedly was somewhat reluctant. Weaver also created a process for developing HUD's annual budget proposals in which program assistant secretaries sat in on the review of each other's proposals as part of the attempt to break down "stovepipes." He brought the separate general counsels of the former HHFA bureaus together into a central Office of General Counsel. (The FHA commissioner was permitted to retain his own lawyer for the duration of his tenure.) At the end of the Johnson Administration, HUD was experimenting with "Metropolitan Expediters" to help local officials make better use of HUD programs. The House Appropriations Committee withdrew funding for that effort because it threatened to weaken the role of congressmen's offices as the place to go for help with the federal bureaucracy (Ink, 2015).

[3] Report of the House Committee on Government Operations, cited in Frieden and Kaplan (1975).

A challenge from the start to implementing the urban part of HUD's housing and urban mission was the incomplete consolidation within HUD of programs to combat urban distress. The Urban Mass Transit Administration (UMTA) was administered by HHFA but transferred to the Department of Transportation when that agency was created in 1966 (Ink, 2015). Johnson considered moving the Community Action Program from the Office of Economic Opportunity (OEO) to the newly created HUD, but decided not to do so (Frieden and Kaplan, 1975; Pritchett, 2008; von Hoffman, 2011). When Nixon later abolished OEO, some staff were transferred to HUD, but the program responsibility was folded into the Community Services Block Grant at the Department of Health, Education, and Welfare. The Departments of Agriculture and Commerce retained housing and economic development programs in rural areas, overlapping with HUD's nationwide scope.

In September 1968 HUD's new headquarters building was opened at 7th and D Streets SW in Washington, D.C., following a hard push to make sure the building was completed when Johnson and Weaver were still in office (Ink, 2015). According to HUD staff who were there at the time, moving from 23 separate locations to the new building helped the Department shift from quasi-autonomous offices to a more centralized operation.

New Policies Take Shape: Model Cities and Sections 235 and 236

Turning HHFA into a Cabinet-level department signaled a new focus on urban problems but not a new approach. Enacted shortly before the creation of HUD, the Omnibus Housing Act of 1965 continued primary reliance on the Urban Renewal and Public Housing programs. Author of *The Negro Ghetto,* an influential 1948 book on racial change in northern cities, Weaver had been a critic of the Urban Renewal program, but at the same time believed in the potential for careful urban planning to create racially integrated communities (Pritchett, 2008). In New York City and again at HHFA, he attempted to reform Urban Renewal from within.

The policies pursued during the earliest years of HUD were influenced by the racially based civil unrest that occurred in northern cities every summer between 1964 and 1968 and by a series of commissions and task forces that shaped the response to what was perceived as a crisis in urban America.[4] Lyndon Johnson favored policymaking—or validation—by commissions and task forces. Then as now, congressional committees further shaped the design of program proposals (Frieden and Kaplan, 1975; von Hoffman, 2012). Robert Wood, who had chaired a Task Force on Urban Affairs and Housing, had been appointed Undersecretary of HUD in part because he was skilled at working with Congress and with the interest groups that influenced legislation, notably the National Association of Home Builders (Pritchett, 2008; von Hoffman, 2012).

[4] The Douglas Commission was one of three major national commissions working on urban problems in the late 1960s. The others were the Kaiser Commission (President's Commission on Urban Housing) and the Kerner Commission (National Advisory Commission on Civil Disorders).

Model Cities, created in 1966, was the first major new program created during Weaver's tenure as Secretary of HUD. Based in part on the recommendations of a Task Force on Urban Problems, Model Cities pushed the concept of urban renewal beyond slum clearance to a more comprehensive approach to rebuilding neighborhoods (Frieden and Kaplan, 1975; Pritchett, 2008; von Hoffman, 2011). Robert Wood had chaired the Task Force, and Secretary Weaver embraced its recommendations (Hetzel and Pinsky, 1969).[5] The program's premise was that increasing the levels of federal assistance alone would not be effective in improving the quality of urban life unless substantial institutional changes were effected both to local service delivery systems and to the systems for transferring tax revenue to local governments. Local systems were fragmented and often managed by semi-autonomous bodies: "the city health department recognizes a health problem and plans a health program; the state employment service, the local community action agency, and the private agencies develop manpower training programs; school boards, renewal agencies, and public housing authorities push their own projects. There is little effort to give these programs mutual support by linking them into a meaningful whole" (Hetzel and Pinsky, 1969). The federal system of grants-in-aid was similarly fragmented, as was the less heavily funded system for transferring state resources to cities. Furthermore, the systems were not responsive to the needs of inner-city constituents (Hetzel and Pinsky, 1969).

The Model Cities program design developed in response to this premise was in some sense a forerunner to block grants for urban development. It permitted city government grantees to choose among a broad range of eligible activities and established a mandate for participation in the planning process by neighborhood residents. The citizen participation concept had already been embodied in the Community Action Program and was seen as an antidote to the community-destroying aspects of Urban Renewal. Model Cities also had a local organizational structure that was not entirely under the control of the mayor. The multiple actors involved in the planning process for Model Cities slowed it down (Hetzel and Pinsky, 1969; Scruggs, 1995; von Hoffman, 2011; Orlebeke and Weicher, 2014; Rich and Stoker, 2014).[6] Furthermore, the legislative process greatly expanded the number of eligible cities while reducing the amount of money for the program. The Model Cities legislation did not give HUD the authority to compel other federal agencies to cooperate, although such cooperation was central to the program's vision (Hetzel and Pinsky, 1969; Frieden and Kaplan, 1975; von Hoffman, 2011). By the end of the Johnson Administration, HUD had approved comprehensive programs in 9 cities and awarded planning grants to 150 cities.

The Johnson Administration saw the production of low-income housing both as an element of the War on Poverty and as tool for revitalizing cities. Belief was widespread that poor housing conditions in urban slums were a major cause of the riots of the 1960s. The Housing Act of 1968 was shaped both by recommendations of the President's Committee on Urban

[5] The Task Force Report was not a public document.

[6] On the other hand, the Model Cities program is credited with developing a cadre of African-American urban administrators.

Housing (the Kaiser Commission) and by legislation proposed by Republican Senator Charles Percy of Illinois to construct large numbers of homeownership units in ghetto areas (Coan, 1969; von Hoffman, 2012). Secretary Weaver opposed an approach that relied mainly on homeownership, arguing that, even if subsidized through low interest rates, homeownership would be beyond the reach of poor people. He predicted that those who did buy would have negative equity in the early years and would be vulnerable if they lost jobs or became ill (Pritchett, 2008).

The central recommendation of the Kaiser Commission was to build large numbers of housing units and to do it through increased reliance on the private sector rather than public housing agencies. Congress worked on legislation during 1967. HUD then drafted legislation, and Congress enacted the draft largely as proposed in August 1968 (Coan, 1969; Pritchett, 2008).[7] The Housing and Urban Development Act of 1968 set a very ambitious goal of producing 6 million units of housing for low- and moderate-income families over a period of 10 years and created two new programs: Section 235 and Section 236. Section 235 provided low-income homebuyers with FHA-insured mortgages that subsidized the difference between 20 percent of a household's income and its housing costs at market interest rates. Section 236 paid the difference between a market interest rate and a subsidized rate as low as 1 percent for rental housing projects occupied by low- and moderate-income renters (Orlebeke, 2000; Weicher, 2012; Schwartz, 2015).

HUD Gains New Responsibilities for Fair Housing

HUD gained a major new responsibility in April 1968 with the passage of the Fair Housing Act, which became Title VIII of the Civil Rights Act. The Fair Housing Act prohibited discrimination in sales, rentals, brokerage services, and lending on the basis of race, religion, or national origin.

Earlier federal authority to combat housing discrimination had only applied to situations where federal assistance was provided. After almost 2 years of delay caused by concerns that an executive order banning housing discrimination would interfere with the appointment of Weaver to head HHFA and with the enactment of broader civil rights legislation, Kennedy signed such an order in November 1962. The executive order required federal agencies to "take all necessary and appropriate actions to prevent discrimination" in property owned by the federal government or receiving federal assistance (Massey and Denton, 1993). Title VI of the Civil Rights Act of 1964 reaffirmed the Executive Order. However, the new authority had been used very little by HHFA or, since 1965, by HUD. A study conducted by HUD in 1967 showed that the percentage of FHA insured loans for new home purchases that went to African-Americans remained tiny (Pritchett, 2008).

[7] The Housing and Urban Development Act of 1968 did much more than enact Sections 235 and 236. It also privatized the Federal National Mortgage Association and created the Government National Mortgage Association (discussed later) and authorized or modified several HUD small programs. Coan (1969) provides a summary of provisions deemed important at the time of enactment.

The main effect of the executive order and of Title VI was the start of private litigation on fair housing. The Civil Rights Act permitted not only direct enforcement by the federal government, but also a private right of action, in which private citizens and groups can bring their own lawsuits to enforce their rights in federal court. An important example of litigation that followed the Civil Rights Act of 1964 was the 1966 class action suit named for plaintiff Dorothy Gautreaux and brought against the Chicago Housing Authority. The Chicago Housing Authority was charged with discriminating on the basis of race by concentrating public housing developments in isolated African-American neighborhoods.

Weaver worked hard within the Johnson Administration to make passage of a law prohibiting discrimination in a broader segment of the housing market one of the Administration's legislative priorities (Pritchett, 2008). The Administration proposed legislation in 1966, with continued efforts in 1967. Weaver and Wood negotiated with Republican senators whose support was needed to obtain cloture (Hetzel, 2015). What tipped the balance in Congress was the assassination of Martin Luther King, Jr. and the ensuing riots in cities across the United States (Pritchett, 2008; Massey and Denton, 1993; Mathias and Morris, 1999; Hetzel, 2015). The 1968 Fair Housing Act gave HUD overall responsibility for implementing the new fair housing requirements. However, in a compromise needed to get the law passed, HUD was given only investigation and conciliation powers on discrimination complaints. Enforcement was left to the U.S. Department of Justice (Massey and Denton, 1993).

3. Implementing New Policies and Strengthening the New Department, 1969–1972

Elected in 1968, President Richard Nixon made a high-profile appointment of George Romney, former Governor of Michigan and a Republican political rival, as Secretary of HUD. Romney made a lasting mark on HUD's operating culture and its mission through his aggressive implementation of HUD's new programs and fair housing responsibilities, as well as through further organizational changes that unified the Department.

HUD's policy direction did not change in the early years of the Nixon Administration. Romney defended the Model Cities program (Orlebeke and Weicher, 2014), although he tended to emphasize the block grant rather than the community participation aspects of the program (Hetzel and Pinsky, 1969; Scruggs, 1995; Foote, 1995). More important was his enthusiastic embrace of the 1968 Housing and Urban Development Act's production goal and aggressive implementation of the Section 235 and 236 programs. The next 4 years saw a boom in subsidized housing production. The Section 236 program ultimately produced more than 544,000 units, and Section 235 subsidized more than 400,000 homeowners (Schwartz, 2015).

Section 236 encouraged the further growth of the affordable housing development industry and also of state housing finance agencies (HFAs) as administrators of multifamily housing resources. States had begun to create housing finance agencies in the 1960s. New York and Massachusetts took the lead, other states followed, and a total of 20 agencies were in place as of 1972 (Brassil, 2010). HFAs were able to combine the 236 subsidy with tax-exempt bond financing and were permitted to produce housing that was not subject to FHA's mortgage limits (Committee on Housing and Urban Development, 1974). The Nixon Administration was favorably inclined towards a state role in housing finance. Section 236 resources were allocated to HUD field offices based on their demonstrated capacity to deliver unit production toward the 1968 Act's goal rather than by a needs-based formula, and the five largest HFAs had substantial capacity. The share of HUD resources allocated through states grew from a very modest 3 percent in 1962 to large percentages in the early 1970s, with substantial year-to-year variation (Scally, 2009).

At the same time a private affordable housing industry was growing, the public housing program continued to produce new units. Public housing was serving an increasingly poor population. The Housing Act of 1949 that established the close link between public housing and urban renewal also lowered income limits for admission to public housing developments. Public housing authorities were no longer allowed to exclude families for whom rent payments of 20 percent of income would not be sufficient to cover operating costs. Median public housing incomes fell from about 48 percent of the national median income in 1959 to about 34 percent in 1969 (HUD, 1982, Appendix 2–1). A series of provisions, passed in 1969, 1970, and 1971 and sponsored by Edward Brooke, a Massachusetts Republican Senator who took a great interest in housing policy, prohibited PHAs from charging more than 25 percent of a tenant's adjusted income for rent and authorized a program of federal subsidies to pay the deficits between those rent charges and the operating costs of the housing projects. Operating subsidy appropriations were small to begin with, but grew rapidly during the 1970s (HUD, 1982).

The Housing Finance System Becomes More Complex: Enter the GSEs

HUD's role in single-family finance began to decline in the 1960s. In the late 1960s and early 1970s, FHA's share of the single-family mortgage market dropped, following the revival of private mortgage insurance in the late 1950s.[8] Private mortgage insurance had more attractive terms for many homebuyers (Weicher, 1980; Struyk at al., 1983; Szymanoski et al., 2012).

Other national institutions became more important. One of the provisions of the Housing and Urban Development Act of 1968 turned the Federal National Mortgage Association ("Fannie Mae"), which had been created in the 1930s to increase the liquidity of mortgage originators

[8] Private mortgage insurance (PMI) existed prior to the Great Depression. Poorly capitalized, the early PMI companies went bankrupt once the Depression led to sharp declines in real estate values. After FHA had demonstrated the feasibility of mortgage insurance with sound underwriting standards, and more stringent capital requirements were imposed by state insurance agencies, the PMI industry, led by the Mortgage Guarantee Insurance Company, reemerged stronger than before (Rapkin, 1974).

by buying FHA-insured loans,[9] into a government-sponsored, privately owned corporation—what later would be called a "government-sponsored enterprise" or GSE. The reason for the privatization of Fannie Mae may have been to take the costs of its guarantees out of the federal budget because of budget pressures caused by the Vietnam War (Van Order, 2000). The effect, however, gave Fannie Mae authority to buy mortgages not insured by FHA and greater flexibility to raise capital. The 1968 Act also created the Government National Mortgage Association ("Ginnie Mae"), a wholly government-owned corporation that retained the subsidized loans previously held by Fannie Mae and could buy mortgages insured by FHA, as well as those guaranteed by the VA.

The Federal Home Loan Mortgage Corporation ("Freddie Mac") was created in 1970 as a purchaser of loans originated by savings and loans without government insurance (DiVenti, 2009; Immergluck, 2009; Szymanoski et al., 2012). Both GSEs benefitted from "agency status" in that they were able to borrow (issue debt) at interest rates lower than rates offered to banks or thrifts. Investors assumed the GSEs enjoyed what became known as the "implicit guarantee"—a perception that the federal government stood behind their debt, despite an explicit disclaimer to the contrary (Van Order, 2000).

Thus, as of 1970, the nation had a housing finance system with multiple institutions, with FHA garnering only a relatively small share of the market. Economist Anthony Downs argued in the 1990s that the ability of the private (or quasi-private) sector to take over portions of HUD's mission with the broadest appeal (and, apparently, the greatest economic viability)[10] has helped explain why the Department has not had more success sustaining support for its overall funding (Downs, 1995). On the other hand, FHA has continued over time to be viewed as central to HUD's status as a Cabinet-level department.

Affirmatively Furthering Fair Housing

The Fair Housing Act of 1968 created an obligation for the secretary of HUD: to implement programs in a way not just to *avoid* discriminating against protected classes but also to "affirmatively further fair housing." That gave the secretary an obligation to require HUD grantees to pursue fair housing objectives as well. Romney gave the new Office of Fair Housing and Equal Opportunity (FHEO) created by the Act a mandate to review all of the Department's policies with a fair housing lens and to raise for decision by the secretary of HUD any issues that could not be resolved between FHEO and other HUD offices (Pearl, 2014). That mandate has continued to 2015 but has been fragile because of competing pressures to satisfy the demands of the public- and private-housing industries and of city governments (Goering and Squires, 1999).

[9] When the creation of FHA failed to lead to the development of a private, secondary market in which FHA mortgages were purchased from lenders and resold to investors, Congress chartered the Federal National Mortgage Association in 1938 and authorized it to buy and hold mortgages as investments (Reeder et al., 1987).

[10] Downs was writing before the housing collapse of the late 2000s called into question the economic viability of the GSEs.

Over time, FHEO typically has lost fights within the Department, overruled or ignored by program offices even when its positions have had merit. That was not the case under Romney. Committed to civil rights, Romney took seriously his obligation to implement the 1968 Fair Housing Act's mandate to use federal resources affirmatively to further fair housing. He was willing to overrule his reluctant program assistant secretaries in favor of policies proposed by FHEO and the secretary's office and, in 1971, gained the support of a statement by President Nixon (Maxwell, 1972; Vernarelli, 1986). Romney tried to get suburban jurisdictions to place subsidized housing projects in nonminority areas by making that a condition of jurisdictions' receiving HUD housing and community development funds. The policy had limited success because "HUD could not offer most communities enough of an economic reward to justify a local political confrontation over racial integration" (Vernarelli, 1986).[11] Romney also tried to encourage metropolitanwide housing planning so that all jurisdictions within a metropolitan area would have some subsidized housing (Orlebeke, 2000; Orlebeke and Weicher, 2014). The logic of such "fair share" approaches was that a jurisdiction would be less likely to refuse to accept low-income housing if it was only one among many jurisdictions in a metropolitan area that had such housing (Yinger, 1986).[12]

Probably the most effective Romney measures were those that directly affected the location and occupancy of Section 236 projects. Romney issued project selection criteria—what later would become "site and neighborhood standards"—which, among other things, required the HUD field staff to assess the potential impact of proposed low-income housing projects on minority concentrations. That policy followed the directive of an appellate court in the Shannon case (Vernarelli, 1986), but Romney's staff was already working on a regulation. As explained by Romney's General Counsel, David Maxwell, the purpose of the selection criteria was to favor projects that would provide opportunities for minorities outside an area of minority concentration and to discourage projects that would tip the racial balance of an integrated community. However, the criteria were not intended to prohibit projects in minority areas where there was an overwhelming need for new housing (Maxwell, 1972; Kopff, 1972). Romney also issued "affirmative marketing" guidance to ensure that, when new housing (whether subsidized or just FHA-insured) was located outside areas of racial and ethnic concentration, members of minority groups would find out about their opportunity to live there (Maxwell, 1972).

HUD implemented the project selection criteria vigorously under Romney. When Section 236 applications came in, the field office director of fair housing often was part of the team that applied site and neighborhood standards and was able to prevent an application in an area with a concentration of minority residents or of other subsidized housing from moving forward.

[11] Bonastia (2006) provides details of some of the attempts to implement this policy.

[12] Robert Weaver had made a similar argument when working in New York State (Pritchett, 2008).

A New Concept for Rental Assistance: Housing Allowances

By 1971, Romney was second-guessing the production strategy. Concerns expressed in that year's report on progress toward meeting the 1968 Housing and Urban Development Act's goals were that: (1) new subsidized housing might be encouraging the abandonment of existing housing in the same neighborhoods; (2) the production strategy was costly; (3) the programs had limited ability to serve the poorest households and (4) many equally needy households were not receiving assistance (Orlebeke, 2000). The Section 235 program, especially the portion of the program that rehabilitated existing housing units, was discredited by scandals involving bribes paid to HUD officials to certify that units met quality standards. Section 236 mortgages had high default rates (Weicher, 1980; von Hoffman, 2012).

The Kaiser Commission had recommended testing housing allowances as an alternative approach to helping poor people afford housing. The first tests of the concept were championed by Romney's Undersecretary, Richard Van Dusen. They were launched in Kansas City, Missouri, and Wilmington, Delaware, in 1970 (Peabody, 1972; Bendick and Struyk, 1981). The Housing and Urban Development Act of 1970 then authorized the Experimental Housing Allowance Program, inserted into the law by Senator Edward Brooke. HUD's research office began to design and implement a massive demonstration and research effort that was to have a profound effect on housing policy (Bendick and Struyk, 1981; Orlebeke, 2000; National Research Council, 2008; von Hoffman, 2012).

President of American Motors before he became Governor of Michigan, Romney was interested in technological solutions to reducing the costs of housing production. He elevated the Department's research office to the subcabinet level under an assistant secretary for research and technology. Romney charged Harry Finger, the new Assistant Secretary who came to HUD from the National Aeronautics and Space Administration, with running a large demonstration program called Operation Breakthrough. The program's purpose was to demonstrate the feasibility of mass production techniques to lower the costs of housing construction (Foote, 1995; Finger, 2002). Operation Breakthrough was not considered a success and was wound down after Romney left HUD in 1973. Its failure has been attributed to its lack of connection to an area in which the federal government has a direct procurement interest (National Research Council, 2008).

Continued Efforts to Create a Single HUD

In organization as well as policy, the Romney era carried through initiatives Weaver had started. Despite the efforts to create an integrated HUD, assistant secretary-led offices retained much of the character of "fiefdoms," with close ties to industry groups and a narrow focus on their own programs. Romney continued the effort to create a single organization with an integrated mission. He charged a deputy undersecretary with coordinating departmentwide policy and further centralized administrative functions. The cross-program review authority given to the fair housing office was another example of Romney's effort to create a single HUD.

To implement the 1968 Housing and Urban Development Act's new programs, Romney created separate assistant secretaries for an Office of Housing Production and Mortgage Credit (HPMC, for the production side of Sections 235 and 236 and public housing) and an Office of Housing Management (HM, for the management side). This reorganization both signaled the emphasis on production and gave assistant secretary rank to influential Romney appointees (von Hoffman, 2012). The assistant secretary for HPMC was also the FHA Commissioner and had responsibility for HUD's single-family mortgage insurance programs. Additionally, Romney consolidated the subcabinet offices that ran Model Cities and the special-purpose grant programs into a single Office of Community Planning and Development.

Arguably, Romney's most important effort to integrate HUD's functions was to further strengthen the field structure, giving regional administrators more authority than under the Weaver/Ink field organization and making them "the point of contact with key state and local officials whose plans seeking HUD assistance often cut across program lines" (Thompson, 2006). Earlier identities faded slowly, however. Well into the 1980s, career staff could often be identified as "FHA men," or "public housers," or "urban visionaries," with differing views of their mission and different operating cultures. Even into the 21st century, HUD staff sometimes identified themselves as working "in FHA" and implied that HUD was a separate institution.

4. Rationalizing Housing and Urban Policy: 1973–1977

Following the reelection of Richard Nixon in 1972, HUD programs were swept into broader efforts by the Nixon White House to rationalize domestic programs—to make them more efficient and to devolve responsibility for setting priorities to state and local governments. The common theme in the espousal of block grants for community development and a housing voucher approach to housing assistance was the removal of federal bureaucrats from decisionmaking. Mayors and governors would make decisions about the use of community development funds, while households would make decisions about where to live with the help of a government subsidy.

Neither program ended up quite that simple when enacted into law. Nonetheless, the shift toward devolution of decisionmaking was a lasting change for HUD. Larry Thompson, in his *History of HUD* (2006), identifies the passage of the Housing and Community Development Act in August 1974 as the beginning of the "modern era" for HUD that continues to this day. Michael Rich, in his 2014 history of the Community Development Block Grant (CDBG), calls the 1974 Act "a landmark piece of legislation that fundamentally transformed both federal housing *and* community development policy." CDBG is basically the same program in 2015 that was enacted in 1974 (albeit at lower funding levels). The structure of HUD's assisted housing programs in 2015—rent subsidies that cover the "gap" between the cost of housing and a percentage of the actual income of the assisted tenant—is the structure created by the 1974 Act.

James Lynn, a lawyer who had served in the Department of Commerce in Nixon's first term, became Secretary of HUD in early 1973, shortly after the Nixon Administration had implemented a "moratorium" on further production under the Section 235 and 236 programs. Lynn guided the negotiations with Congress over the enactment of the new approaches. Carla Hills, a lawyer who had previously served at the Department of Justice, became Secretary of HUD after Nixon resigned and Vice President Gerald Ford became President.[13] Although short, covering only 1975 and 1976, Hill's tenure as Secretary of HUD was important, as she oversaw the implementation of the 1974 Act. HUD career civil servants remember her as a particularly strong manager.

Birth of CDBG

Secretary Romney and the Nixon White House had somewhat different perspectives in the policy development that led to the enactment of the CDBG program in 1974. Romney was in favor of a block grant with planning requirements, while the White House preferred a hands-off approach that would give maximum discretion to elected officials of local governments. The White House was in favor of "revenue sharing," part of the New Federalism theme of Nixon's 1971 State of the Union Address (Orlebeke and Weicher, 2014).

With both houses of Congress controlled by Democrats, the Nixon Administration was not the only player. During 1972, Senate Democrats proposed a program that would have consolidated the separate community development programs into a single grant with flexible use of funds and greater control by mayors than either Model Cities or the various small programs administered by HUD. The program would not have been allocated by a needs-based formula, but instead by competition. With a "general revenue sharing program" enacted in 1972, the Nixon Administration then proposed five formula-based "special revenue sharing" programs, including one for community development at HUD.

The legislative compromise between the Nixon Administration and the Democrats in control of Congress was a formula-based block grant with ambiguous provisions on federal control over the use of CDBG funds. For example, the program was given an application process with a timeframe during which HUD must decide whether to veto the application (Rich, 2014; Orlebeke and Weicher, 2014). The planning requirement included a Housing Assistance Plan that retained some of the character of Romney's approach to conditioning receipt of federal funds on acceptance of subsidized rental housing (Struyk and Khadduri, 1980; Vernarelli, 1986; Orlebeke and Weicher, 2014). The regulations implementing CDBG issued under Secretary Hills followed an approach that minimized federal control (Rich, 2014).

The enactment of CDBG consolidated the identity of HUD as the "mayors' agency," putting decisions squarely in the hands of "general purpose local governments" rather than in the separate authorities that had received funding under predecessor programs (Rich, 2014). Following passage of the 1974 Housing and Community Development Act, HUD continued to

[13] Lynn became Director of the Office of Management and Budget.

have a city focus, relying much less on states as policy intermediaries and implementers than do other federal agencies. However, from the beginning CDBG had a statewide component to use 30 percent of program funds to assist smaller cities and towns outside of metropolitan areas.

The distribution of the CDBG program by formula extended the reach of HUD's programs to many cities across the country that had not been the focus of the "urban" part of HHFA or HUD.[14] One of the Nixon Administration's achievements was to make "urban counties" eligible for formula-based grants. At that time a new concept in political geography, an urban county is a large suburban political jurisdiction within a metropolitan area. The inclusion of a large number of cities and of urban counties has given CDBG broad-based political appeal and is one explanation for the endurance of the program.

A related development following the enactment of CDBG was a shift in the roles of the public interest groups that influence HUD policies. The U.S. Conference of Mayors and the National League of Cities remained important, as they had been during the development of the 1974 legislation. The National Association of Counties gained stature, as did a newly created Council of State Community Affairs Agencies.[15] The National Association of Housing and Redevelopment Officials (NAHRO), a broad-based membership organization representing both quasi-independent housing authorities and quasi-independent redevelopment authorities, had been created in 1933 (Watkins, 2014) and was very powerful during the 1960s and early 1970s. NAHRO lost some of its mission and clout with Congress following the consolidation of community development functions under the control of mayors.

Birth of the Section 8 Programs

The Nixon Administration's new policies for housing subsidies for low-income households echoed and amplified the concerns about housing production programs already articulated in Romney's 1971 report on national housing goals. A new mantra, "maximum feasible use of the existing housing stock," replaced the view that rental housing was in short supply. By the early 1970s, most Americans lived in physically sound housing. Those without sound housing—living in units lacking indoor plumbing or in very poor physical condition—were mainly in the rural South. The 1970 census showed that only 5.5 percent of all occupied housing units did not have some or all plumbing, only 3.7 percent were "dilapidated," and only 2 percent had more than 1.5 persons per room (Weicher, 1980). A second theme espoused by Nixon policymakers was that a type of subsidy that made use of market principles—letting people choose housing and owners of housing compete for tenants—would be more efficient than a system in which government officials and housing developers chose a housing unit's location and amenities. The creation of the Food Stamps program during the Nixon Administration can be seen as a parallel effort to place consumers in charge of the use of a categorical income subsidy, replacing government programs to distribute food.

[14] Hold-harmless provisions sustained for a time the prior funding levels of cities that had been the focus of HHFA and HUD funding. This was part of the political compromise that made enactment of CDBG possible.

[15] Now the Council of State Community Development Agencies.

A third theme was that, unconstrained by the need to find sites for subsidized housing, a housing allowance could solve the "horizontal equity" problem that some households received substantial benefits from living in subsidized rental housing while equally needy households got nothing. An open enrollment program for a defined group of eligible households would be feasible with a housing allowance, as it was not with a housing production program.[16] The Nixon White House was working on a proposal for an open enrollment housing allowance for elderly households at the time the Housing and Community Development Act passed in August 1974 (von Hoffman, 2012). But Nixon also resigned in August 1974 in the wake of the Watergate scandal, and work on the housing allowance proposal stopped.

On January 8, 1973, the Nixon Administration announced a moratorium that closed down the Section 235 and 236 programs as well as public housing with some exceptions, mainly projects that had already reached an advanced stage of processing by that date (Orlebeke, 2000). Secretary James Lynn, who replaced Romney early in 1973, created a new office at HUD, the Office of Policy Development and Research (PD&R), merging functions that previously had been lodged in the technology-focused research office and the policy office that reported directly to the undersecretary. PD&R inherited the authority to conduct research previously established by the Housing and Urban Development Act of 1970 (National Research Council, 2008).

Headed by an economist, the new office focused on building the empirical support for the new housing policy through a National Housing Policy Review that used academic economists to evaluate all of the major housing subsidy programs (HUD, 1974; National Research Council, 2008). The new office also took over the implementation of the Experimental Housing Allowance Program (EHAP), which had reached the implementation stage but had not yet produced results on the key research questions: whether a demand-side housing subsidy would increase rents, how households would make use of the subsidy, and whether the subsidy could be effectively administered.[17] PD&R also gained agreement that an evaluation process would be built into new programs and included a staff of economists available to subject new policy proposals to economic analysis (National Research Council, 2008). Another responsibility inherited from the Office of Research and Technology was a major new data collection effort, the Annual Housing Survey (AHS). The AHS collects data from the occupants of a sample of housing units on their incomes and demographic characteristics, tenure status, rent, mortgage payments, utility costs, and physical problems with the housing units. Following a planning stage, the first survey was fielded in 1973 (National Research Council, 2008).

[16] Orlebeke (2000) cites a January 1971 memorandum from Assistant Secretary for Research and Technology Harold B. Finger that had already made some of these points in an explanation of the policy rationale for the Experimental Housing Allowance Program.

[17] The first question was to be answered by the Housing Allowance Supply Experiment, conducted by the RAND Corporation, the second and third questions by the Housing Allowance Demand Experiment and the Housing Allowance Administrative Agency Experiment, conducted by Abt Associates, Inc. The Urban Institute, created during the Johnson Administration as a domestic counterpart to the RAND Corporation, provided design advice and was charged with synthesizing the results.

Not waiting for the results of EHAP, the Nixon Administration proposed a housing allowance in September 1973 as a replacement for production programs (Milgram, 1993; von Hoffman, 2012). The legislative compromise in the 1974 Housing and Community Development Act included a housing allowance-like program, Section 8 Existing Housing, and parallel programs to build and rehabilitate housing developments with "project-based" subsidies,[18] Section 8 New Construction and Section 8 Substantial Rehabilitation. Congress immediately appropriated funds for the new family of Section 8 programs, and in 1976 reactivated public-housing production at modest levels (Weicher, 1980; Thompson, 2006).

Instead of the interest rate subsidy provided by Section 221(d)(3) and Section 236 to reduce the rental income needed to cover mortgage and operating costs, the Section 8 programs were based on a rent subsidy.[19] The Section 8 rent subsidy paid the difference between the rent received by the owner of the housing and a percentage of the tenant's actual income—at the time of the 1974 Act, 25 percent. This subsidy structure makes housing affordable to the poorest households and also tends to make formal income limits (while they continue to exist) irrelevant. The value of the subsidy phases out long before the income limit is reached. The result was that all programs across the housing assistance system, not just public housing, would be heavily used by the neediest households.

Looking back, it is useful to recall that the 1974 Act and its implementation did not represent a pull-back from the missions of HUD but instead a rationalization of policies of housing assistance to make it more efficient by relying on market forces and of community development funding to make it more responsive to local needs. The role of housing assistance as part of the social safety net was not questioned, nor was the need for redistribution of tax revenue from the federal government to cities. The predominant public finance concept of that era, "fiscal imbalance," implied a need for federal spending programs to make up for revenue shortfalls at the local and state levels (Rohe and Galster, 2014).

Implementing the New Housing Programs

Assuming office in March 1975, Carla Hills' first order of business as Secretary was implementing the new housing subsidy and community development programs, for which regulations had not yet been issued 7 months after the 1974 Act was signed into law (Foote, 1995). Congressional supporters of a return to production of subsidized rental housing suspected the Ford Administration of continuing the Nixon Moratorium on a de facto basis by stalling on implementation of the Section 8 production programs. They were not enthusiastic about the appointment of another lawyer with little background on urban affairs to lead HUD (Harney, 1976a). Secretary Hills was determined to improve HUD's reputation—and prove her

[18] Early discussions of program differences tended to focus on the use of existing versus new housing, and the terms "project-based" and "tenant-based" were not yet in common use.

[19] Section 8 New Construction and Substantial Rehabilitation projects often obtained financing that carried a further subsidy—for example, tax-exempt financing from state housing finance agencies or interest rate subsidies provided by a Ginnie Mae "tandem" program created in 1970. During negotiations over the 1974 Act, Secretary Lynn had proposed making Section 8 developments ineligible for this further subsidy. He lost that battle to the housing industry and its congressional supporters.

own competence on Capitol Hill. She suspected that the delays in implementing the 1974 Act simply reflected poor management. She created an Office of Regulations reporting directly to her and charged with resolving outstanding issues among program assistant secretaries and HUD lawyers.[20] By the end of 1976, more than 110,000 households were using Section 8 Existing subsidies, and by September 1977 construction had begun on 135,000 Section 8 New Construction/Substantial Rehabilitation units (Weicher, 1980).

Carla Hills was less wedded to the housing allowance (or "voucher") approach to housing assistance than her immediate predecessor, preferring a policy that included both tenant-based assistance and production subsidies. She fought successfully within the Ford Administration for budgets that included substantial funding for both the existing housing and the production components of Section 8—for example, 400,000 units in the proposed budget for 1977, of which 275,000 were for existing housing and 125,000 for production (Harney, 1976a). The much larger number of units of existing housing is misleading, as existing housing was not all tenant-based vouchers. Implemented early in Hill's tenure was a use of funds appropriated for Section 8 Existing Housing to add rent subsidies to developments produced under Section 221(d)(3) and Section 236 so that their rents could be set at a level high enough to cover their costs. The program was called "Section 8 Loan Management," since a major purpose was to keep FHA-insured, multifamily projects from defaulting on their mortgages (Smith, 1999; Weicher, 2012).[21]

An enthusiastic supporter of CDBG, Carla Hills was interested in applying the same block grant approach to subsidized housing, devolving decisionmaking to local governments. She had her staff study the feasibility of block grants for housing and develop a proposal (Harney, 1976b). But that did not deter her from implementing the Section 8 programs, as she saw competent management as her primary responsibility. Beyond issuing the implementing regulations, she used a "management by objectives" approach to hold her assistant secretaries responsible for meeting housing production and other goals.

While Hills was Secretary, the offices of Housing Production and Mortgage Credit and Housing Management were merged into a single Office of Housing/FHA Commissioner. The impetus behind that organizational change probably was that some 235 and 236 developments had gotten into financial trouble because Romney had separated the housing development and management functions into separate "silos" in HUD field offices. Staff responsible for reviewing the underwriting of proposed rental developments paid too little attention to whether assumptions about occupancy levels and operating costs were overly optimistic.

The production side of Section 8 revived and strengthened the private industry of low-income housing developers that had grown up around the 221(d)(3) and 236 programs. The industry

[20] To make it easier to overcome "bottlenecks" that might result from the Office of General Counsel's review of proposed regulatory language, she put a lawyer in charge, brought over from the Department of Justice.

[21] This policy was already under development when Lynn was Secretary. The Oil Embargo of 1973 had resulted in large increases in the energy component of the operating costs of multifamily developments, although this was not the only reason that some HUD-assisted or -insured multifamily properties were running into financial difficulty.

included a few nonprofits, but at that time most of the industry consisted of private, for-profit housing developers. In addition to the National Association of Homebuilders, the industry had developed a strong lobbying capacity working through law firms and the National Leased Housing Association, created in 1972 (Watkins, 2014). An industry consisting only of nonprofit sponsors, mainly associated with national religious organizations, developed specialized housing for elderly people and people with disabilities under the Section 202 program. That industry was represented by the American Association of Homes for the Aging.[22]

The growing importance and influence of state housing finance agencies was reflected in a provision of the 1974 Act requested by the newly formed Council of State Housing Agencies[23] that gave state agencies the authority to administer Section 8 housing assistance payment contracts (Edson, 2011). The result was that HFAs had the ability not only to finance Section 8 projects through tax-exempt bonds, but also to select the developers to receive rental assistance and establish the rent levels that controlled the subsidy amount.

A key decision during the enactment and implementation of the 1974 Act was to give the public housing authorities that owned public housing preferential access to funding for the Section 8 Existing Housing program, creating a new and ultimately larger role for the public housing industry administering the voucher program, which as of 2015 has more than 2 million units. The EHAP Administrative Agency Experiment demonstrated that several different types of agencies could administer a housing allowance, and the 1974 Act authorized public housing *agencies* to issue Section 8 certificates, rather than the more limited public housing *authorities* created under state law to own and operate public housing. As of June 1976, 89 percent of the agencies administering the program were traditional housing authorities (Drury et al., 1978). It may have never been in question that public housing authorities would administer the bulk of the Section 8 Existing Housing program, which in many ways was a continuation of the earlier Section 23 program that permitted PHAs to lease private market housing and then sublease the units to low-income households (Drury et al., 1978; Weicher, 1980; Zais, 1981).

Regional Shifts in HUD Resources

CDBG and the new housing assistance system both were allocated by formula, and this created relative shifts in funding away from the Northeast and Midwest to the population growth areas of the South and West. The effect of the CDBG formula was well understood at the time. Indeed, a shift in the geographic distribution of federal grant programs had been one of the motivations behind Nixon's New Federalism.[24] The original CDBG formula—based on population, poverty, and overcrowding—tracked that population shift. Poverty was not adjusted for the cost of living, so the poverty measure (as well as the overcrowding measure) favored the South, while the population measure favored growth areas in the West and South (Orlebeke and Weicher, 2014; Rich, 2014).

[22] Now called Leading Age.

[23] Now the National Council of State Housing Agencies.

[24] Rich (2014) makes this point in a related but slightly different way: that New Federalism was intended to benefit suburbs.

Less well known is that housing assistance began to move west and south as well with the implementation of the Housing and Community Development Act of 1974. In contrast to the programs of the 1960s and early 1970s, funds for the new housing assistance programs created by the 1974 Act were allocated by formula to HUD field offices and then subject to competition. The "fair share" allocation formula was dominated by its measures of population and housing cost, with other measures largely offsetting each other (Goodman, 1979). This enabled the creation of increasing units of subsidy (both project- and tenant-based) in population growth areas, particularly in urban California.

Funds to subsidize the operations of existing public-housing developments also started in 1975 to be allocated by formula, in order to reduce the workload involved in HUD staff review of budgets for operating costs submitted by PHAs. In this case, the formula reflected the budget-based cost levels previously negotiated between housing authorities and HUD.[25] The Performance Funding System for public housing operating costs locked in the relatively more favorable funding levels of PHAs in the Northeast and Midwest (HUD, 1982).

Fair Housing: Gautreaux Decision and the First National Study of Housing Discrimination

In 1976, the U.S. Supreme Court came to a decision in *Hills v. Gautreaux.* HUD was now a party to the case, as well as the Chicago Housing Authority. The Court found HUD guilty of failing to affirmatively further fair housing by permitting Chicago to build public housing in locations that exacerbated racial segregation and to operate them in a segregated manner. Following the decision, Secretary Hills agreed to provide resources to expand opportunities for low-income minorities throughout the Chicago region (Vernarelli, 1986). While she was Secretary, Hills also directed her staff to develop a regulation on the site and neighborhood standards for the new Section 8 programs, but the effort was not successful.

An important achievement of HUD in the area of fair housing while Carla Hills was Secretary was the start of the Housing Market Practices Study (HMPS), the first of several studies to estimate national levels of housing discrimination suffered by minorities. HMPS and the later studies used a rigorous methodology and demonstrated that high levels of discrimination persisted in sales and rental markets. The findings were used to support proposals for expanding federal authority to combat discrimination. Like the later studies, HMPS used paired testing, a technique that had already been used in fair housing litigation. Minorities and nonminorities, similar in all but race or ethnicity, posed as home-seekers and reported on their treatment by the real estate industry. Analysts then measured any differences in the treatment received. HMPS compared the treatment of whites and African-Americans in the sales and rental housing markets (Wienk et al., 1979; Massey and Denton, 1993; Yinger, 1999; National

[25] Operating cost levels were established by a regression that predicted the relationship between the characteristics of a PHA's public housing stock and historical funding levels. The tenant-paid rent was subtracted from the allowable level for operating costs to produce the operating subsidy paid by HUD.

Research Council 2008). The study originated in PD&R at the staff level during a time when the office had a substantial budget for evaluations. It was strongly supported by Ford Administration political appointees under Secretary Hills, despite its use of an innovative and perhaps controversial methodology.

5. Pulling Back From Deregulation and Producing Housing, 1977–1980

Elected in 1976, President Jimmy Carter appointed an African-American corporate lawyer, Patricia Roberts Harris, to be Secretary of HUD. Harris had earlier served as U.S. Ambassador to Luxembourg. This was still an era in which the appointment of an African-American to a federal Cabinet-level post was noteworthy, as was the appointment of a woman. Given HUD's creation in an era of civil unrest in African-American communities in the North and its special responsibilities for civil rights, an African-American appointee to HUD appeared appropriate.[26]

Harris was a strong leader, managing a subcabinet that included people with forceful personalities, reading the regulations herself, listening closely to the issues, and then announcing her decisions through memos to her senior staff. The hallmarks of her tenure at HUD were an attempt to use federal authority to shape the use of CDBG funds and an emphasis on a production-oriented approach to rental housing assistance. The Carter Administration also requested—and Congress enacted—a new categorical grant program for cities, Urban Development Action Grants (UDAG).

In late 1979, Patricia Harris became Secretary of Health and Human Services,[27] and Moon Landrieu became Secretary of HUD. Landrieu had recently completed two terms as the Mayor of New Orleans and was the first mayor to serve as HUD Secretary. The Carter Administration policies were largely in place when Landrieu arrived at HUD. Landrieu continued them, relying heavily on his subcabinet (Foote, 1995) and working on President Carter's unsuccessful campaign for reelection. Landrieu's style contrasted with Harris' in that he did everything face to face and nothing on paper.

Targeting CDBG and Adding an Economic Development Program

Harris arrived at HUD with two immediate legislative proposals, a second CDBG formula, and UDAG. These proposals had been developed during the transition between administrations, and she was able to take them to the White House early in 1977 and then gain enactment in October from a Congress controlled by Democrats and inclined to let the new President have his agenda.

[26] In her confirmation hearing, Harris was challenged by Senator William Proxmire on whether, as a corporate lawyer, she knew enough about poor people. Her response emphasized her race by pointing to the fact that her father was a Pullman car waiter.

[27] At around the same time, the Department of Education was created and HEW renamed HHS.

By 1976 it was clear that the CDBG formula tilted away from older, distressed cities. The Harris proposal was based on analyses of options that had already been conducted by HUD and the Brookings Institution. Under the new formula system, which continues in effect as of 2015, each jurisdiction received the higher of an allocation based on the original formula and an allocation based on a formula that also included older housing and the lag in population growth for the jurisdiction relative to the nation, both of which favor the Northeast and Midwest (Orlebeke and Weicher, 2014; Rich, 2014).

The impetus behind the UDAG program was that the CDBG program was proving to be very focused on residential neighborhoods rather than on downtowns. UDAG's creators wanted a program to address the continued declines in employment and population in many central cities by focusing on economic development projects. Secretary Harris proposed an approach that had been in planning mode at the U.S. Conference of Mayors for some time and then became the centerpiece of the Carter Administration's urban policy. UDAG was a return to a competitive grant rather than a formula grant approach to funding urban projects (Rich, 1992; Orlebeke and Weicher, 2014). The application required estimates of the number of jobs that would be created, favored projects that would achieve "scale," and also required a evidence that the project could not be implemented without the UDAG grant (the "but for" test).

The Carter Administration's intent was to focus UDAG on the most economically distressed cities through a list of cities eligible to apply. Narrow eligibility lists were difficult to sustain then, as they have been since. In 1979, Congress expanded the eligibility criteria to include "pockets of poverty" within healthier cities, and a later change—toward the end of the program's life—reduced the emphasis on distressed cities. The program ultimately provided $4.6 billion in funding to 3,000 projects in more than 1,200 cities before it was repealed in the HUD Reform Act of 1989 (Rich, 1992).

HUD was required by the Housing and Urban Development Act of 1970 (as amended in 1977) to produce a National Urban Policy Report. The most serious efforts were undertaken during the Carter Administration, with reports that included considerable detail on the state of urban America. For all the effort put into them, the reports had little effect on policy. Later administrations responded to the mandate with documents that consisted largely of recitations of current policies.

HUD set forth a National Urban Policy in 1978 that described the federal role in activist terms rather than as a distributor of funds: a "Federal Government…lead in setting urban policies and initiating legislative and administrative actions to help urban communities and their residents" and stated that "Federal resources must be better targeted on distressed communities and disadvantaged people" (HUD, 1980). Many large cities were continuing to lose population, some at high rates, and the remaining populations were disproportionately poor. Other cities were growing, particularly in the "Sun Belt" (Bradbury, Downs, and Small, 1982). As had been the case for Model Cities, a challenge for developing a national urban policy was that HUD had limited ability to compel the participation of other agencies.[28]

Another reaction to the early implementation of CDBG, reflected in Senate oversight hearings, was that funds were not sufficiently targeted to low-income people. The issue was hotly debated among HUD's assistant secretaries and other policy officials, some of whom did not want to weaken mayors' flexibility. Harris ultimately came down on the side of greater targeting and issued a directive to HUD field offices instructing them to conduct substantive reviews of applications for the program. The reviews were to assess whether the jurisdiction's use of funds was meeting statutory objectives. Harris told a congressional committee she considered serving low- and moderate-income people the paramount objective (Rich, 2014).

In addition to enacting the second CDBG formula, the 1977 Housing and Community Development Act gave HUD the authority to reject applications if the activities would not meet one of three statutory objectives. The 1977 Act also changed the "LMI" income targeting objective from "low *or* moderate income" to "low *and* moderate income" to ensure that a community could not meet the objective through activities focusing just on households with incomes between 50 and 80 percent of area median income (Orlebeke and Weicher, 2014). HUD then proposed regulations that would require 75 percent of funds to benefit principally LMI persons but backed away from a percentage test in the final rule. Congress reacted by passing legislation in 1978 that established the co-equality of the three statutory objectives, the other two being eliminating slums and blight and meeting urgent needs. A study by the Brookings Institution concluded that HUD's more aggressive use of authority to review applications had a modest effect on the content of communities' programs (Rich, 2014).

Another concern of the Carter Administration was that CDBG funds were being spread broadly within cities and, therefore, would not have a meaningful impact on any particular distressed residential neighborhood. The attempted solution was to require by regulation that communities designate Neighborhood Strategy Areas (NSAs) and to limit the use of CDBG funds for public services to those areas (Rich, 2014). NSAs also received special allocations of Section 8 Substantial Rehabilitation Funds (Orlebeke and Weicher, 2014).

Returning to a Production Strategy for Rental Housing

Secretary Harris enthusiastically supported a return to an approach to subsidizing rental housing based on production. The Nixon Moratorium that brought Sections 235 and 236 to a halt had been very controversial, giving Democrats something to shoot at. The head of the Carter Transition Team at HUD and the new Assistant Secretary for Housing/FHA Commissioner both came from the affordable housing industry.

[28] Harris' Assistant Secretary for Community Planning and Development later questioned whether a national urban policy was a good idea, given the weak urban constituency and the identification of cities with poor people and minorities. Robert Embry, Assistant Secretary for Community Planning and Development under Secretary Harris, as quoted in Foote (1995).

Each year HUD developed a budget estimate with separate amounts for the different types of Section 8, and the appropriations act then provided a single appropriation but with guidance in report language on the distribution among the different types of Section 8. Public housing development had a separate appropriation. HUD headquarters then allocated each type of housing assistance to the field offices based on the fair share formula. The share of new commitments of funds for the new Section 8 programs that were for production rather than existing housing rose from 39 percent in fiscal 1976 to 63 percent in fiscal 1980 (Levine, 1982).[29]

When a spike in interest rates in the late 1970s meant that the rents for planned Section 8 New Construction projects would not be sufficient to cover both operating and mortgage costs, HUD officials took steps to keep the production pipeline going. For projects contracted for directly by HUD, they approved rents as high as needed, without regard to whether they were above-market. HUD also obtained from Congress a Financing Adjustment Factor that permitted state housing finance agencies to approve higher rents for the projects they controlled.

Carter Administration officials considered that state housing finance agencies were critical to reaching Section 8 production goals. They assessed each of the high-capacity HFAs that by then existed in many states, and the amount of production they could handle. HUD headquarters officials then told field office directors what share of a state's allocation to turn over to the HFA. During the Carter Administration, the Office of Housing had a separate unit covering state agencies, and the Council of State Housing Agencies was encouraging additional states to create HFAs. HFAs processed almost a third of the Section 8 New Construction and Substantial Rehabilitation units started through 1981 (Schnare et al., 1982).[30]

Secretary Harris was skeptical about the quality of the housing Section 8 Existing Housing could provide. In addition, the Secretary of Health Education and Welfare's attempt to use the Section 8 Existing program as one of the sources of funding for a Carter welfare reform proposal convinced Harris that rent subsidies that looked a lot like income support were vulnerable politically (Khadduri, Lyall, and Struyk, 1978).

Meanwhile, the results from the Experimental Housing Allowance Program were coming in. They showed that a voucher approach—a tenant-based housing subsidy in which subsidized households rent in the private market—could be used successfully by poor people and minorities, that it did not inflate rents, and that it was not hard to administer (Kennedy, Kumar, and Weisbrod, 1977; Lowry, 1982; Hamilton, 1979; Zais, 1981). Despite the overall thrust of the Carter Administration to favor production, HUD's Office of Policy Development and Research, staffed heavily by economists and other social scientists, was friendly to the voucher

[29] These figures are somewhat misleading because of the use of Section 8 Existing under Secretary Hills to attach Section 8 Loan Management subsidies to housing projects developed under earlier programs.

[30] Carter officials at HUD were somewhat disappointed with the results of delegating so much control to state agencies. They criticized the HFAs for not producing more family (rather than elderly) housing and for not concentrating enough on rehabilitating central city housing (Jacobs et al., 1982).

approach. PD&R provided extensive technical and policy advice to the program office charged with implementing the Section 8 Existing Housing Program. The voucher program continued to grow, reaching about 700,000 units by fiscal year 1982 (Weicher, 2012; Schwartz, 2015).[31]

Fair Housing: Using Vouchers as a Tool and Maintaining Integrated Communities

Carter Administration officials also began to believe a tenant-based program could be used to affirmatively further fair housing. The idea of using a housing allowance-type program as a fair housing tool was not new. Robert Weaver had been interested in the concept of rent subsidies not tied to the production of housing units, and the earliest housing allowance demonstrations were championed by a deputy assistant secretary for FHEO in 1970 (von Hoffman, 2012). Furthermore, the demonstration that was part of the settlement of the 1976 Supreme Court decision on *Hills v. Gautreaux* was taking shape during the Harris years and was based on providing Section 8 Existing rent subsidies to be used by the Gautreaux plaintiff class to rent housing in Chicago suburbs (Vernarelli, 1986; Rosenbaum, 1995; Turner, 1998).

During the Harris era, HUD implemented a housing mobility program that provided grants to regional planning agencies to help increase the use of rental subsidies in suburban or "non-concentrated" city neighborhoods. Approaches could include referral of clients among PHAs, transfer of vouchers among PHAs, or pooling of vouchers for use throughout participating communities (Haberle, 2014). Some of the Section 8 funds that were not allocated to field offices but instead kept back as a "headquarters reserve" were used to support these Areawide Housing Opportunity Plans (Goodman, 1979).

Secretary Harris became deeply concerned about a fair housing case to which the United States was a party and that required striking a balance between the Fair Housing Act's prohibition against discrimination and measures that support racial integration by maintaining a neighborhood or housing development's racial balance. Such measures can be seen as carrying out the Fair Housing Act's requirement not just to avoid discriminating but also to take affirmative steps to further fair housing. The massive Starrett City development in New York City had an affirmative marketing plan that could be interpreted as discriminating against African-Americans in order prevent the project from "tipping." Harris sent General Counsel Jane McGrew to have a firsthand look at Starrett City. Harris then took the side of integration in discussions of the case within the Carter Administration.

The results of the study that began under Hills and used paired testing were reported in 1979 and showed extreme levels of discrimination against African-Americans in housing markets across the United States (National Research Council, 2008). At the request of Secretary Harris, Maryland Republican Senator Charles McCurdy ("Mac") Mathias introduced a bill to strengthen the law's enforcement mechanisms. Harris called the Fair Housing Act's requirement for a conciliation effort an "invitation to intransigence." Congress came very close

[31] The estimate includes a small number of units produced under the Section 8 Moderate Rehabilitation program, which was enacted in 1978 and administered by PHAs rather than through direct contracts between HUD and private owners.

to passing a bill during the "lame duck" session following Reagan's election in 1980, but was unable to end a filibuster (Mathias and Morris, 1999; Schwemm, 2010).

Rapid Growth of the Secondary Market for Single-Family Finance

By the end of the Carter Administration, the era in which the housing finance system was built on a "special circuit"—savings and loans protected by deposit insurance and regulation, supplemented by federal mortgage insurance—was coming to an end. A competing "circuit" was emerging, in which mortgage investments were integrated into broader financial markets, and the secondary market for mortgages was growing rapidly (Struyk et al., 1983; Lea, 1996; Immergluck, 2009). Regulation Q, which had imposed ceilings on interest paid by thrifts to depositors, ensuring that the cost of their funds was lower than their earnings from mortgage interest payments, was being phased out in the late 1970s. Households were finding other ways to invest relatively small amounts of savings—for example, in money market funds. However, the thrift industry still had the advantage of federal deposit insurance and remained an important source of funds for housing finance throughout the next 2 decades (Van Order, 2000).

Thus began a long-term shift away from portfolio lending, in which lenders retained all functions of the home lending process, to sales of loans into pools of mortgage-backed securities (MBS), with a division of labor between originating institutions and other participants in the home lending industry. MBS provided a means to separate the various risks inherent in mortgage lending and transfer them to entities better able to manage and bear the risks. New technology permitted better assessment of credit risk, and the pooling of mortgages permitted matching the durations of assets and liabilities. MBS trading in national (and international) capital markets made credit accessible on similar terms across the United States, ending earlier regional variations. Overall, the merger of mortgage finance into the broader capital market resulted in lower interest rates for borrowers and more accessible mortgage credit (Lea, 1996).

FHA was not left out of the new approach to housing finance. It was Ginnie Mae that pioneered the concept of selling securities based on pools of mortgages (HUD, 1987; Carliner, 1998; Immergluck, 2009). FHA continued to compete with private mortgage insurers to some extent. However, FHA largely complemented the PMI market by serving mainly first-time homebuyers with modest incomes. By this time, a substantial portion of borrowers using FHA were African-American (Bunce et al., 1995).

During the 1970s, Congress gave FHA some new authorities intended to help FHA stay competitive and also to reduce risk to the FHA insurance funds. For example, in 1974 FHA was authorized to use a "coinsurance" approach under which financial institutions would share the risk of mortgage default and in turn would be given the authority for underwriting the loans (Weicher, 1980). In 1977, Congress gave FHA new authority that HUD had not requested to insure Graduated Payment Mortgages (Weicher, 1980; Milgram, 1993). However, these efforts did not return FHA to its historic role as innovator of mortgage products, and the use of coinsurance for multifamily housing was badly implemented and resulted in losses to FHA (National Research Council, 2008).

When Fannie Mae was spun off from FHA by the Housing and Community Development Act of 1968, HUD retained regulatory authority over Fannie Mae's mission (Coan, 1969; HUD, 1987; DiVenti 2009). Secretary Harris attempted to use that authority to create stronger goals for Fannie Mae purchases of mortgages for low- and moderate-income homebuyers and for housing in central cities of metropolitan areas. Faced with strong opposition from an increasingly powerful Fannie Mae, Harris did not issue the regulation (HUD, 1987; Weicher, 2000).

6. Attempting to Scale Back and Simplify the Agency's Mission: 1981–1988

With the election of President Ronald Reagan, HUD was once again swept into the agenda of a political administration that went beyond HUD programs. This time the agenda was to reduce the size and scope of the domestic part of the federal government. The Republican electoral base had continued to shift geographically and to become more conservative, leading to Reagan's nomination. Dissatisfaction with high unemployment and inflation led to Reagan's election and to Republican control of the U.S. Senate. Like the Nixon Administration, the Reagan White House believed in relying on the private market and devolving responsibility to state and local elected officials. What was new was a determination to cut taxes and spend less on domestic programs as well as a stronger-than-usual role for the Office of Management and Budget (OMB) in making domestic policy decisions, with David Stockman leading the office from 1981 through 1985.

Reagan appointed Samuel Pierce to be Secretary of HUD. An African-American, Pierce was a member of a New York law firm and had prior federal experience in a legal role.[32] He was Secretary of HUD for the entire 8 years of the Reagan Administration. Most of HUD's subcabinet and other political appointees were chosen by the White House because they were "movement" conservatives or people owed favors from Reagan's election campaigns. That was not true of Pierce himself.

Pierce was convinced housing vouchers were a good approach for helping poor renters, and each year he would try—and often succeed—in having the President's budget request an additional 100,000 units of tenant-based assistance. Pierce also was committed to civil rights, and he considered passage of the Fair Housing Amendments of 1988 the most important achievement of his tenure as Secretary. Regrettably, that legacy was overshadowed by a scandal involving the Section 8 Moderate Rehabilitation program that shook HUD during the final years Pierce served as Secretary.

[32] Pierce was General Counsel at the U.S. Treasury from 1970 to 1973.

Housing Assistance Continues to Grow

Shortly after his election, Ronald Reagan appointed a President's Commission on Housing to establish the rationale for HUD's programs. Reporting in 1981 and again in 1982, the commission endorsed the voucher approach, using evidence from a study that compared the costs and benefits of Section 8 New Construction and Section 8 Existing Housing (Wallace et al., 1981; President's Commission on Housing, 1982; Levine, 1982). The commission's report also pointed to the large future budget obligations created by the production programs (President's Commission on Housing, 1982).

The Housing Urban and Rural Recovery Act of 1983 repealed the Section 8 New Construction and Substantial Rehabilitation programs, and those programs ceased to be a source of new appropriations for assisted housing. Nonetheless, during the Reagan Administration, the number of households receiving housing assistance rose from under 3 million in fiscal 1981 to more than 4 million in fiscal 1988 (Pedone, 1988; Weicher, 2012).

At that time, Congress would appropriate budget authority for future as well as current years, and terms of budget authority for the production programs typically were 30 years. This has led to confusion over whether the Reagan Administration actually reduced funding for housing assistance: the answer is yes in terms of multiyear budget authority, and yes by comparison with appropriations for additional units of assistance in prior years, but no in terms of single-year expenditures of funds (in budget terminology, "outlays") (Pedone, 1988). One source of growth in the number of assisted households during those years was the completion of projects funded in earlier years. Under Pierce, HUD took no steps to halt the pipeline of Section 8 projects, even those at a very early stage of the development process. Section 8 funds were reallocated from some stalled projects to other proposed projects. Another reason the number of assisted households grew was the additional vouchers for which funds were appropriated, which came to be known as "incremental" vouchers.

At the same time the Reagan Administration repealed the Section 8 production programs, the Economic Recovery Tax Act of 1981 (ERTA), a hallmark of Reagan policies, changed the tax treatment of low-income rental housing in a way that encouraged production of multifamily rental housing. Under the existing tax code, investors in multifamily construction could deduct income tax based on an "accelerated depreciation" of the asset. ERTA increased the rate at which the capital costs of buildings occupied by low-income renters could be written off and also phased out the recapture provisions for "excess depreciation." This was part of a package of "supply side" tax provisions favoring investment in various sectors.

The ERTA provisions worked to the advantage of the Section 8 New Construction projects that were in the pipeline or had already been produced as of the repeal of that program in 1983. According to Charles Edson, a close observer of the affordable housing industry, "projects from equity syndication [of tax shelters] were the engine that made Section 236 and

Section 8 successful. Housing programs and the Internal Revenue Code were as intertwined as bagels and lox" (Edson, 2011).[33] The ERTA provisions also led to constructing a fair amount of tax-subsidized new housing with nominal affordability restrictions and rents essentially no different from unrestricted market rents.

In addition to the repeal of the Section 8 New Construction and Substantial Rehabilitation programs that eventually stopped production of housing under those programs, OMB proposed, and Congress enacted, measures to reduce the costs of the ongoing subsidies paid by the federal government for the Section 8 programs and public housing.[34] Legislation passed in 1981 increased the household's share of the rent from 25 to 30 percent of income and completed the standardization of income definitions across the housing assistance programs (Levine, 1982; Struyk et al., 1983). During the Reagan Administration, HUD also reduced the Fair Market Rents on which voucher (Section 8 Existing) subsidies were based, changing the subsidy standard from the 50th to the 45th percentile of the rents of units that were of standard quality and had recently changed tenants.[35] Because rents of long-term tenants and substandard units were excluded from the calculation, FMRs remained around the middle of the housing market. Reducing the subsidy standard did not prevent vouchers from being used on a widespread geographic basis or fully used by the PHAs to which they were allocated (Devine et al., 2002; Weicher, 2012; Schwartz, 2015).

The increase of tenant rent payments to 30 percent of income and the drop in FMRs were intended as cost-saving measures. However, their primary effect was to ensure that public housing, Section 8 projects, and vouchers all were even more "self-targeting" to the neediest households (Nelson and Khadduri, 1992). Under the new parameters for the "rent-minus-income" subsidy formula, only the poorest households would receive a large enough subsidy (or pay a rent lower enough than the value of the housing) to want to use the Section 8 and public housing programs.[36] Meanwhile, Congress enacted, at the request of advocates for low-income people, provisions that required PHAs and private owners of assisted housing to place some households above others on waiting lists. The federal preferences explicitly were intended to accentuate the focus of assisted housing on poor households. Admission priority was given to households who had severe rent burdens (most likely among households with very little income) or were living in substandard housing. The federal preferences were enacted in 1979 and 1983 and were not completely implemented until 1988. However, the

[33] Jacobs et al. (1982) has a good explanation of how tax shelters for multifamily housing worked at that time, and Schwartz (2015) has a good basic explanation of how accelerated depreciation works.

[34] A useful distinction that came to be made during the 1980s was between "assisted" housing, in which tenants pay a percentage of their actual income for rent, and "affordable" housing, which has rent ceilings but no direct rent subsidy linked to the tenant.

[35] FMRs were later reduced during the Clinton Administration to the 40th percentile, with exceptions for certain metropolitan areas, where FMRs were raised to the 50th percentile.

[36] The rent-minus-income formula used in HUD's housing assistance programs often is called "Brooke rents," although technically the provisions sponsored by Senator Brooke in the early 1970s applied only to public housing. Another term for the form of the subsidy, used in the Housing Allowance Experiments, was "housing gap."

subsidy formula for housing vouchers and the locations of Section 8 and public housing developments have had a greater effect on income targeting than the federal preferences.[37]

Defining a Goal: Worst Case Housing Needs

In the early 1980s, HUD implemented a new approach to defining the need for assisted housing and implicitly a goal: meeting "worst case needs." The impetus for HUD's ongoing series of worst case needs reports came from an odd direction: Dr. Wallace Berger, the staff director for the Senate Appropriations Committee's Subcommittee on HUD and Independent Agencies, at that time chaired by Republican Jake Garn (Khadduri and Nelson, 1992). Each year Congress grouped HUD and the National Aeronautics and Space Administration (NASA) in the same appropriations bill (called the HUD-Independent Agencies Appropriation Act). This was a holdover from when HHFA had been an "agency," not a Cabinet-level department. The worst case needs reports originated as an attempt by Berger, an expert on NASA programs, to apply the systems engineering logic of the space program to housing policy by using data to define a goal and chart a path towards achieving it.

The data were available. The Annual Housing Survey (AHS) had been renamed the American Housing Survey early in the Reagan Administration, when it changed from an annual to a biennial data collection to cut costs. But the AHS kept its acronym and still provided a rich source of information on housing needs. HUD staff used the AHS to track the population Congress had identified as having priority for housing assistance in 1979 and 1983 when it enacted federal preferences for assisted housing: households paying more than half their income for rent or living in substandard housing. Estimates were provided to the Senate starting in 1985. The first formal report, published in 1991, estimated that 5.1 million renter households with very low incomes fell into those categories and had no housing assistance. Consistent with the Reagan Administration's emphasis on vouchers, the analysis showed that most only had rent burdens, not inadequate housing conditions (HUD, 1991).

Rental Housing Policy Becomes More Complex

The Reagan Administration's overall approach to HUD was to try to simplify the agency's portfolio of programs: vouchers on the housing assistance side and a block grant on the urban development side. However, the 1983 act that repealed Section 8 New Construction and Substantial Rehabilitation authorized two new housing production programs, Rental Rehabilitation and Housing Development Action Grants (HoDAG) and split tenant-based housing assistance into two programs. A newly authorized, tenant-based program was formally called "housing vouchers," while the ongoing Section 8 Existing Housing program took on the name "certificates." The main difference between the two programs was that a household with a voucher could rent above the payment standard that controlled the maximum subsidy.

[37] The Housing and Community Development Act of 1974 reauthorized operating subsidies for public housing and also required PHAs to seek to serve households with a "broad range of incomes" in order to reduce the need for operating subsidies. The "broad range of incomes" requirement had little effect, as relatively higher-income households did not get on waiting lists or accept offers of units in public housing developments (GAO, 1979).

Voucher households were also given a larger "shopping incentive"—the ability to keep savings from renting below the payment standard. Pierce's legislative program proposed changing to the voucher design in order to permit households, if they desired, to pay more rent for better housing. Also, in the view of economists, vouchers would be less likely to drive rents up because of the shopping incentive (Levine, 1982; National Research Council, 2008).[38] Congress responded by making the housing voucher program a demonstration. A study that randomly assigned households to get a "certificate" or a "voucher" concluded that the way households used the two program variants was essentially the same (Leger and Kennedy, 1990). By the end of the Reagan Administration in 1988, the two tenant-based programs were assisting well over a million households (Pedone, 1988; Weicher, 2012; Schwartz, 2015).[39]

The Rental Rehabilitation program was designed to complement the voucher program's reliance on the existing stock of rental housing by improving the physical condition of small-scale rental properties. The concept started in 1980 as a demonstration to encourage communities to use CDBG funds to rehabilitate such properties rather than just units occupied by homeowners (Levine, 1982). Requested by the Reagan Administration and enacted in 1983, the Rental Rehabilitation program used a "split subsidy" approach in which the capital subsidy used to renovate the housing was not combined with a rent subsidy (Heintz et al., 1987). However, the HUD office that ran the program wanted the first occupants of rehabilitated units to be entitled to a voucher to protect them against post-rehabilitation rent increases. A policy struggle ensued within HUD between the Office of Community Planning and Development (CPD), which ran the Rental Rehabilitation program, and the Office of Housing, which ran the voucher program. CPD won, and one result was the allocation of small numbers of vouchers to all communities that had rehabilitation grants. This expanded the number of separate public housing agencies administering the voucher program to the approximately 2,300 that still are doing so as of 2015.

According to its congressional sponsors, the concept behind HoDAG was that vouchers needed to be supplemented by a program that expanded the stock of rental housing by building new housing developments so there would be more rental units available to households trying to use vouchers. [40] The President's Commission on Housing had stated that the voucher approach "may not be sufficient in places where there is a serious shortage of rental units" and recommended that housing production be added to eligible uses of CDBG (President's Commission on Housing, 1982). Congress instead authorized and funded a separate discretionary grant program with a name that echoed UDAG. From New York City, with its highly administered housing market, Secretary Pierce believed in the "spot shortage" concept behind HoDAG. However, OMB was hostile, and HoDAG never received large appropriations. The funding had been phased out altogether before the program was folded into the HOME block grant program in 1990 (Pedone, 1988).

[38] The Housing Allowance Supply Experiment that had demonstrated a voucher was not inflationary had been based on the "voucher" formula, not the formula enacted by Congress in 1974 for the Section 8 Existing Housing program.

[39] The programs ultimately were combined as the Housing Choice Voucher program in the late 1990s (Orlebeke, 2000).

[40] Christopher Dodd and Charles J. Schumer, letter to *The New York Times,* June 22, 1985.

HoDAG was a discretionary grant program based on a list of eligible jurisdictions thought to need the program. As was the case for UDAG, it was difficult to keep the HoDAG list narrow and focused. With overcrowded housing used as one of the measures to create the list, the list was not widespread regionally, but instead favored parts of the country with large Hispanic/Latino populations such as California and New Jersey. Like Rental Rehabilitation, HoDAG did not provide a subsidy large enough to make the units affordable to poor households unless they also used vouchers (Khadduri and Nelson, 1992).

Two legacy programs from the Carter era—UDAG[41] and the Section 8 Moderate Rehabilitation program (which had been added to the family of Section 8 programs in 1979)—continued to receive modest appropriations and to fund a small number of new economic development and housing production projects (Orlebeke and Weicher, 2014; Levine, 1982).

Managing the Portfolio of Assisted Housing

The Reagan Administration inherited responsibility for the large stock of project-based subsidized rental housing that had already been built as of 1980—almost 1.2 million public housing units and more than a million units with project-based contracts between HUD and private owners under the Section 8 and earlier production programs. This portfolio did not go away just because the Reagan Administration favored new approaches. Indeed, it grew with the completion of the Section 8 and public housing pipelines.[42] Regardless whether the federal government had long-term contractual commitments to subsidize the units, properties had residents and public or private owners who could appeal to Congress to protect their interests.

The Reagan years saw a stalemate on what to do about public housing—in particular, how to respond to the obvious distress of a portion of the public housing stock that was uninhabitable or was partially vacant. Despite rent at 30 percent of actual income, however low, some public housing was too modest in design, had deteriorated over time, or the neighborhood was too dangerous for people to want to live there. The Reagan Administration favored radical change, using a market test to establish the maximum amount that the federal government should pay for public housing. The HUD proposal would have capped the subsidy paid for public housing at the same amount as the Fair Market Rents that controlled subsidies for tenant-based assistance (Struyk, 1983b). Congress ignored the proposal, continuing appropriations for operating subsidies under the Performance Funding System formula established in 1975. OMB tried to hold down inflation adjustments to operating subsidies and was loath to ask for funds for the capital needs of public housing. OMB's view was that, without strong incentives to use the money wisely, it would be wasted.

[41] HUD subcabinet officials were friendly to UDAG; OMB was hostile (Rich, 1992).

[42] These units are difficult to count—especially because the addition of rental assistance contracts overlaps with units created under programs that originally only had interest subsidies. Schwartz (2015) shows a total of just over a million privately owned assisted units existed as of a much later date, 2012. By that time, some of the project-based developments and units had left the assisted housing stock. Weicher (2012) shows 2.3 million "new construction" units as of 1980, including both public housing and privately owned units, and just over 3 million units as of 1988. Subtracting 1.2 million public housing units in 1980 and 1.5 million in 1988 (Schwartz, 2015) yields 1.1 privately owned units in 1980 and 1.5 million in 1988.

Early in the Reagan Administration, NAHRO was joined in 1981 by a new public interest group representing housing authorities, the Council of Large Public Housing Authorities (CLPHA). CLPHA pursued an aggressive legislative agenda focused on supporting funding levels for the public housing program. HUD did not have a multiyear contractual obligation to fund public housing operating subsidies or "modernization" (capital needs) at predetermined levels or even at all. Instead, the federal government's obligation to public housing was political.

As its name implies, CLPHA's members were mainly big-city housing authorities, while NAHRO continued to try to represent the entire industry. A third organization, the Public Housing Authority Directors Association, was formed in 1979 and focused particularly on the small and often rural agencies—which do not manage a large fraction of either the public housing stock or the housing voucher program, but are dispersed across the country and often have a sympathetic member of Congress. During the 1980s, all three organizations paid more attention to the public housing program than to the voucher program.

During the 1980s, congressional action made it difficult to do anything about the worst public housing projects, limiting the conditions for "demolition or disposition," even of buildings that were largely vacant (Kinnaird, 1994; Popkin et al., 2004; Solomon, 2005; Katz, 2009). The chair of the House of Representatives authorizing subcommittee for housing, Henry Gonzalez, was determined to protect public housing as a legacy of the New Deal, and some members of Congress were concerned about maintaining their electoral base in African-American neighborhoods.

The Reagan Administration had largely shut down the research program at HUD, funding very little other than the AHS. However, the public housing industry groups persuaded Congress to charge HUD with funding an independent study of the capital needs of the public housing stock. The study was completed in the late 1980s and found that the cost of modernizing public housing ranged between $14.5 and $25.2 billion, depending on whether the systems were repaired or replaced to achieve standard quality housing, or upgraded and redesigned to make the housing attractive to a broader range of tenants (National Commission on Severely Distressed Public Housing, 1992).

The situation was different for privately owned Section 8 projects. Here HUD had a contractual obligation to make housing assistance payments (HAP) at levels that were essentially determined by the rent levels agreed to before the project was built, although there was room for variation on how those rent levels would be adjusted to track cost inflation (Smith, 1999). Projects produced by the earlier 221(d)(3) BMIR and Section 236 programs maintained the original agreed-upon, below-market mortgages. However, increases in rental income were not guaranteed, and income was often insufficient to keep up with capital needs (National Low Income Housing Preservation Commission, 1988). Developments built under those earlier programs, which came to be known as "older assisted properties, "usually had FHA insurance. That put HUD policymakers in a bind: either add rent subsidies or let projects that got into financial trouble default on their mortgages. During the Reagan Administration, HUD by and large took the former course, over time adding Section 8 Loan Management rent subsidies to most subsidized developments and to some financially troubled developments that had FHA insurance but no prior subsidies (Smith, 1999; Weicher, 2012; Schwartz, 2015). Reagan officials might have preferred a "let them fail" approach. However, in 1980 Congress had required Section 8 subsidies be added when the property was sold out of the HUD-owned inventory (Milgram, 1993), and Congress continued to appropriate funds for that purpose.[43]

Private owners of some older assisted properties had another advantage: if a project could charge more rent as market-rate housing than as assisted housing, the owner could pre-pay the FHA-insured mortgage. Under the Section 221(d)(3) BMIR and Section 236 programs, rent and income restrictions were attached to the mortgage, and prepaying the mortgage eliminated them. In part because of the success of the project selection criteria during the Romney Administration, many of the older assisted properties were located in areas with relatively high market rents. By the late 1980s, advocates for low-income housing became convinced that a "prepayment" crisis was looming, particularly in high-cost housing markets. In response, Congress passed the Emergency Low-Income Housing Preservation Act of 1987, which added a new, complicated process before owners could prepay and led to litigation over whether the owners' rights had been abrogated (National Low Income Housing Preservation Commission, 1988; Khadduri and Wilkins, 2008; Edson, 2011; Weicher, 2012).

A further reorganization of HUD that took place during the Reagan Administration took the development and management of public housing out of the Office of Housing and created a new assistant secretary for Public and Indian Housing[44] who had subcabinet rank and reported directly to the secretary. The other PHA-run programs, the voucher programs and Section 8 Moderate Rehabilitation, remained in the Office of Housing.[45]

Deregulating CDBG

The Reagan Administration at HUD moved immediately to undo the Carter Administration changes to CDBG. Upon taking office, Secretary Pierce issued a directive to HUD field staff to stop substantive review of program benefits and rescinded the Neighborhood Strategy Area requirements. This was followed by legislation later in 1981 that eliminated the requirement for a formal application. Authority for reducing or conditioning CDBG grants on the basis of program performance was pulled back from HUD's field offices to HUD's central office. Congress responded with statutorily prescribed tests for the percentage of CDBG funds that must benefit low- and moderate-income persons, setting the minimum amount at 51 percent of funds in 1983 and increasing it to 60 percent in 1987 (Rich, 2014).

[43] A set-aside of Section 8 funds for property disposition had already been created during the Carter Administration.

[44] The new office also managed HUD's small programs that produced housing on tribal lands.

[45] The reason for this reorganization is obscure. It appears not to have been requested by the public housing industry groups but instead to have been related to job titles and stature among the Reagan appointees at HUD.

Without review of applications, HUD officials claimed federal monitoring of the CDBG program would be at the back end, through review of program performance (Rich, 2014). However, Reagan Administration officials at OMB, considered CDBG to be revenue sharing, pure and simple, and blocked HUD proposals for collecting performance data.

Strengthening the Fair Housing Act and Funding Private Fair Housing Organizations

In retrospect, and reportedly during his tenure as Secretary as well, Samuel Pierce believed that his legacy as Secretary of HUD was to strengthen the Department's role in promoting fair housing (Foote, 1995). While already committed to that agenda, he was further motivated by a series of articles that appeared in *The Dallas Morning News* about the persistence of segregation in the public housing program (Flournoy and Rodrigue, 1985). While Pierce was Secretary, amendments to the Fair Housing Act (the "1988 Amendments") strengthened HUD's enforcement authority in cases involving complaints of racial discrimination and added to the original act provisions that protected families with children and people with disabilities.

Congressional supporters of fair housing introduced a bill each year during the early 1980s, with Senator Edward Kennedy taking the lead after Senator Mac Mathias retired in 1986. Pierce persuaded the Reagan Administration to make its own legislative proposal each year rather than simply opposing or ignoring the congressional version. He testified before Congress on the weakness of the conciliation approach (HUD, 1988). Under the bill supported by fair housing advocates, complaints would be referred to administrative law judges at HUD; under the Administration bill, they would be referred to federal courts. Then in 1987 the Leadership Conference on Civil Rights and the National Association of Realtors reached a compromise that proposed to give parties to a complaint an "election"—a choice between having the case tried in Federal District Court or heard by an administrative law judge (Schill and Friedman, 1999; Schwemm, 2010). By that time the leaders of NAR wanted amendments to Title VIII. They thought their members were losing business as a result of a provision that exempted sales by owners without the use of an agent.

The compromise was enacted into law, but not before additional negotiations in which Pierce played a key role, hosting a series of after-hours meetings of stakeholders in his conference room during the summer of 1988. Pierce kept the meetings secret from the Justice Department, which was taking the view that fair housing cases require a jury trial. The negotiations led to a Senate substitute to the bill that had passed the House of Representatives.[46] In August Secretary Pierce sent a letter to Senator Kennedy announcing the Reagan Administration's "full support" for the bill (Schwemm, 2010). Reportedly, Vice President George H. W. Bush supported the provisions of the bill that created protections for

[46] One reason Pierce's role was needed was that the bill that had passed the House included a "poison pill" inserted during floor action, a provision on an entirely different matter that would have been so distasteful to supporters of the bill that many would have refused to vote for it. The solution was a substitute a Senate bill with "technical amendments" agreed to by the Reagan Administration that removed the poison pill and included the compromise brokered by Pierce.

people with disabilities. The impending presidential election (Bush v. Dukakis) may also have played a role in the Administration's decision to support the bill.

After the Fair Housing Amendments were passed on September 12, 1988, Pierce ordered his staff to meet the statute's deadline for final implementing regulations 180 days after enactment. Such deadlines almost always were missed, but not in this case. Pierce stayed on at HUD for a few weeks after Bush's inauguration so that he could be the HUD Secretary to sign the regulation.

Pierce's role in the creation of a Fair Housing Initiatives Program (FHIP) was more public. He was impressed by the results of a Housing Enforcement Demonstration that had used testing by private fair housing groups to support discrimination complaints. HUD's General Counsel, John Knapp, testified to the importance of private complaints in the absence of stronger HUD enforcement powers (HUD, 1983; HUD, 1988). Pierce directed his staff to develop ideas for legislation that would fund private fair housing groups on an ongoing basis. After negotiations with NAR, a compromise enacted in 1987 resulted in a 2-year demonstration program that ultimately was turned into a permanent program (Temkin, McCracken, and Liban, 2011). Planning also began during the Pierce era for a second housing discrimination study, for which data started to be collected in 1989. This study included pairs of Hispanic testers as well as African-Americans (HUD, 1988; Yinger, 1999; National Research Council, 2008).

Given that HUD no longer conducted substantive reviews of the local CDBG programs, HUD under Pierce made no attempt to use that program to affirmatively further fair housing (Pearl, 2014). However, an often-overlooked Pierce achievement that has implications for fair housing is the "portability" feature of the housing voucher program. Under "portability," voucher holders have a right to use the assistance outside the area in which the public housing agency that issues the voucher has authority to operate. The policy was vigorously opposed by both the public housing industry and HUD staff responsible for managing the voucher program. Interpreting this as a fair housing issue, Pierce said, "It will happen"—and it did.

The GSEs Dominate Housing Finance

In the 1980s, a continued environment of relatively high interest rates encouraged portfolio lenders to use of adjustable interest-rate mortgages (ARMs) in an attempt to insulate their portfolios from interest-rate risk. Investors in mortgage-backed securities (MBS) were better able to diversify interest-rate risk, and this led to a further shift away from portfolio lending to a secondary market based on MBS. A series of laws deregulated the financial industry, some based on recommendations of the President's Commission on Housing. This helped link mortgage lending more tightly to capital markets (Immergluck, 2009). The introduction of collateralized mortgage obligations (CMOs) in 1984 made securities backed by mortgages more attractive by breaking pools of mortgages into tranches that appealed to different types of purchasers. "The expansion of the secondary market allowed thinly capitalized mortgage originators access to funds at uniform, nationally determined rates" (Lea, 1996). The value of mortgage backed securities issued by the two GSEs, Fannie Mae and Freddie Mac, increased from $14 billion in 1982 to $160 billion in 1986 (Lea, 1996; Immergluck, 2009).

This was the heyday of the GSEs, despite some skepticism within the Reagan Administration about agencies with an implicit federal guarantee serving a function that, in the view of many Reagan officials, could have been entirely private (HUD, 1987). Fannie Mae took the lead in negotiations with HUD, which had authority dating from Fannie Mae's privatization in 1968 to issue regulations on the agency's mission and its financial soundness. Secretary Pierce was annoyed by the limited influence HUD had over Fannie Mae despite his nominal regulatory authority. He was reluctant to give Fannie Mae the authority to issue a new type of instrument through Real Estate Mortgage Investment Conduits (REMICS),[47] but he did so in 1987 (HUD, 1987; Weicher, 2000).

FHA continued to have a modest share of the single-family mortgage market during the Reagan years. Given its philosophy favoring private enterprise, the Reagan Administration was wary of FHA's potential for competition with private mortgage insurers and responded by keeping FHA loan limits low (Struyk et al., 1983). If anything, the policy impetus during that period was to curtail FHA's role even further on the basis that FHA was serving a function private industry could take over (Szymanoski et al., 2012). The private mortgage insurance industry actively lobbied Congress and the Administration to this end, even though the PMI overlap with FHA's lower wealth, first-time buyer market was modest.[48]

In 1983 HUD received authority to extend co-insurance to loans made for multifamily housing. The program was poorly designed. Co-insurers did not bear a large enough share of the risk, and some lenders made fraudulent statements about the quality of loans in order to collect substantial up-front fees. HUD was left with large insurance claims and a scandal that revealed the Department's vulnerability to fraud, waste, and abuse (National Research Council, 2008).

Rental Production Goes to the States

In 1986 a momentous event in the history of rental housing policy occurred —probably as important as the Housing and Community Development Act of 1974. With the enactment of the Low-Income Housing Tax Credit as part of the 1986 tax reform, HUD lost primary responsibility for the production of housing affordable to low-income renters. As a provision of the tax code, LIHTC is administered by the U.S. Department of the Treasury. LIHTC also was a major devolution of federal resources (tax expenditures) to the states, this time leaving out the cities.[49]

[47] The REMIC legislation changed tax rules to permit issuers of MBS to manage repayments actively to create fast-pay, short-term tranches and slower pay, long-term tranches without incurring a tax liability at the corporate level.

[48] As Bunce et al. (1995) point out, FHA largely complemented the PMI market rather than competing with it, even for loans within the FHA limits. FHA premiums were higher than PMI for most loans. The exception was loans at the margin—that is, loans to first-time, low-wealth, minority homebuyers.

[49] Not completely: New York City and Chicago, Illinois, have separate allocations within their states' overall allocations, and the District of Columbia also has an allocation.

The HFAs had produced a significant amount of housing through bond financing for developments that took advantage of ERTA's favorable tax treatment of rental housing, with an affordability defined such that (1) only 20 percent of the units in a development had to be affordable and (2) incomes had to be below 80 percent of area median, which would include most renters. The comprehensive tax reform under development in the mid-1980s seemed likely to repeal the favorable tax treatment of affordable rental housing. Advocates for low-income housing sought a replacement that would have superior affordability provisions, and HFAs sought to maintain their role in financing rental housing.

During the negotiations that led to the Tax Reform Act of 1986, advocates proposed substituting a tax credit for the ERTA provisions on rental housing. The Joint Tax Committee concluded that a version of the tax credit under consideration during the legislative process would have resulted in very large tax losses. So a tax credit was made more acceptable by capping it, giving each state a formula-based amount of tax credits to allocate. A precedent existed, as states already administered a ceiling for the use of tax-exempt bonds for "private activities." Tax credit authority was allocated to the states through a formula based only on the state's population, not on a measure of relative housing need or of market characteristics that indicate a need that cannot be met through housing vouchers. However, this had the advantage of broadening political support among members of Congress.

The National Low Income Housing Coalition, an advocacy organization created during the 1970s, worked hard to persuade Congress to target the tax credit to a lower-income group of renters than ERTA. The basic income limit for LIHTC was set at 60 percent of area median income, and developments that combined affordable and market-rate units could only use the tax credit for the units with restricted rents. By that time, the industry of affordable housing developers included a growing number of nonprofit organizations, and they succeeded in getting a set-aside for nonprofits within each state's allocation.

HUD played almost no role in the policy discussions that led to the creation of LIHTC. HUD's main reaction to the new program was to try to figure out how to use it as a tool for recapitalizing the part of FHA-insured multifamily housing inventory that was running into financial difficulties. HUD did not move aggressively to try to influence the rules under which state housing finance agencies made use of the new program or the monitoring of LIHTC that the Internal Revenue Service would require. HUD has some technical responsibilities in regard to LIHTC: using census and other data to create lists of Qualified Census Tracts and Difficult Development Areas in which states may provide tax credits for a higher percentage of a development's eligible basis. It was not until the Clinton Administration that HUD began collecting even limited data on LIHTC developments in order to describe basic housing features, such as the location of tax credit units and their numbers of bedrooms. A continuing pattern has been for HUD to try to capture tax credit resources on behalf of its initiatives, but not influence state housing finance agencies' or the Department of the Treasury's broader policies for the LIHTC program. However, HUD has a potentially important role in ensuring compliance of the program with the Fair Housing Act, perhaps made more salient by the June 2015 Supreme Court decision in *Texas Department of Housing and Community Affairs v. The Inclusive Communities Project.*[50]

Homelessness Comes to HUD

Another major piece of legislation enacted at the end of the Reagan years at HUD went in the opposite direction, representing a gain in HUD's responsibilities: the passage of the Stewart B. McKinney Homeless Assistance Act that, for the first time, created a large federal role in solving the problem of homelessness. By the early 1980s, requests to city departments for emergency assistance with food and shelter had begun to rise, advocates and community organizations drew increased media attention to the issue, and modern "homelessness" became a national topic (Hopper, 1991; Burt et al., 2002; Burt, forthcoming). Missions and soup kitchens in the "skid row" areas of cities provided most of the assistance. The U.S. Conference of Mayors started conducting surveys of homelessness in large cities since the early 1980s (U.S. Conference of Mayors, 1998). Congress authorized an Emergency Food and Shelter program at the Federal Emergency Management Agency (FEMA) in 1983. The number of beds in homeless shelters grew from 100,000 in 1984 to 275,000 in 1988 (Burt et al., 2002).

The causes of the upsurge in homelessness have been debated and researched, without definitive answers. Martha Burt attributes the growth of homelessness during the 1980s to a very broad range of contemporary societal trends: dwindling supplies of housing affordable to poor people, less adequate supports for people with mental illness, an overall decline in the adequacy of the social safety net, and changing labor markets for people with less than a high school education (Burt, 2003; Burt, forthcoming). Other analysts have concluded that homelessness results from a combination of extreme poverty and random events—bad luck that happens to a small percentage of poor people (O'Flaherty, 2010). Poor people may have risk factors such as behavioral health challenges and long-term unemployment, but even among those at apparent high risk, most never have an episode of homelessness.

The first HUD response to growing public attention to the issue of homelessness was a 1983 attempt to document the extent of the problem. The study was attacked because it failed to substantiate advocates' claims that 3 million people were homeless. In reality, the study was conducted impartially using reasonable methods and assumptions (HUD, 1984; Kondratas, 1991). On the other hand, Reagan appointees at HUD *were* on the defensive, reacting to press accounts that linked the growth of homelessness to "slashes" in the budget for housing assistance. The Reagan Administration defended itself by showing that actual outlays and numbers of households served were increasing, even while budget authority for future spending was being cut.

[50] The author served as an expert witness for The Inclusive Communities Project in the case that led to the lower court decision that TDHCA appealed to the U.S. Supreme Court. For a summary of the Supreme Court decision, see Paul Hancock, *Symposium: The Supreme Court recognizes but limits disparate impact in its Fair Housing Act decision* http://www.scotusblog.com/2015/06/paul-hancock-fha/.

HUD officials tended to view the deinstitutionalization of people with severe mental illness as the primary cause of homelessness. In response to a request from the Robert Wood Johnson Foundation, HUD agreed to provide housing assistance units to a Demonstration on Chronic Mental Illness. Collaboration between HUD and a national foundation was unusual during the Reagan Administration, as foundations generally saw themselves as attempting to counteract HUD policies (Ferguson and Dickens, 1999; O'Regan and Quigley, 2000).

As Congress developed legislation, some Reagan Administration officials at HHS proposed their agency be given lead responsibility for homelessness within the federal government. Congressional staffers were opposed to that idea because they perceived HHS political appointees as extremely conservative, even within the context of the Reagan Administration. They also viewed homelessness as primarily a housing problem, not a health problem.

Legislation enacted in 1986 gave HUD two programs: Emergency Shelter Grants program and a transitional housing demonstration program (National Coalition for the Homeless, 2006). Major legislation followed in 1987, called the Stewart B. McKinney Homeless Assistance Act after its liberal Republican sponsor, who died the same year. Several new programs were created across the federal government, and the Secretary of HUD was given responsibility for convening the 17 agencies considered to have a role in addressing homelessness and for administering a new Interagency Council on Homelessness. The McKinney Act reauthorized Emergency Shelter Grants and gave HUD three additional programs: the Supportive Housing Demonstration program, Supplemental Assistance for Facilities to Assist the Homeless (SAFAH), and Section 8 Single Room Occupancy Moderate Rehabilitation (Milgram, 1993).

Instead of placing responsibility for homelessness under one of HUD's program assistant secretaries, Pierce asked the Office of Policy Development and Research (PD&R) to take the lead in discussions with other agencies and in testifying before Congress. Pierce assigned Emergency Shelter Grants, which were allocated using the CDBG formula, to the Office of Community Planning and Development. The demonstration programs for developing transitional and permanent housing for homeless people were placed in the Office of Housing. An important issue settled at that time by the Office of General Counsel was under what conditions religious organizations, which often used places of worship to provide space for emergency shelters, could be the recipients of federal funds without violating separation of church and state.[51]

The Mod Rehab Scandal

Despite the many important things that happened at HUD during the Reagan Administration, Samuel Pierce is remembered most for the scandals involving the Section 8 Moderate Rehabilitation program that came to light in the final years of his tenure as Secretary. "Mod

[51] For example, shelter and services were to be provided in a nondiscriminatory manner and without any condition of participation in religious activities or other proselytizing. Federal funds could not be used to improve facilities in a way that would have a lasting benefit to the religious organization.

Rehab" was designed in 1978 as a program that would make modest improvements to existing rental developments, filling a perceived gap left by Section 8 Substantial Rehabilitation. Mod Rehab was given to PHAs to administer, with tenants coming from the voucher waiting list. It was not a badly designed program and produced at least 150,000 units. A creative use of the program (without scandal) was in Pacific Northwestern cities, rehabilitating and preserving older hotels as affordable housing for "skid row" residents who otherwise might become homeless.

After the repeal of the major Section 8 production programs, Mod Rehab became the "only game in town" for private developers seeking rent subsidies. Increases in the maximum rents Mod Rehab units could charge meant that the levels of rehabilitation possible no longer were moderate. Furthermore, looking for ways to allocate their quotas of tax credits in the first years of the LIHTC program, state housing finance agencies often made tax credits available to Mod Rehab developments. HUD policy did not require a downward adjustment to Mod Rehab rents when that happened. The result was a bonanza for the lucky few developers who received subsidy contracts. Developers with the right political connections induced HUD officials to help award them those contracts by choosing which PHAs got Mod Rehab allocations and by suspending the rules under which PHAs were required to hold competitions.

The HUD career official responsible for Mod Rehab became a whistle blower and helped the Inspector General and the Justice Department investigate and bring charges against several HUD political appointees. Some of them ultimately were convicted. Secretary Pierce was investigated but not charged. How much Pierce knew has never been clear. He was cynical about how discretionary grant programs worked and also simply not an administrator. To a much greater extent than HUD secretaries before or since, he left the detailed operations of HUD's programs to others. A certain amount of favoritism toward political or personal friends tends to happen under any political administration, but the difference in the Mod Rehab scandal is that a very large share of the program's funds came to be allocated through abuse of authority. The lesson was "quantity matters." Another important lesson is a program that provides excess profits is likely to become a magnet for abuse.

7. Returning to Activism: 1989–1992

The election of George H. W. Bush as President brought a high-profile appointment as Secretary of HUD, nationally known political and sports figure Jack Kemp. Having served in Congress since 1971, Kemp came in with an agenda for HUD. He had sponsored legislation to make public housing residents into homeowners and was a long-time advocate of enterprise zones. A self-styled "bleeding heart conservative," Kemp cared deeply about transforming the lives of minorities and the poor.

Kemp put key people from his congressional staff into policy roles and chose a subcabinet deemed "conservative intellectuals" by *The Washington Post.* But Kemp decided that, before he could accomplish anything else, he had to "clean the Augean stables" through legislation that would ensure that the scandals of the Pierce era would not be repeated. He put his General Counsel in charge of developing a reform act and charged his subcabinet with contributing ideas. The HUD Reform Act was passed by Congress in 1989 largely as proposed by HUD. Key provisions were safeguards against political interference with grant competitions through rules requiring transparency and prohibiting unauthorized communication about competitions in progress, "subsidy layering" provisions that try to prevent excess subsidies when a project involves multiple programs, and legal penalties for submitting false information in loan applications (Milgram, 1993).

During the passage of the HUD Reform Act, the Assistant Secretary for PD&R made the case for more staff and contract resources by arguing that, if program data had been available and program patterns more transparent, the scandals would have been less likely to happen. The HUD Reform Act included an authorization for the additional resources. The word "monitoring" was added to the title of the Office of Research within PD&R, and that office was given a new mission to create databases from the administrative data of HUD programs that could be used to analyze program performance.

Enterprise Zones and CDBG Targeting

By the end of the 1980s, many of the older cities in the United States were perceived as starting to revive economically, based on more diversified economies and improved financial management. For example, New York City and Chicago, Illinois, saw population increases after large losses in the 1970s. Despite this perception, HUD staff analysis of trends in the 1980s concluded that "the cities with the greatest social problems in terms of poverty, unemployment, crime, and female-headed households are also those that have the greatest difficultly raising sufficient revenue to meet the higher need level of their residents' greater needs." A number of distressed cities, particularly in the Midwest, had not been part of the turnaround. The overall pattern was "a boom in the coastal regions with decline in the interior of the country" (Neal and Bunce, 1994).

Ever a supply-side conservative (the 1981 Economic Recovery Tax Act was known as the "Kemp-Roth Tax Cut"), Kemp's urban agenda focused on tax incentives for economic development in cities—that is, enterprise zones. Although the 1980 proposal for federal enterprise zones Kemp put forth while a congressman had not been enacted, many states had created such zones during the 1980s (Brintnall and Green, 1991; Ladd, 1994; Rich and Stoker, 2014). By the late 1980s, the debate over federal enterprise zones centered on whether to add on-budget spending programs to tax incentives (Rich and Stoker, 2014), with some evidence from state enterprise zones programs that a purely supply-side approach to pockets of urban distress was not effective (Ladd, 1994).

OMB and Treasury opposed Kemp's proposal, but President Bush approved it following the "Rodney King" riots in Los Angeles in 1992. Kemp's proposal was strictly on the tax side of the federal budget, and it was not discretionary. Instead it would have created an entitlement to tax credits for activities within geographical areas specified in legislation, based on the areas' levels of poverty and the characteristics of surrounding census tracts (Weicher, 1996).[52] Although it would not have been a HUD program, HUD analysts had a role in designing the proposal, along with the Office of Tax Policy at the Treasury (National Research Council, 2008; Rich and Stoker, 2014). In late 1992, Congress passed legislation authorizing spending as well as tax incentives, and President Bush vetoed the bill before leaving office (Liebschutz, 1995; Rich and Stoker, 2014).

As for the program that already existed and was administered by HUD, by that time the level of CDBG funding had declined substantially in real terms and even more if measured on a per capita basis (Rohe and Galster, 2014). Kemp's approach to CDBG exemplified his return to activism. He took the side of advocates concerned about the loose geographic targeting of CDBG within cities and proposed to increase the LMI threshold and to count only those activities that actually benefitted low and moderate-income people toward that threshold.[53] Local government officials opposed the proposals, and, for the most part, they were not enacted (Rich, 2014; Orlebeke and Weicher, 2014).

New Policies for Rental Programs

Kemp's signature legislative package was called HOPE (Homeownership and Opportunity for People Everywhere) and consisted of programs to turn low-income people into homeowners, using public housing developments and the HUD-owned inventory of foreclosed project-based rental developments and single-family properties.

Kemp also proposed "Operation Bootstrap," work-supporting case management and services for families receiving housing assistance. Towards the end of the Reagan Administration, HUD had implemented demonstrations of public housing homeownership and a "Project Self-Sufficiency" similar to Operation Bootstrap—with much controversy over whether this exceeded HUD's legislative authority to conduct demonstrations without congressional approval. Kemp put these initiatives at the heart of his agenda and asked Congress to enact laws.

A variant of Kemp's Operation Bootstrap was enacted in the Cranston-Gonzalez National Affordable Housing Act of 1990 and called Family Self-Sufficiency (FSS). The law established an obligation for PHAs to run FSS programs for a number of households equal to the incremental units of vouchers or public housing they received after the enactment of the law (Weicher, 1996). This mainly included vouchers, since the public housing program was

[52] The proposal included a provision that every state could have one zone, even if the analysis of census data did not identify an area within the state that met the eligibility criteria.

[53] For the effect of the CDBG accounting rules, see Rohe and Galster (2014).

receiving only tiny, special-purpose appropriations for additional units. However, Congress did not agree to the feature of the Kemp proposal that would have made participation mandatory for families (Khadduri, 1992).

Congress added an important new feature to FSS that had not been part of Operation Bootstrap or Project Self-Sufficiency, based on a program designed by the Charlotte, North Carolina, housing authority: an escrow account fed by increased rent assisted households paid as their incomes went up following the date they signed up for the FSS program. FSS was described at the time as "a return to the intellectual roots of the public housing program"—that is, to the view housing assistance could help people rise out of poverty (Schill, 1993; Weicher, 1996).[54]

After some initial reluctance, FSS became a popular program with PHAs, constrained mainly by a limited HUD budget for grants to pay the salaries of program coordinators. Because the program has remained small, the cost of the escrow savings accounts (in lost rental income from households) has not been a constraint.

In meetings with President Bush, Kemp championed broader measures across the programs of other federal agencies to create incentives to work—for example, earnings disregards in the Aid to Families with Dependent Children (AFDC) program. But these ideas were opposed by OMB Director Richard Darman on the basis they would cost too much (DeParle, 1993).

Kemp was not particularly interested in housing vouchers, perhaps because the program already existed and was without the glamor of a new initiative. He also did not believe housing assistance was part of a social safety net required by a free enterprise system with many low-wage workers. Instead, Kemp thought all families could rise out of poverty by working hard, starting small businesses, and becoming homeowners. So unlike his predecessor, he did not make growing the voucher program a priority. However, he included incremental vouchers in his budget proposals, and about 50,000 incremental vouchers were appropriated each year while he was Secretary (Schwartz, 2015).

Under Kemp, the tenant-based voucher and certificate programs were transferred from the Office of Housing to the Office of Public and Indian Housing. The logic was to put all programs administered by PHAs in the same "silo," so that PHA directors would not have to report to two different HUD field staffs. This completed the identification of program offices with their "clients:" city programs go to CPD, PHA programs to PIH, and private housing owner and banker programs to Housing. The result of this reorganization placed the voucher program under an assistant secretary who would likely be more concerned with the politically more visible and troublesome public housing program.

[54] For a view that the results of this new thrust have been disappointing, see Weicher (2012). For a more positive view, see Lubell (2014).

The prepayment crisis for older, assisted housing continued. The affordable housing industry's strong objection to ELIPRA's prohibition of prepayment received some sympathy from HUD policy officials. Congress replaced ELIPRA with the Low-Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPPRA). LIHPPRA provided substantial incentives to current owners or new purchasers to maintain the properties as low-income housing in the form of grants, helping recapitalize properties with backlogs of physical needs (Khadduri and Wilkins, 2008; Edson, 2011; Weicher, 2012). Kemp's main role in that legislation was to add provisions that gave tenants the option of purchasing a property and turning it into homeownership.

HOME: A Quasi Block Grant for Cities and States

Kemp reached a compromise with Congress in 1990 with the enactment of a major piece of housing legislation, the Cranston-Gonzales National Affordable Housing Act.[55] Kemp got his HOPE homeownership programs, and the members of Congress who helped craft the law got the HOME Investment Partnerships Act (HOME). Honoring his side of the deal, Kemp gave writing the rules for HOME (not an easy task for a complex new program) equal priority with implementing the HOPE programs.

HOME was the recommendation of a high-profile National Housing Task Force that convened towards the end of the Reagan Administration at the behest of the Senate Banking Committee. The task force would become known by the names of its dual chairs, visionary developer James Rouse and David Maxwell, CEO of Fannie Mae (and formerly HUD's General Counsel under Romney). Because the Task Force was not commissioned by the President or by an appropriations act, HUD had no role.[56] Members particularly active in shaping the recommendations included the president of an intermediary serving the nonprofit segment of the housing industry and a Cabinet-level state housing official. The Task Force's centerpiece finding was the need for a new rental production program to fill a gap left by the termination of the Section 8 New Construction program.[57] However, the program allowed funds to be used for either new construction or rehabilitation of existing housing and for subsidies for homeowners as well as renters.[58]

HOME was another step in the devolution of decisionmaking about housing production to cities and states, following the enactment of the Tax Credit 4 years earlier. HOME had some of characteristics of a block grant—a formula allocation and local choices among eligible uses of funds. Those choices were to be driven by a Comprehensive Housing Affordability Strategy (CHAS), based on special census tabulations provided by HUD and on public input. However, the statute had quite prescriptive income limits, maximum rents, and subsidy recapture requirements for homeowners.

[55] At the time, Democrats referred to the law by its congressional co-sponsors; Republicans called it NAHA.

[56] The author, who was a career civil servant in HUD's Office of Policy Development and Research, was sent by Secretary Pierce to be a nonparticipating observer of the Task Force's deliberations.

[57] Contrasting views, not represented on the Task Force, were that (1) the Low-Income Housing Tax Credit already filled that gap and (2) no production program was needed for affordable housing, only a tenant-based housing voucher program.

[58] Statutory language described the program as "predominately rental."

While HOME was not his proposal, Kemp insisted during negotiations over the bill on limiting 90 percent of the rental portion of the HOME program to households with incomes below 60 percent of area median income rather than 80 percent. This was a policy application of HUD's Worst Case Needs analysis, which consistently showed that renters with incomes between 50 and 80 percent of area median income did not have severe rent burdens or lived in substandard housing.[59]

By this time, a growing industry of nonprofit, affordable housing developers had emerged and was supported by foundations, often working through intermediaries such as the Local Initiatives Support Corporation (LISC) and the Enterprise Foundation. Following the pattern already established by the Tax Credit, HOME included a set-aside for nonprofits, defined in this case as "community housing development organizations" (Ferguson and Dickens, 1999; O'Regan and Quigley, 2000).

HOME also included a requirement for matching federal dollars with state and local funds, which had the Rouse-Maxwell Task Force had recommended, although not with as high rates, and it was quickly diluted (National Housing Task Force, 1988; Khadduri, 1992). An important difference between HOME and CDBG was that states could use HOME funds anywhere, not just in areas of the state without direct allocations to cities—a further augmentation of the states' role in housing policy. The state share of HOME was set at 40 percent, rather than the 30 percent state share in the CDBG program.

To this day, HOME never has become the most important source of federal support for affordable rental housing production. When used for rental housing, it often is used as a supplement to the Tax Credit, permitting properties financed by LIHTC to charge lower rents. Although one of the eligible uses of HOME is tenant-based assistance—this was insisted on by Senate Republicans in a brief return of Republican enthusiasm for vouchers—that use has been modest. The much larger federal voucher program was not folded into HOME.[60]

HUD's Programs on Homelessness Take Shape

HUD's responsibilities for dealing with homelessness continued to grow during the 1990s. One of the first acts of the Bush White House was to pledge "full funding" for the Stewart B. McKinney programs. Responding to a Bush Administration request, Congress included in the Cranston-Gonzalez Act a program to provide permanent housing to formerly homeless people who need intensive services to remain stably housed (Khadduri, 1992). The program was called Shelter Plus Care and is typically abbreviated as S+C. HUD asked for and received much larger appropriations for S+C than for its other McKinney Act programs. The program design of S+C followed the Section 8 model, rent minus 30 percent of income. Assistance could be project-based, tenant-based, or a hybrid called "sponsor-based," under which service providers lease housing and sub-lease it to their clients (Weicher, 1996).

[59] E-mail communication with Kathryn P. Nelson.

[60] See Khadduri (2003) for the logic of keeping the voucher program as an entirely federal program.

One of Kemp's "conservative intellectuals," Assistant Secretary for Community Planning and Development Anna Kondratas strongly supported the enactment of S+C, anticipating it would become a key response to homelessness. Only homeless people who also have disabilities were made eligible for the program. In the Administration's version but not the enacted version, the program would have focused just on individual homeless people with severe mental illness or chronic substance abuse. The enacted program made families with disabled members eligible as well (Khadduri, 1992). At that time and since, HUD has tried to keep the definition of homelessness narrow and to constrain the eligibility for the federally funded portion of the homeless services system.

Kemp also brought all of the HUD programs related to homelessness together in one office within Community Planning and Development, a newly created Office of Special Needs Assistance Programs (SNAP). It made sense to bring some coherence to homeless programs that had previously been scattered in different HUD offices. The logic of putting them in CPD may have been that their constituency is cities rather than the public- or private-housing industry. Or it may have simply been that Kondratas, who had already worked on homelessness as Director of the Office of Analysis and Evaluation at the U.S. Department of Agriculture's Food and Nutrition Services, was the subcabinet official with the greatest interest. Kondratas deliberately omitted the words "homeless" or "homelessness" from the title of the new office on the grounds that people would continue to have special needs, but homelessness could be ended. She also came to a highly visible agreement with housing advocates that it was in everyone's interest to base homelessness policy on accurate estimates of the extent and nature of the problem.[61]

Moving to Opportunity Begins

Kemp was a strong believer in fair housing, and he directed his staff to move quickly to make use of HUD's new enforcement powers under the 1988 Amendments to the Fair Housing Act. On the other hand, he did not take much action to use housing or community development programs to affirmatively further fair housing. With LIHTC not at HUD and HOME based on policy choices by local and state governments, HUD no longer had a housing production program that could be used directly to support fair housing objectives[62] —and the use of CDBG as a lever continued to appear politically untenable. Furthermore, Kemp's HOPE programs and enterprise zones proposals reflected a fundamentally place-based approach to combatting poverty.[63]

However, when Alexander Polikoff, the lead implementer of the Gautreaux settlement in Chicago, proposed a further demonstration of the use of vouchers to help families move away

[61] While at the Food and Nutrition Service, she had sponsored a study by the Urban Institute of the extent and nature of homelessness (Burt and Cohen, 1988).

[62] Yinger (1986) argued that subsidized, new construction of subsidized rental housing had "much greater potential for increasing racial integration than does a voucher program…because it can provide participants with housing in locations where the private market supplies housing only for middle-income households."

[63] Sometimes referred to pejoratively as "gilding the Ghetto." See Ladd (1994) for a discussion of distinctions between people- and place-based strategies.

from public housing to better neighborhoods, Kemp enthusiastically agreed. Kemp had been much affected by a single mother who approached him after a speech and thanked him for her housing voucher. She explained that the voucher assistance enabled her to work and raise her children in a good neighborhood. HUD staff helped draft appropriations act language that named the demonstration "Moving to Opportunity" (MTO) and ensured that it would be implemented as a randomized, controlled trial. MTO was to become the largest HUD social experiment since the Experimental Housing Allowance Program of the 1970s.

Reforms To Make FHA Safe and Sound

During the first year Kemp was Secretary, Congress considered increasing the FHA single-family mortgage limits. The mortgage limits had last been raised in 1982, which kept FHA out of some of the highest-cost metropolitan housing markets. Structural weaknesses of the savings and loan industry had led to the collapse of many savings and loans during the 1980s and to a federal "bailout" that would cost well over $150 billion. In the federal Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), Congress created a separate independent agency, the Resolution Trust Corporation, to oversee the dissolution of failed thrifts (Davison, 2005). The General Accounting Office (GAO) raised concerns about whether FHA, too, was at risk of insolvency and recommended raising the loan limits. Congress raised the maximum loan limit in high-cost areas (Weicher, 1992).

Meanwhile, Kemp directed his staff to contract for an independent analysis of the safety and soundness of the FHA Mutual Mortgage Insurance (MMI) Fund. Undertaken by Price Waterhouse, the study concluded that the MMI Fund was "solvent but not sound." Congress debated the HUD proposals extensively. The legislative compromise enacted in 1990 as part of the Cranston-Gonzalez National Affordable Housing Act raised the FHA insurance premium, adopted a sliding scale for premiums related to the loan-to-value (LTV) ratio of the mortgage, and required homebuyers to pay a portion of closing costs rather than including them in the mortgage (Weicher, 1992; Szymanoski et al., 2012).

8. Saving HUD: 1993–2000

In 1993 newly elected President Bill Clinton made another high-profile appointment to HUD, Henry Cisneros, formerly Mayor of San Antonio and a rising star among Hispanic politicians. Cisneros came to HUD with a vision for transforming urban America, but not one that was closely tied to a legislative or programmatic agenda. Instead, he and his senior staff came to HUD intending to concentrate on implementing programs that had already been enacted in 1990 and 1992.[64] However, Republicans took control of the House of Representatives in the

[64] The Cranston-Gonzalez National Affordable Housing Act included many provisions important to HUD's work besides those highlighted in this paper. For example, the Act restructured the Section 202 program that produced housing for the elderly and spun off a separate Section 811 program for people with disabilities (Edson, 2011). Authorizing legislation in 1992 established some additional small programs (Milgram, 1993).

1994 election, and Speaker Newt Gingrich announced a Contract with America that included a proposal to remove several agencies, including HUD, from the Cabinet. Cisneros concluded HUD was at real risk of being abolished. In an attempt to prove HUD's mission as a federal agency was not fundamentally flawed, he proposed dramatic changes to HUD programs.

As Mayor of a city with a strong city manager, Cisneros had learned to concentrate on a few high-profile agendas for which he could serve as an inspirational spokesman. His major achievement as Secretary of HUD was the start of a fundamental transformation of public housing through a new program called HOPE VI to which he devoted much energy and attention. He handled most other topics by supporting his strong subcabinet's policy development.

When Henry Cisneros left office in early 1997, Andrew Cuomo, who had served as Assistant Secretary for Community Planning and Development during the first Clinton term, became Secretary of HUD. Cuomo was not yet a national figure, but he came to HUD with political experience and savvy as the son of New York Governor Mario Cuomo. Cuomo had already gotten major elements of his policy agenda enacted while serving under Cisneros: empowerment zones and the Continuum of Care for the homeless services system.

Cuomo's style of leadership was much more "hands on" than Cisneros. He was deeply immersed in the details of program proposals and implementation. Cisneros held off-the-record meetings with HUD constituency groups, including tenant and legal services groups. In contrast to Cisneros, Cuomo liked public announcements and held press conferences about documents crafted to influence the outcomes of policy debates. He was also highly engaged in legislative processes that would lead to enacting new provisions for housing assistance programs and to increasing appropriations for key programs.

HUD at Risk of Extinction

Even before the 1994 election, the Clinton Administration was trying to change the hostility to the public sector that had brought Ronald Reagan to office and had persisted into the 1990s. Clinton put Vice President Al Gore in charge of "reinventing government." In the first year Cisneros was Secretary, much staff energy went into training sessions to get bureaucrats—especially HUD field staff—to think of their jobs differently, be more creative, and be more responsive to consumers.

Then in response to the perceived risk to HUD's existence that followed the 1994 election, Cisneros ordered his senior policy staff to come up with a "Blueprint" for transforming HUD programs. The Blueprint was based on the policy logic of making housing assistance tenant-based. It proposed to phase out public housing operating and capital subsidies and replace them, first with project-based rent subsidies and ultimately with tenant-based assistance. To a similar end, it proposed to restructure the project-based Section 8 programs, replacing existing rental assistance contracts with vouchers and restructuring the FHA-insured mortgages through a note sales process that would write down rents to market levels affordable to voucher users.[65] The Blueprint also proposed to turn FHA into a government-owned Federal Housing Corporation and to streamline HUD's many separate activities (the Blueprint counted 240) by consolidating them into three performance-based funds (HUD, 1995).

None of the proposals in the Cisneros Blueprint was enacted in a way that was as far-reaching as proposed. However, many of the details beneath the sweeping changes the Blueprint proposed were already under consideration within HUD or in Congress. The radical reforms proposed in the Blueprint may have opened the door for the Clinton-era programmatic changes that did come to pass—starting with an appropriations bill that the Republican Congress used to rescind spending for domestic programs and that Cisneros used to begin reforming public housing.

The Log Jam Breaks on Distressed Public Housing

What to do about public housing besides selling it to its tenants had remained an open issue while Kemp was Secretary. HUD developed some legislative proposals to privatize the ownership and management of projects too distressed to be suitable candidates for tenant ownership. In the spirit of the times and of Jack Kemp, one proposal was nicknamed "Perestroika for Public Housing." But the time was not yet right for changing the law that made it almost impossible to demolish or sell public housing projects.

Meanwhile, the public housing industry seized the initiative by persuading Congress to create a National Commission on Severely Distressed Public Housing. Established by the HUD Reform Act of 1989, the Commission reported in August 1992, shortly before Clinton's election. The Commission recommended that Congress appropriate $7.5 billion over 10 years to renovate an estimated 86,000 public housing units and to remove the limit then in effect on the amount that could be spent per unit (National Commission on Severely Distressed Public Housing, 1992). A best-selling book about the horrors of growing up in a public housing project in Chicago was published around that time (Kotlowitz, 1991) and helped to galvanize political will for changing public housing.

Congress' first response was to enact a new program, the Urban Revitalization Demonstration, first in appropriations laws and then in authorizing legislation in October 1992 (Milgram, 1993). The program's sponsors were Republican Senator Christopher ("Kit") Bond of Missouri and his Democratic counterpart on the HUD appropriations subcommittee, Senator Barbara Mikulski of Maryland. Both senators had what Mikulski called "ZIP Codes of despair" in their states' largest cities.[66] This initial effort was revamped and renamed HOPE VI. HOPE VI became the centerpiece of Clinton Administration efforts to transform distressed urban neighborhoods.

[65] Once again, the Assistant Secretary for PD&R explained the policy logic of tenant-based assistance. The author has in her files a memorandum from Assistant Secretary Michael A. Stegman to the Secretary dated February 13, 1995, and titled "The Case Against Project-based Rental Assistance Programs."

[66] Bond had earlier put a special-purpose appropriation for the redevelopment of a public housing development in St. Louis into an appropriations act.

Under Cisneros, HOPE VI began to evolve from a program for spending large amounts on modernizing the most severely distressed public housing to a program to demolish and replace them with new, economically integrated housing (Turbov, 2006). Starting in 1995, public housing authorities were encouraged to pursue mixed-finance strategies, using HOPE VI grants as debt and leveraging LIHTC equity and other forms of debt (Holin et al., 2003; Turbov, 2006). The result often was developments with three income tiers: public housing, units governed by LIHTC income and rent rules, and unsubsidized market-rate units (Holin et al., 2003; Baron, 2009). Operating subsidies could still be paid on the public housing tier, but the owners would be a partnership between PHAs and private investors. HUD's Office of General Counsel had ruled in 1994 that public housing units—that is, units receiving operating subsidies—could be privately owned if they continued to follow public housing program rules (Solomon, 2005; Turbov, 2006; Baron, 2009).

At Cisneros' request, Congress repealed the one-for-one replacement requirement in 1995, making it possible to demolish public housing without waiting for full funding for new construction of replacement units. Instead, tenant-based housing vouchers could serve as replacements (Solomon, 2005; Turbov, 2006).[67] Together with the use of vouchers to protect tenants of project-based Section 8 properties with owners who began to leave the program after their contracts expired, the use of vouchers for HOPE VI tenant relocation and replacement accelerated the shift in the composition of assisted housing away from hard units to vouchers, but without increasing the overall number of families and individuals receiving assistance.[68] As of 2015, it is rare to find a high-rise public housing development occupied by families in a large U.S. city—with New York City a notable exception. High-rise public housing is now almost exclusively for the elderly and people with disabilities.

Cisneros also made important efforts to deal with the mismanagement and corruption that plagued some big city PHAs. HUD had earlier created lists of troubled PHAs and occasionally placed PHAs with severe management problems in receivership (Schill, 1993; Kinnaird, 1994). In 1995 Cisneros took control of the Chicago Housing Authority (CHA) and sent his Assistant Secretary for Public and Indian Housing to manage the agency (Popkin et al., 2000). The new chief of CHA proceeded to hire a private company to run the agency's voucher program, one of the largest in the nation. CHA's voucher resources had been severely underutilized, and the program had one of the only scandals (corrupt management of the waiting list) ever to touch an otherwise transparent and remarkably scandal-free form of housing assistance.

Housing Assistance Meets Welfare Reform

The 1994 mid-term election led Clinton to compromise with Republicans on welfare reform, agreeing to legislation replacing Aid to Families with Dependent Children with Temporary

[67] In 1996 Congress also passed a provision that required the conversion to vouchers of distressed public housing developments that would be too expensive to redevelop. While that provision reflected the Blueprint, by that time the HOPE VI program was well underway, and the mandatory conversion provisions were not implemented (Solomon, 2005).

[68] For unit numbers showing the shift, see Weicher (2012).

Assistance for Needy Families (TANF) in 1996. Congressman Rick Lazio became chair of the House subcommittee responsible for authorizing HUD programs and led an effort by House Republicans to apply similar ideas to housing assistance: work requirements, time limits, and devolution of responsibility away from the federal government. They were sympathetic to the argument of many in the public housing industry that, if given more flexibility, PHAs could get tenants to work more and thereby reduce the need for subsidies. In contrast, the Senate Banking Committee, which had authorizing responsibility for HUD, was more bipartisan in approach. The Senate's approach to public housing reform, undertaken in part to keep it out of the larger welfare reform legislation, was to retain the Brooke amendment with a modest minimum rent requirement and to favor administrative streamlining, but not time limits.

The result of an acrimonious, 4-year legislative process was the Quality Housing and Work Responsibility Act of 1998 (QHWRA), which stands as of 2015 as the last major piece of legislation affecting the public housing and housing voucher programs. Many of the provisions in QHWRA had already been enacted in appropriations bills during the previous 3 years. Examples include (1) a provision that permits PHAs to charge minimum rents up to $50 per month when a "Brooke rent" calculation would produce a smaller rent charge, and (2) an expansion of PHAs' ability to charge "ceiling rents" to relatively higher-income public housing residents. The 1996 Appropriations Act created a demonstration program with much more profound implications for the PHA-administered programs. Under MTW, HUD was directed to select up to 30 PHAs and give them flexibility to operate outside of the statutory and regulatory requirements that otherwise controlled the use of public housing and housing voucher funds (Solomon, 2005).[69] Cisneros went along with the provisions enacted as part of HUD's appropriations in the general spirit of reforming public housing.

During the Clinton Administration, HUD implemented MTW cautiously, with protracted negotiations of MTW contracts and careful selection of PHAs known for their high performance and transparent operations. The first MTW agreements were signed in 1998 and 1999. For the most part, agencies with the new authority did not rush to implement "rent reforms" that changed the basic rules of the housing assistance programs, but instead they pursued administrative cost savings made possible by regulatory relief (Khadduri et al., 2015).

By the time QHWRA was enacted and signed into law, Andrew Cuomo was Secretary of HUD. The appropriations provisions that preceded QHWRA had suspended the mandatory federal preferences for admission to assisted housing. Those preferences moved households with severe rent burdens or substandard housing conditions to the top of waiting lists. QHWRA replaced the federal preferences with minimum percentages of newly admitted families with incomes below 30 percent of area median ("extremely low incomes"). During the final negotiations over the bill that went to President Clinton for signature, Cuomo insisted on substantially higher minimum percentages than had been in the bills passed by either the

[69] PHAs could ask for permission to ignore requirements of the U.S. Housing Act, but not those of certain other legislation covering civil rights, fair housing, environmental protection, and labor standards.

House or the Senate (Solomon, 2005). In particular, the enacted provisions required that a much higher percentage of vouchers (75 percent) go to extremely low-income households than public housing units (40 percent).

Keeping Housing Assistance Alive

Andrew Cuomo was impressed by an article that appeared in *The New York Times Magazine* in October 1996 titled "The Year That Housing Died." Author Jason DeParle lamented the absence of appropriations for incremental units of housing assistance in the appropriations that had just been enacted for fiscal 1997 (DeParle, 1996). Two years later, during the final negotiations over QHWRA, Cuomo threatened to withdraw Administration support for the bill unless the appropriations bill that served as the vehicle for QHWRA included the 50,000 incremental vouchers the Administration had requested. These vouchers were for a Welfare-to-Work Voucher Demonstration, designed at the White Housing as a Clinton Administration response to criticisms of its compromise with congressional Republicans over welfare reform. Cuomo was not particularly interested in this special use of the vouchers, only that they represented a return to increasing the number of households receiving housing assistance. The summary of HUD's budget request for 2001 (published in February 2000) announced that HUD was "back in business" (HUD, 2000a).

The merger of the certificate and voucher programs enacted by QHWRA created a dollar-based rather than a unit-based method for calculating the annual funding provided to PHAs for Housing Choice Vouchers.[70] Since the merger, the amount allocated to a PHA each year has been based on prior-year dollar amounts rather than on a fixed number of units that were awarded to the PHA in previous years—although estimates of the number of households being served by the program also are taken into account. Each year's amount also includes any funding needed to support "incremental" vouchers and funding for the estimated number of "tenant protection" vouchers the PHA will need to replace demolished public housing or units that have left the stock of privately owned assisted housing. HUD also holds a small number of vouchers in reserve for special purposes, such as litigation settlements and witness protection.

QHWRA included language implying that the base for calculating renewal funding should be all of the dollars that had been allocated to PHAs in previous years, including amounts held in reserve by PHAs and by HUD for future use. However, appropriators sometimes have rescinded unused funds. In 2001 and 2002, Cuomo was able to persuade the appropriations committees to preserve some of the unused funds, in effect permitting the program to keep growing: by 60,000 units in 2000 and 87,000 units in 2001 (HUD, 2000a; Schwartz, 2015).[71]

[70] Shortly before that, OMB had attempted administratively to rescind funding for vouchers above the number technically allocated to them but still within the dollar amount available.

[71] Some assisted housing units were lost over time because HUD's policy never ensured vouchers would replace vacant public housing and project-based units, as well as those that were occupied at the time relocation or tenant protection was needed. See Table 4–5 in Weicher (2012). The table does not distinguish between "tenant protection" vouchers and incremental vouchers. Elsewhere in the volume, Weicher reports that 317,000 tenant protection vouchers were issued between 1997 and 2010.

In March 1999, Cuomo published a report titled *Waiting in Vain,* highlighting the large numbers of households on waiting lists for housing assistance (HUD, 1999). A year later, he published a report celebrating the 30th anniversary of tenant-based assistance. The report summarized the extensive body of research on the voucher program, highlighted its new performance measurement approach (the Section 8 Management Assessment Program), and provided support for proposing another year of growth for the voucher program (HUD, 2000b).

Renegotiating the Deal for Privately Owned Assisted Housing

Cisneros' Blueprint proposed a sweeping restructuring of the project-based Section 8 portfolio, including reducing rents to market levels and forgiving FHA-insured debt. The reform proposed in the Blueprint would have merged these properties into the private market, not only writing down their rents, but also terminating FHA insurance and providing all occupants with tenant-based assistance (HUD, 1995). The Mark-to-Market program that emerged 2 years later from the legislative process shared the basic goal of reducing the need for substantial new appropriations to support this housing stock. HUD had contracted to pay rents for many of these units that were far above the local Fair Market Rents, and new appropriations to support this stock were needed as the terms of previous multiyear appropriations ended.

The program enacted in 1996 was much less radical than the Blueprint and was influenced by affordable housing industry experts. The Mark-to-Market program maintained both FHA insurance and the project-based nature of housing assistance. It was fundamentally a preservation program designed to keep properties in the assisted housing stock and make them financially viable. Debt was reduced by restructuring mortgages and thus reducing rental income needed for annual debt service. Rents could then be "marked to market" (Hilton et al., 2004). Joining the Mark-to-Market program was optional. However, Congress had stopped approving funds for the automatic inflation adjustments that had been built into the Section 8 New Construction program (Smith, 1999; Khadduri and Wilkins, 2008; Edson, 2011). Many Section 8 projects did not have FHA insurance—for example, many of those developed with HFA bond financing—and thus could not join the Mark-to-Market program.

The "preservation crisis" now extended to Section 8 projects as well as to the "older assisted" properties developed under the Section 221(d)(3) and Section 236 programs. Section 8 owners could "opt out" of housing assistance by not renewing their Section 8 contracts, and some did so (Finkel et al., 2006). A change in policy enacted in 1996 provided for "enhanced vouchers" that protected tenants of properties with owners who left the Section 8 program by opting out or who left the "older assisted" stock through prepayment. Enhanced vouchers were used to prevent the displacement of tenants from formerly assisted projects that charged rents above the voucher payment standard (Locke et al., 2000; Khadduri and Wilkins, 2008; Edson, 2011).[72]

[72] Congress had stopped funding LIHPPRA, and 1996 appropriations provisions removed remaining restrictions on prepayment.

Secretary Cuomo moved immediately to implement Mark-to-Market following its enactment in 1997. He rapidly staffed the Office of Multifamily Housing Assistance Restructuring (OMHAR) that was created by the legislation. OMHAR was located within the Office of Housing but operated largely independently. Special rules permitted OMHAR to hire industry experts at salaries higher than the regular civil service schedule, and staff members often referred to "HUD" as a different organization. OMHAR contracted state housing finance agencies to assist in implementing the program in some parts of the United States Mark-to-Market permitted above-market exception rents for a certain portion of the restructured properties. Owners had to prove such rents were needed to cover the costs of rehabilitating and operating the properties after restructuring the FHA-insured debt. Many properties in locations where voucher users could easily have rented other housing were permitted above-market rents. (Hilton et al., 2004).

Some properties—especially the "older assisted" properties developed under the Section 221(d)(3) and Section 236 programs—had contracts with HUD that, over time, had come to lag market rents rather than exceed them. This was most often the case for developments in relatively valuable locations, either because HUD and their sponsors had succeeded in placing them in "good" neighborhoods during the 1960s and early 1970s (reflecting the success of Romney's project selection criteria) or because neighborhoods had "gentrified" over time. Owners of such properties had particularly strong incentives to end their status as assisted housing. To preserve these properties, Cuomo used administrative action to create a Mark-*up*-to-Market program that would increase rental assistance contracts and provide owners with market-level rents (Khadduri and Wilkins, 2008).

Reshaping HUD's Homeless Programs: The Continuum of Care

Andrew Cuomo had worked on homelessness in New York City both as the executive director of a nonprofit and as the head of a mayor's commission on homelessness. By the mid-1990s HUD's homeless assistance programs, together with local government and philanthropic funding, had supported dramatic growth in shelters, in transitional and permanent housing programs for people attempting to leave homelessness, and in programs providing services to homeless people. Usually there was no coordination across the "system" of homeless shelters and services. Some communities had taken steps toward local planning and service coordination, but that was not the norm (Burt et al., 2002).

Somewhat to Henry Cisneros's puzzlement, Cuomo did not want a block grant that would put mayors in control of funding for homelessness.[73] Instead, he established a Continuum of Care (CoC) as a planning requirement for HUD's McKinney programs and as a community-based institution controlling the homeless services system. The intention was to induce communities to identify and fill gaps in their homelessness services systems, as well as simplify the processes for providers applying to HUD and HUD reviewing applications. Discretionary

[73] Such a block grant, proposed by Republican Congressman Ridge of Pennsylvania, had almost been enacted at the end of the Kemp era. HUD staff had already begun planning for its implementation.

funding streams for HUD's McKinney-Vento programs were combined, and communities were required to make single applications for funds (Burt et al., 2002).

The Continuum of Care was established through an iterative administrative process, rather than through legislation. Each successive annual competition added further refinements. For example, Cuomo came to realize that a straight competition could result in a large fraction of any year's funding going to a single, high-capacity community regardless of relative need. He then added a formula based on needs to establish the starting point for a community's allocation. But HUD still reviewed plans at the project level and could—and did—reject unqualified CoC-level applications. Communities with better applications were awarded additional resources. The result was a hybrid between a formula grant and a consolidated, competitive program. The formula had a *di minimis* grant amount that ensured 75 percent of the funds went to the largest communities—that is, to places with large homeless populations.

The CoC has proved to be a highly effective incentive for communities to create coordinated homeless services systems, although the governance and the extent of participation in the formal system vary across communities (Burt et al., 2002; Spellman et al., 2010; Dunton et al., 2013). The application process has been used by HUD as an effective lever for influencing local policies to prevent and end homelessness.

As Assistant Secretary, Cuomo also pushed for vouchers to help special populations vulnerable to becoming homeless. Democratic policymakers had begun to take note that vouchers could be used successfully to help people with disabilities in a mainstream setting. The Robert Wood Johnson demonstration for people with chronic mental illness showed that a tenant-based approach worked when services supporting housing stability were combined with vouchers. Congress began enacting special-purpose voucher programs for people with disabilities and other special needs.

From Enterprise Zones to Empowerment Zones

The Empowerment Zones program Cuomo championed as Assistant Secretary for Community Planning and Development and enacted in 1993 was very different from the Kemp proposal for enterprise zones. Empowerment Zones were eligible not just for tax credits, but also for substantial bonus funds from HHS's Social Services Block Grant program and for scoring advantages in other federal grant competitions (Liebschutz, 1995). The Empowerment Zones program also revived the idea of a bottom-up, grassroots planning approach (Liebschutz, 1995; Rich and Stoker, 2014). Unlike the Kemp proposal, the program was not an entitlement within designated census tracts. Instead, it was a competition under which HUD had the lead responsibility for evaluating applications in a multiagency, extensive process (Liebschutz, 1995).

Thus, Empowerment Zones were something of a return to Weaver's attempt to have HUD lead an effort to concentrate the resources of federal programs in particular urban neighborhoods. The six cities with designated Empowerment Zones were Atlanta, Georgia; Baltimore, Maryland; Chicago, Illinois; Detroit, Michigan; New York, New York; and Philadelphia, Pennsylvania. They received substantial grant funding. Some other cities received "enterprise community" designations that provided grants and the ability to apply for federal regulations waivers, but not tax incentives (Rich and Stoker, 2014). HUD's research office evaluated the program, but the analysis was not complete when Cuomo left office following the 2000 election. An interim report showed that tax incentives were used in a limited way (Hebert et al., 2001), so this was essentially a program of large, federal grants to a few cities—again, not unlike the original conception behind Model Cities.

Attempting To Reinvent FHA and Increase GSE Focus on Low-Income Households

The Blueprint proposal for making FHA a government-owned corporation within HUD was followed by a concerted effort by Cisneros' FHA Commissioner to develop a proposal that would not be blocked by Congress in an appropriations act. A primary motivation for the reinvention of FHA as a government corporation was to take FHA out of HUD's appropriations process. In good times, FHA surpluses were vulnerable to being used to fund other parts of the federal government. The proposed Federal Housing Corporation would have had greater flexibility in hiring staff and contracting for services and therefore overcome some of the perceived weaknesses of the FHA bureaucracy (Retsinas, 1995).

Advocates of making FHA an independent corporation also were concerned about the need to wait for legislation or to go through lengthy rulemaking processes to change aspects of FHA programs that put the FHA fund at risk. A notorious example was seller-financed downpayments, which became the source of substantial losses to the FHA fund. HUD was not able to prohibit the practice without congressional action, which did not come until 2008 (Szymanoski, 2012). Under the proposal articulated by Cisneros' Assistant Secretary of Housing/FHA Commissioner, Nicolas Retsinas, a new Federal Housing Corporation would develop and adjust its own business lines and products with fewer statutory constraints (Restinas, 1995).

Impressed by the idea that homeownership is the main way people with low and moderate incomes accumulate wealth, Cisneros created a high-visibility campaign called the National Homeownership Partnership, announced by President Clinton in 1995. Cisneros directed his staff to monitor closely trends in homeownership rates for various demographic groups and to come up with ideas on how to increase the rates (HUD, 1995; National Research Council, 2008).

When Andrew Cuomo became Secretary, he maintained upbeat rhetoric about homeownership but dropped the concerted effort at HUD to increase the homeownership rate. He focused more attention on increasing rental assistance for people unlikely to become homeowners.

While sympathetic to the reasons for turning FHA into a government corporation, Cuomo concluded that the proposal was not politically viable. Instead, he and a new Assistant

Secretary for Housing/FHA Commissioner, William Apgar, sought ways to streamline FHA processing and to do a better job of monitoring FHA lenders. They used FHA's Mortgagee Review Board more aggressively to fine and sanction FHA lenders found to be using fraudulent processes. They also broadened their focus—beyond FHA—to the emerging problem of predatory lending by the private financial sector. Together with the Secretary of the Treasury, Cuomo convened a task force and issued a report describing abuses in the subprime lending market and making some recommendations for legislative and regulatory changes (HUD/Treasury, 2000).

During the Clinton years, HUD implemented a new and more explicit mandate for serving as the "mission regulator" of the GSEs. In 1989, the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) had extended HUD's regulatory authority to Freddie Mac as well as Fannie Mae. At the end of the Bush Administration (1992), Congress established a new approach to setting goals for the GSEs as part of the legislative reaction to the collapse of major portions of the thrift industry, the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA).[74] The Act established three types of goals to be set and monitored by the Secretary of HUD: (1) a low- and moderate-income goal, (2) an underserved areas goal, and (3) a special affordable home purchase goal. Based on analysis conducted by the PD&R, Bush officials had advised Congress to define the goals based on homebuyer's income rather than mortgage size (Weicher, 2000).

Following FHEFSSA, HUD's role was just mission regulator. The thrift crisis had led Congress to conclude GSEs needed an independent regulator of their financial safety and soundness. Therefore, FHEFSSA established an office within HUD to establish capital standards for the GSEs and monitor their operations. However, that office did not report to the HUD Secretary (Manchester, 2008).

Cisneros left the development of the first GSE's goals to Retsinas, who convened task forces to discuss a proposed rule. The income limits for the low- and moderate-income goals and special affordable goals were in the law, while the underserved areas goal needed further refining. The decision was to set the targets for the first goals at levels that would encourage the GSEs to purchase loans in the various categories at the same rate as the overall conventional market (not FHA or VA) and to define underserved areas as those with at least 30 percent minority residents or with an average income below 90 percent of the area median. The first goals were published in 1996 and related to GSE purchases for the period from 1996 to 1999 (Ambrose and Thibodeau, 2004; DiVenti, 2009).

The GSEs argued that it was difficult for them to match the conventional market, because they made purchases in bulk rather than buying "retail" loans that were motivated by the

[74] No longer protected by a special circuit or constrained by regulation from taking risks, many savings and loans had tried to overcome the mismatch between their funding sources and their mortgage investments by making high-risk investments in areas other than single-family mortgages (Immergluck, 2009).

Community Reinvestment Act.[75] Although the law and regulation gave the GSEs the ability to explain a market context that caused them to miss the targets, they were concerned about the bad publicity that would be associated with not achieving their goals. The first goals were not aggressive in the sense that it was easy for the GSEs to achieve them, but HUD officials considered that they had established the premise that the GSEs' achievements in making housing affordable should at least match the conventional market.

Cuomo was more directly involved in setting goals for the GSEs. He was willing to challenge the GSEs in the second round of goal setting, and he and his associates, including FHA Commissioner Apgar, became known as the "ratchet up crowd." Ultimately, Cuomo reached a compromise with the Chief Executive of Fannie Mae. The upshot was to ramp up the targets a bit and to encourage GSEs to make more purchases of loans for multifamily rental housing (DiVenti, 2009).

As part of their efforts to reach the affordable housing goals, GSEs began requiring homeownership education and counseling as a condition for using their affordable mortgage products. This led to rapid growth in the housing counseling industry and to sharply increased appropriations for HUD's program of grants to counseling agencies. But the impetus for curricular guidelines and certification standards for counseling came from GSEs rather than from HUD (Quercia and Spader, 2008).

Throughout the years following the demise of Operation Breakthrough, HUD had a small technology research program. In 1994 HUD was given responsibility for leading a major new effort to promote innovative technology in the housing sector—renamed in 1998 the Partnership for Advancing Technology in Housing (PATH). The effort had mixed success, once again calling into question whether a federal agency is in a good position to lead a technology-development effort not directly linked to federal procurements (National Research Council, 2008).

An Aggressive Fair Housing Agenda

During the tenures of Cisneros and Cuomo, HUD focused strongly on civil rights. Political appointees in the offices of General Counsel, Public and Indian Housing, and PD&R joined a strong Assistant Secretary for Fair Housing and Equal Opportunity and long-term career staff dedicated to fair housing. HUD moved to settle court cases in which the Department was a defendant and requested and received appropriations for vouchers that were part of those settlements (Pearl, 2014; Schill and Wachter, 2001). President Clinton's nominee for Assistant Secretary for Fair Housing and Equal Opportunity, Roberta Achtenberg, became the first openly gay or lesbian presidential nominee requiring confirmation by the U.S. Senate.

By the time Clinton became President, Democrats were thoroughly enthusiastic about vouchers because of their potential usefulness in a strategy for encouraging and helping

[75] Under the Community Investment Act, federal regulators of financial institutions review the record of a bank in serving its community before permitting the opening of additional branches.

African-Americans “to leave the ghetto for the suburbs, where they could obtain better and cheaper housing, live in safer neighborhoods, attend good schools, and gain access to jobs“(Ladd, 1994). Cisneros’ subcabinet officials further designed the MTO demonstration and its evaluation, and HUD proposed to expand it to a larger number of households. After stormy meetings when Baltimore County residents protested the prospect of having families from distressed public housing projects become their neighbors, Senator Mikulski withdrew her support for MTO expansion (Briggs, Popkin, and Goering, 2010).

Clinton Administration HUD officials also tried to figure out why the regular voucher program outside of MTO was not doing better at enabling poor people and minorities to live in what would later be called “areas of opportunity” and to make changes to improve the voucher program’s performance (Turner, 1998; Schill and Wachter, 2001).[76] In an effort to make the voucher program attractive to a broader set of landlords, HUD agreed to support repeal of statutory requirements that an owner with one voucher tenant had to agree to rent to others (“take one take all”) and that an owner could not refuse to renew the lease of a voucher holder for business reasons rather than because of lease violations (“endless lease”) (Solomon, 2005). HUD decisionmakers debated how much a new voucher performance measurement system should encourage PHAs to use vouchers outside areas of poverty and minority concentration. The debate led to an imperfect compromise that added some “bonus points” to the new SEMAP performance measurement system.

Another approach to increasing voucher use in areas without concentrations of poor people and minorities was to give more help to voucher users than PHAs provide in regular program administration. Starting with the Gautreaux demonstration, mobility counseling became a feature of court-ordered settlements of fair housing cases. The Clinton Administration used voucher funds that had been appropriated but not allocated to PHAs for a Regional Opportunity Counseling (ROC) initiative. ROC allocated funds to fair housing organizations in 16 metropolitan regions to conduct such programs outside the context of litigation (Cunningham and Sawyer, 2005).

Under Cisneros, HUD issued a *Fair Housing Guide* that, for the first time, told HUD grantees how to comply with the requirement in the 1968 Fair Housing Act that HUD programs be implemented in a way that affirmatively furthers fair housing (Pearl, 2014). The obligation already in the Fair Housing Act had been added to the explicit statutory requirements of the CDBG program in 1983 but was not backed up by a requirement to conduct an “analysis of impediments to fair housing” until HUD created such a requirement in the 1990s. Meanwhile, HUD program staff often implied to grantees that they would not look behind a certification of compliance with the “affirmatively furthering” requirement.

Grantees were not required to submit the Analysis of Impediments to HUD. However, the obligation to produce one, along with the *Fair Housing Guide,* served as a basis for litigation

[76] Turner (1998) has a series of policy prescriptions by a Clinton Administration official who had recently left the government.

by fair housing advocates. Cuomo issued a proposed rule on affirmatively furthering fair housing that would have clarified HUD's ability to withhold CDBG funds from a noncompliant jurisdiction. However, faced with strong opposition by the U.S. Conference of Mayors, he did not proceed with a final rule (Pearl, 2014).

HUD's responsibility as mission regulator of the GSEs included whether they were violating the Fair Housing Act. Cuomo commissioned a study of whether the GSEs' encouragement of lenders to use automated underwriting for loans the GSEs would purchase had a disparate impact on minority borrowers that was not justified by an overriding business interest. Planning also began for another national study of housing discrimination.

Proving HUD Programs Can Be Managed

Under the Clinton HUD secretaries, case by case monitoring by field staff was eclipsed in favor of data-driven performance measurement. This may largely have reflected the technological advances that made it possible to collect remote monitoring and electronic data. At the same time, sharp reductions in HUD staff during that period made onsite monitoring of grantees no longer feasible (Thompson, 2006).

When Andrew Cuomo became Secretary, he was convinced that a threat to HUD's mission persisted, based on a widespread perception that the agency could not manage its programs. In 1994 the Government Accountability Office (GAO) put HUD on a "high risk" list for "material weaknesses in its internal financial controls" (Thompson, 2006), and Cuomo became determined to demonstrate that HUD could self-monitor successfully. One way was to focus on combatting fraud among FHA lenders. Another was to create a new organization within HUD, a Real Estate Assessment Center (REAC), for both public housing and privately owned multifamily rental housing, in response to claims by GAO and others that HUD had "no way of knowing" the condition of the housing stock for which it provides subsidies.

REAC conducts third-party inspections of assisted housing developments against a set of quality standards that emphasize health and safety problems. For public housing, REAC scores became part of a Public Housing Assessment System that identifies both high-performing and troubled PHAs. Implementing REAC inspections was controversial among both PHAs and private owners, who complained their properties failed because of trivial problems over which no property manager has control. But ultimately REAC became a standard part of HUD program implementation and was expanded to include financial management systems as well as physical inspections.

Without the narrowly defined purposes and highly specified program designs of the assisted housing programs, CDBG is much harder to monitor. Reductions in staff and increases in the number of grantees meant much less monitoring in 1998 than in 1990 (Rich, 2014), and measuring CDBG performance through data systems has proven to be virtually impossible (Rohe and Galster, 2014). One area that is amenable to data analysis has been the CDBG allocation formula. A new study of the formula in 1995 revealed that the formula was badly targeted the relative needs of different communities, but the Clinton Administration simply published the study and did not follow it with a legislative proposal to change the formula. As Assistant Secretary for Community Planning and Development, Cuomo consolidated the planning requirements for programs in which the city was the grantee, notably CDBG and HOME, but some smaller programs as well. Consolidated planning streamlined the application processes and relieved burden on city grantees but did not enhance HUD's ability to measure and monitor CDBG performance.

Towards the end of the Clinton Administration, Secretary Cuomo created a cadre of "community builders," hiring a number of staff from both outside and inside the ranks of HUD civil servants to serve as technical assistance providers and problem solvers for cities and other HUD constituents. The idea was that field staff responsible for enforcing compliance with HUD program rules ("public trust officers") needed to be balanced by other staff playing a "good cop" role. The effort was not popular with HUD career staff, as many new hires with mixed qualifications were brought in at relatively high grade levels. The Community Builder program became the subject of a critical report resulting in a high-profile feud between Cuomo and HUD's Inspector General and did not survive the Clinton Administration. In some sense, the initiative—and its fate—harked back to Secretary Weaver's effort to create a cadre of "metropolitan expediters" to make HUD programs easier for local officials to use.

9. Caretaking HUD and Becoming a Disaster Relief Agency, 2001–2008

Mel Martinez had been County Executive of Orange County in Orlando, Florida—the equivalent of the mayor of a major city—before George W. Bush appointed him Secretary of HUD in 2001. The foreign policy-focused White House gave Martinez a mission to keep the agency stable and out of trouble. As it appeared to senior HUD staff, Martinez was told to work within HUD's existing structure and programs and not come up with big, new ideas. However, Martinez did have two new agenda items to which he became personally committed: reforming RESPA and ending chronic homelessness.

When Martinez resigned in late 2003 to run for the Senate, Alphonso Jackson was named Secretary of HUD. A personal friend of President Bush, Jackson had served as Deputy Secretary of HUD under Martinez. He was the first HUD Secretary to come from the public housing industry, having been executive director of several PHAs, most recently the Dallas Housing Authority.

Around since the 1970s, RESPA (the Real Estate Settlement Procedures Act) requires lenders to present homebuyers and those refinancing their mortgages with a Good Faith Estimate (GFE) at loan application that details expected fees and costs for the loan. The homebuyer then receives a HUD-1 form at closing that reports the various components of the transaction and their actual costs. The GFE and HUD-1 are complex documents. Often fees anticipated by the GFE are higher at closing, when the homebuyer has little choice but to pay them. These forms and their conventions are of great interest to various participants in the home purchase and housing finance industries, who have the ability to influence Congress. Therefore, the forms are difficult to change (Weicher, 2001). Martinez found the process of purchasing his own home in the Washington, D.C., area weighed down by paperwork. Immediately upon being confirmed as Secretary of HUD, he charged his staff with reforming RESPA.

The upshot was a staff-led effort to improve the discipline of fees by creating a consumer-friendly, streamlined "shopping document." The idea was for a simple document that would help consumers compare loans and lock in any estimates of fees that should not be subject to change. Groups representing various segments of the industry argued that such a document would not be detailed enough to protect consumers. HUD issued a proposed rule when Martinez was still Secretary. Alphonso Jackson was questioned about the rule at his confirmation hearing and subsequently put the entire effort on hold. It was only after the onset of the mortgage crisis in 2007–2008 that the regulation implementing the shopping document was published in final form and took effect. Enforcement and regulatory responsibility for RESPA has now been shifted to the Consumer Finance Protection Board.

A New Goal: Ending Chronic Homelessness

A consensus that the federal government should make dealing with street homelessness a priority had already developed by the early 1990s (Khadduri, 1992). Around the start of the George W. Bush Administration, a new concept—chronic homelessness—emerged, reflecting evidence that most people who become homeless do so for short periods of time and do not return to homelessness. In contrast, the small number of "chronically homeless" people absorbs a majority of the resources of the homeless services system. Evidence also was accumulating that showed permanent supportive housing (PSH) effectively helped people with "chronic" patterns of homelessness become stably housed and that the costs of PSH could be offset by savings in the healthcare and other sectors (Burt, 2003; Culhane et al., 2007). By the time Martinez took office, HUD staff were concerned that a large fraction of Supportive Housing Program funds were being used for programs that provided only services. HUD's fiscal year 1999 Appropriations Act had already required that a minimum of 30 percent of SHP funds be used for permanent supportive housing.

Following the 2000 election, the head of the National Alliance to End Homelessness, an effective advocacy organization with bipartisan political connections, persuaded the incoming Bush White House that ending chronic homelessness was a feasible goal that could be achieved through an appropriation of $500 million per year. Secretary Martinez embraced the goal enthusiastically, and the program office used the CoC competitive process to encourage communities to focus on chronic homelessness.

Under Martinez, HUD also implemented directives in HUD appropriations acts to report annually on the extent and nature of homelessness and released the first in a series of Annual Homeless Assessment Reports (AHARs) (HUD, 2007). Through the CoC application process, communities were required to establish Homeless Management Information Systems (HMIS). HMIS have been used both for national estimates of homelessness and for local planning.

The focus on chronic homelessness had broad bipartisan support. The S+C program enacted in the Cranston-Gonzalez National Affordable Housing Act of 1990 and supported by Secretary Kemp was designed to provide permanent housing for the most vulnerable homeless people. The Clinton Administration had already published a plan to end homelessness (HUD, 1993) that implied a focus on chronic homelessness even before the concept was created.

Policy for Rental Programs Stalls

During the George W. Bush Administration, rental housing assistance policy went into legislative stalemate. A series of bills to modify the rules of the Housing Choice Voucher and public housing programs were debated but not enacted, even though some of the changes were modest program improvements with a broad spectrum of support.[77] U.S. political parties' positions had hardened, with Republicans becoming more uniformly conservative and Democrats less willing to seek middle ground. This was general across domestic policy, and HUD was no exception.

Vouchers were by then the largest housing assistance program, with around 2 million units. Per unit costs reflected a subsidy formula based on rents at the middle of the market minus 30 percent of a participant household's income, usually an income below the poverty line. The voucher program had come to dominate HUD's budget, and Bush Administration officials at HUD decided to do something about that. They did not try to repeat the Reagan-era efforts to reduce voucher costs by making changes to the parameters of the subsidy—that is, lowering the policy level at which FMRs are set or raising the amount of rent assisted households pay. Instead, the first HUD proposal was to turn vouchers into a state block grant (Khadduri, 2003).

The state block grant proposal got nowhere, opposed by the PHAs and by advocates who feared the effect of the Administration's proposal would be a "block and cut" scenario (Sard and Fischer, 2003). By then the Center on Budget and Policy Priorities had become a major voice on housing assistance policy, joining the National Low Income Housing Coalition that had been created in the 1970s.[78] State governments might have been receptive to taking on this additional responsibility in a different funding environment and in the context of a good

[77] For example, simplifying deductions from income used to calculate rent, making procedural changes to income certification, and streamlining the housing inspection processes for the voucher program.

[78] The founder of the National Low Income Housing Coalition, Cushing Dolbeare, had advocated for targeting housing programs to the neediest households, helped shape the Low-Income Housing Tax Credit, and conducted a long-standing campaign to reform the homeownership interest deduction and use the savings to support housing assistance. Dolbeare died in 2005. The Coalition's effectiveness outlives her.

chance of enactment. But at this time, they were not interested. The Administration made little effort to build support for the proposal among stakeholders.

The Bush Administration then replaced the proposal for a block grant to the states with a proposed "Flexible Voucher Program" that would still be administered by local PHAs. Cost control would be based on PHA choices within a funding envelope, rather than changes to national program rules. Income-targeting rules would be eased greatly, set at a maximum 80 percent of area median income—that is, covering the majority of renters (Tegeler and Strom, 2005).

House Republicans did not embrace the Administration's proposals but instead developed some alternatives to block granting called the Section 8 Voucher Reform Act (SEVRA). When Democrats regained control of the House of Representatives, the Financial Services Committee continued to work on the bill, and it passed the House. Key senators opposed some of the provisions of the bill and made little effort to reshape it. The Senate did not take it up. One of the issues in the legislative stalemate over housing assistance was whether to expand substantially the number of PHAs with statutory and regulatory flexibility under the Moving to Work Demonstration, which would have been another way of turning the basic voucher and public housing programs into a block grant (Fischer, 2011).

A policy change that already had legislative authority enacted as part of QHWRA was a new operating subsidy formula for public housing. An independent team of researchers —controlled by neither HUD nor the public housing industry and funded by an earmarked appropriation —conducted a study using the operating costs of FHA-insured multifamily housing as an external benchmark for the costs of operating public housing and proposed a new formula (Harvard Graduate School of Design, 2003). HUD's implementation of the new formula through the negotiated rulemaking process was contentious, in part because it was linked to a requirement for PHAs to apply private-sector models of asset management to their public housing inventories. The rulemaking also dealt with classic issues, such as how to adjust funding levels for inflation and how to phase the new system in with a minimum of pain, but also within a budget constraint. The new formula changed the regional balance of operating subsidies away from the lock-in of levels negotiated back in the 1970s that favored PHAs in the Northeast.

Responding to Katrina—HUD Reacts to Congress and FEMA

Hurricanes Katrina and Rita in 2005 were such major natural disasters that they spurred Congress to appropriate $19.7 billion to the CDBG program for use in recovery (Spader and Turnham, 2014). While CDBG had received special appropriations in the wake of earlier disasters, the size of this effort was without precedent and reflected the fact that the Chair of the Senate Appropriations Committee was Thad Cochran of Mississippi. An important change during the 2000s from earlier HUD disaster recovery programs was that the Katrina and Rita assistance was delivered through the states (Spader and Turnham, 2014). The Florida hurricanes that occurred in 2004 had already set the precedent for disaster recovery funds going to states rather than local jurisdictions.

HUD PD&R used geographic information system (GIS) mapping to analyze data from FEMA and other sources to estimate the extent and types of damage and determine how funds should be allocated among the states (Richardson and Renner, 2007; National Research Council, 2008). However, the appropriations came with provisions intended to ensure that more money would be allocated to Mississippi than under a strictly needs-based formula.[79]

The language in the bill that appropriated CDBG funds for Gulf Cost recovery gave HUD the ability to waive any CDBG regulation except for fair housing, labor standards, and environmental regulations and put the state recipients of funds in charge of program design. HUD thus had no control over how efforts were balanced across homeownership and rental properties. The state programs disproportionately favored homeowners compared to relative amounts of damage sustained. In order to avoid the environmental review that would have applied to a "rehabilitation" program using CDBG funds, Louisiana and Mississippi both implemented "compensation" programs under which owners of damaged homes could use grants to relocate to other areas rather than repairing their property (Spader and Turnham, 2014).

FEMA, rather than HUD, provided immediate relief for people who had lost their homes and needed a place to live. This was in contrast to the policy that followed the Northridge earthquake in 1994, when HUD asked for and received housing vouchers (National Research Council, 2008). Secretary Cisneros participated directly in the discussions with PHAs in the Los Angeles, California region over their use. Some Republican supporters of housing vouchers proposed their use in the Gulf region following Katrina, but neither HUD nor the Office of Gulf Coast Recovery, which orchestrated the Bush Administration response, embraced that approach.

Two years after the hurricanes, officials at FEMA decided that something needed to be done about people who were continuing to stay in trailer parks. FEMA transferred funds from FEMA's Disaster Recovery Fund to HUD to provide rental assistance to households determined eligible for assistance and referred by FEMA. The Disaster Housing Assistance Program (DHAP) worked somewhat like a housing voucher, but the FEMA funding source was not permitted to provide permanent housing assistance. Instead, the program was structured so that the subsidy would phase down, although the rules of the program varied during different "phases." Ultimately, HUD requested an appropriation of vouchers for households that had not left the DHAP program as of 2009, and about 13,000 vouchers were absorbed into the permanent voucher programs of the local PHAs that administered DHAP (Buron and Locke, 2013).

Alphonso Jackson had become Secretary of HUD by the time of the Katrina and Rita hurricanes. He played little role in the federal response, with one exception. As a former

[79] For example, a provision in the first appropriation that not more than 54 percent of the funds could go to any one state—that is, to Louisiana, which had a much higher share of the damage than that percentage.

public housing executive director, he decided the damage suffered by public housing in New Orleans, Louisiana, could provide the occasion for redeveloping that housing, much of which was already in terrible shape before Katrina. The policy requested by Jackson and approved in appropriations acts was that, in addition to receiving an allocation of housing vouchers for tenants who needed to be relocated from public housing, the Housing Authority of New Orleans would retain its allocations of public housing operating and capital funds for public housing units that had been destroyed or were uninhabitable. Louisiana had also received a bonus allocation of Tax Credits for use in disaster recovery, and those funds could also be used to rebuild public housing.

Total CDBG appropriations for disaster recovery between 2000 and 2013 were nearly as large as CDBG formula allocations during the same period, which had continued to decline. Another CDBG formula study had been completed in 2003. Bush Administration officials at HUD had some interest in proposing a change to the formula but considered it unlikely to succeed at a time when the overall funding level for the program was shrinking.

OMB had implemented a new system for evaluating federal programs called the Program Assessment Rating Tool (PART) and had declared that CDBG's effectiveness was "unproved." One of the Bush budgets proposed to move CDBG to the Department of Commerce and fold it into a block grant with other programs.

Minority Homeownership and Declining FHA Market Share

When George W. Bush became President, the GSEs still dominated housing finance. About half of all mortgages were sold to either Fannie Mae or Freddie Mac (Van Order, 2000). One estimate was that GSEs accounted for 71.9 percent of the annual growth in the residential mortgage market (Wallison and Ely, 2000). HUD's approach to setting goals for the GSEs changed. The expansion of the GSEs' multifamily business had made meeting the targets even easier. During the Bush Administration, OMB pushed for more aggressive goals. Aware of the growth of subprime lending in African-American neighborhoods, HUD urged the GSEs to take steps to encourage mainstream lending in those areas.

Effective starting in 2005, HUD created separate goals for home purchase, following HUD staff analysis that showed that the GSEs were lagging FHA and the rest of the market in serving first-time buyers and lagging FHA badly in serving minority first-time buyers. HUD's ability to establish these new goals may have been helped by the embarrassment of GSE leaders when their institutions were discovered to have used improper accounting practices (DiVenti, 2009).

As of 2002, the national homeownership rate was at a record 67.7 percent. In June 2002, President Bush announced a goal of creating an additional 5.5 million minority homebuyers by 2010 in an effort to overcome the gap in the rate between white and minority households. Building on work begun in the late 1990s, FHA created an automated underwriting system called TOTAL in an attempt to reach borrowers with relatively high but still acceptable risks (Weicher, 2006; National Research Council, 2008). HUD's grants to housing counseling agencies doubled, from $20 million to $40 million annually (Weicher, 2006).

Results of the third national housing discrimination study were reported in 2002 while Mel Martinez was still Secretary of HUD (National Research Council, 2008). His response was to direct the Fair Housing Initiatives Program that provides funding to private, fair-housing organizations to sharpen its focus on discrimination against Hispanics.

FHA was continuing to play its traditional role of insuring mainly young, first-time homebuyers with lower wealth and moderately higher credit risks than those served by GSEs (Szymanoski et al., 2012). However, the historically high FHA market share among African-Americans and Hispanics dropped during the peak years of the housing boom when many minority households were attracted to subprime loans. FHA loan limits also lagged house price increases, and lenders using conventional products that could not be characterized as "subprime" relaxed underwriting standards in a way that FHA could not without statutory changes. FHA's share of the overall market had dropped to below 5 percent by 2007. Thus, FHA did not respond to its decline in market share by deviating from its traditional line of business (Szymanoski et al., 2012).

What happened to the housing market at the end of the Bush Administration had little to do with either FHA or the GSEs, but instead with the subprime lending boom that was fueled by lenders who sold into financial markets other than the GSEs. However, by the mid-2000s, Fannie Mae and Freddie Mac were trying to compete by buying subprime loans with relatively high credit ratings. The collapse of house prices starting in 2007 created large losses for the GSEs and drove them into government conservatorship (DiVenti, 2009; HUD, 2010).

Managing the Department

Despite the important measures enacted as HUD Reform in 1989, the view that HUD was an agency vulnerable to scandal had not gone away. Martinez saw his mission very much as one of managing HUD in a way that prevented scandals from occurring.

Ironically, given the Administration's emphasis on keeping HUD scandal free, Alphonso Jackson became the first HUD Secretary to be accused of violating the HUD Reform Act since its enactment in 1989. The subject of investigations by HUD's Inspector General, the Justice Department, and a federal grand jury into whether he had been involved in inappropriate awards of contracts, Jackson resigned in April 2008.

After Jackson resigned, President Bush appointed Steve Preston to be Secretary of HUD. A capable businessman, Preston had already been head of the Small Business Administration under Bush. Preston set forth a program for what he could accomplish during the short time left in the Bush Administration, very much focused on management improvements similar to the hiring and procurement procedures reforms he had implemented at SBA.

Meanwhile, the housing market collapsed, and the final weeks of the Bush Administration were focused on reacting to the financial crisis that threatened to bring down the U.S. economy and major financial institutions. While the Housing and Economic Recovery Act (HERA) included some provisions related to HUD, Secretary Preston did not have a major role in its enactment.

10. Responding to the Great Recession: 2009–2015

Coming into office in January 2009, President Barak Obama chose Shaun Donovan, head of the Department of Housing Preservation and Development in New York City under Mayor Bloomberg, to be Secretary of HUD. Donovan was a graduate of Harvard's Kennedy School and had been the Deputy Assistant Secretary in charge of HUD multifamily programs towards the end of the Clinton Administration. This somewhat unusual choice—the more expected appointment to HUD would have been an African-American or Hispanic mayor—can be explained by the central role of housing in the financial crisis. The Obama White House may have concluded that someone with deep expertise in housing finance needed to be part of the Cabinet. Indeed, Donovan participated in discussions with the Secretary of the Treasury, the Federal Reserve Chair, and heads of major banks to an extent that is unique in the history of HUD secretaries, as the Obama Administration developed policies for dealing with the immediate mortgage crisis[80] and discussed the future of the housing finance system. At HUD, Donovan's signature initiatives were a new neighborhood revitalization program, Choice Neighborhoods, and a further effort to transform the public housing inventory called the Rental Assistance Demonstration (RAD).

In July of 2014, Shaun Donovan left HUD to become OMB Director, and Julián Castro became Secretary of HUD. Castro is the third HUD Secretary of Hispanic origin, following Cisneros and Martinez, and the second to have been mayor of San Antonio. According to *The Washington Post,* Castro had turned down a Cabinet job in 2012. As of mid-2015, Castro has been focusing on implementing the HUD programs started when Donovan was Secretary and anticipating the 2016 presidential election by speaking on such themes as disparities of opportunity. Notable in the HUD budget proposals presented by Castro in early 2015 was a return to requesting new vouchers, some of which are intended to support efforts to end homelessness.

HUD's Role in the Stimulus Effort

When Shaun Donovan became Secretary of HUD, the Great Recession triggered by a financial crisis dominated policy space. As of early 2009, home prices had fallen for 33 consecutive months (Szymanoski et al., 2012). The unemployment rate was approaching 8 percent and

[80] For example, Donovan played a leading role in the 2012 National Mortgage Servicing Settlement in which large mortgage serving companies agreed to make loan modifications in the wake of findings that they had violated the law in their handling of foreclosures. That role would typically have been played exclusively by the Attorney General or the Secretary of the Treasury.

growing each month.[81] Lehman Brothers and some 325 banks had failed, and Fannie Mae and Freddie Mac had been placed into a federal government conservatorship. The first order of business was a stimulus package to help the economy revive.

A HUD Transition Team started work immediately after the election and had designed HUD's part of the American Recovery and Reinvestment Act (ARRA) by the time Donovan took office. ARRA was enacted in February 2009. A constraint established by the incoming Administration, perhaps in consultation with appropriators in Congress, was that stimulus funding needed to be for one-time or short-term activities. It could not add to a program in a way that would have future budget implications. That meant, for example, incremental vouchers were not considered possible, although ARRA funding was used to fill a shortfall in funds to meet contractual obligations for Section 8 developments.

The HUD Transition Team made the case for including HUD in the stimulus package, based in part on job creation—for example, a large, one-time increase in capital funding for rehabilitating public housing and an energy retrofit program for privately owned, multifamily housing. Other programs were thought of as mitigating the effects of the recession: a second round of a Neighborhood Stabilization Program (NSP) that had already been started at the end of the Bush Administration and a new program, Homelessness Prevention and Rapid Rehousing, to respond to an anticipated growth in homelessness stemming from the recession. ARRA also included a grant program allocated to states to help keep the pipeline of rental housing developments financed by the LIHTC going at a time when the typical equity investors in LIHTC, financial institutions, were in crisis. Altogether, HUD's share of ARRA was $13.6 billion (HUD, 2009).

NSP was the stimulus program most closely linked to the housing crisis. NSP provided funds to offset a pattern in which price drops in neighborhoods can lead to a downward spiral as foreclosures have a contagion effect on nearby properties. NSP provided grants to local governments to prevent foreclosures and to return foreclosed properties to occupancy. NSP was sponsored by congressional Democrats, and the Bush Administration had opposed its enactment in 2008, arguing that the housing market should be permitted to work through the cycle of price collapse and recovery. But NSP was part of HERA, which also included receivership authority for the GSEs, and Bush did not veto the bill. The ARRA version of NSP differed from the earlier version in that it was a competitive grant program. "NSP 1" had been allocated by formula and was challenged by a lack of grantee capacity (Immergluck, 2013). Secretary Donovan remained committed to the concept and requested a third, post-ARRA, version of the program, funded in 2010. Despite the effort to focus "NSP 2" on funding projects with sufficient scale to make a difference, the scale turned out to be too small. Some NSP 2 target areas recovered when the economy recovered (e.g., hard-hit neighborhoods in "Sand States"), while others were more deeply depressed (e.g., neighborhoods in long-term decline in "Rust Belt" cities). The NSP investment was not sufficient to overcome the workings of the market (Immergluck, 2013; Spader et al., 2015).

[81] http://data.bls.gov/timeseries/LNS14000000.

After the enactment of the ARRA programs, Donovan and his subcabinet developed additional proposals for the 2010 fiscal budget year that would begin in September 2009: Choice Neighborhoods, Sustainable Communities, an Energy Innovation Fund, and the Transformation Initiative. That budget also reflected a continued emphasis on homelessness prevention and an effort to protect funding levels for the housing assistance programs (HUD, 2009). Like some of the ARRA funding, the Sustainable Communities and the Energy Innovation Fund reflected the Obama Administration's commitment to "green" policies.

Choice Neighborhoods and Superstorm Sandy

The centerpiece of Donovan urban policy, Choice Neighborhoods, reflected a determination to "do it right this time," learning from the lessons of HOPE VI and earlier neighborhood revitalization efforts. In some sense, urban policy had come full circle. The description of Model Cities earlier in this chapter fits Choice Neighborhoods—a holistic approach, bringing in multiple actors. But the Choice Neighborhoods program exhibits more sophistication on how much leadership can be expected from low-income communities, even with major organizational support. This thinking may have been influenced by the disappointing experience of foundation-sponsored urban revitalization efforts in the previous two decades.

A new emphasis in Choice Neighborhoods was an attempt to link neighborhood revitalization to school improvement, recognizing that bad schools contribute to persistent poverty (Khadduri, 2010). But the proposal faced the challenge that congressional housing committees were reluctant to see HUD funds spent for purposes other than housing. Furthermore, HUD once again did not have a mandate to marshal the resources of other federal agencies in support of a focused neighborhood transformation effort.

Targeting to a narrowly defined neighborhood, ever a challenge for HUD community development programs, was made easier by centering the effort on public-and assisted-housing sites. Choice Neighborhoods started in 2009 with a set-aside of $65 million from that year's appropriation for HOPE VI, and in 2011 HUD selected five sites to proceed with implementation: three public housing developments and two developments owned and managed by private entities (Urban Institute, 2013).

During the Obama years, CDBG has continued to evolve into a program used more for disaster recovery than to address the basic problems of cities across the nation. The 2010 budget proposal talked about reform of the CDBG formula but did not lead to a serious effort to enact such legislation. CDBG received a $16.5 billion appropriation for recovery from the major damage caused, especially in New Jersey and New York, by "Superstorm Sandy" in late October 2012. Secretary Donovan had a highly visible role, leading the Sandy Task Force and organizing the allocation of funds. A lasting effect from the Sandy recovery may be the implementation of standards for rebuilding that create more "resiliency" to future disasters (Hurricane Sandy Rebuilding Task Force, 2013).

The Policy Consensus Continues on How to End Homelessness

The Homelessness Prevention and Rapid Re-Housing Program (HPRP) followed the rules of stimulus funding and did not receive additional appropriations after ARRA. However, HPRP had a lasting effect on policy because its large funding amount supported the implementation of an increasingly popular approach to addressing homelessness. As it did at the start of the George W. Bush Administration, the National Alliance to End Homelessness (NAEH) played a major role in the development of HUD's homelessness policy. NAEH had already persuaded Congress to enact a Rapid Re-Housing Demonstration in 2007 (Finkel et al., forthcoming). Looking for "shovel ready" ideas for stimulus funding, the Obama Transition Team had considered expanded funding for Emergency Shelter Grants. NAEH proposed that, instead of funding more shelters, HUD should fund rapid re-housing and suggested a level of $500 million. The Transition Team did not think that was big enough for meaningful job creation and also added a "prevention" dimension thought relevant in the context of major job loss. The enacted amount was $1.5 billion. The grants went to CDBG entitlement communities, which then ran competitions. HUD encouraged an emphasis on rapid re-housing of people already homeless rather than prevention.

The rapid re-housing program design is for direct placement in housing with rental assistance with no transitional period during which homeless families or individuals receive intensive services to prepare them for housing. The assistance is short term and controlled by case managers at the variety of agencies that implement the program. Caseworkers identify eligible families and often focus on families they consider most likely to use the program successfully (Gubits et al., 2013). HUD used the CoC competitive process to encourage use of ongoing HUD funding for the rapid re-housing approach after HPRP ended.

HUD's determination to focus the resources of the homeless services system on people who are literally homeless continued during the Obama years. Some advocates for homeless programs (but not NAEH) tried to expand the definition of homelessness beyond those in shelters or on the street. This resulted in a new and broader definition of homelessness in the Homeless Emergency Assistance and Rapid Transition to Housing Act (HEARTH), signed by Obama in 2009. But HUD's program implementation continued to focus on a goal that can be achieved—ending or dramatically reducing homelessness— rather than identifying all poor and vulnerable individuals and families as homeless.[82]

Administratively, HEARTH consolidated separate programs, a long-standing agenda intended to relieve burden on both grantees and HUD staff. But the HEARTH Act program is still based on applications to HUD rather than an allocation formula, and HUD can still use the competition to affect local policy choices. During the automatic cuts in federal spending programs ("sequestration") that went into effect in fiscal year 2013, HUD's homeless

[82] A broader definition may make more sense for K–12 education and for Supplemental Assistance for Needy Families (food stamps) than it does for homeless assistance grant programs. Those programs are entitlements, and the issue is to make sure that the most vulnerable people have access to the resources to which they are entitled.

assistance programs came out relatively unharmed because increases enacted in the previous year created a higher base against which the cuts were taken.

Homelessness policy exhibited remarkable continuity between the George W. Bush and Obama administrations. This reflected a number of factors: policy influence from NAEH, strong leadership of HUD homelessness programs by senior career civil servants, and attention paid by both administrations to empirical evidence about the nature of the problem from an annual "point-in-time" count of homeless people and from the Homeless Management Information Systems required of all HUD grantees. This emphasis on measurement is reflected in the Obama Administration's 10-year plan to end homelessness (U.S. Interagency Council on Homelessness, 2010).

Further Transformation of Public Housing: The Rental Assistance Demonstration (RAD)

Under the leadership of Secretary Donovan, HUD took additional steps towards merging public housing into the private sector. The HOPE VI program had established the precedent of private financing and joint public-private ownership of redeveloped, distressed public housing properties. For some properties without HOPE VI grants, PHAs were using authority enacted under QHWRA to pledge to repay interest over time using annual appropriations to the Public Housing Capital Fund. The Obama Administration took a further step towards merging public housing into the private sector by permitting PHAs to turn their public housing operating and capital subsidy streams into Section 8 housing assistance contracts. The rental income from those contracts can be used to amortize long-term mortgages as part of a financing package that typically includes private equity investments using LIHTCs. The Rental Assistance Demonstration (RAD) program goes further in another respect: PHAs have two options for the form of rental assistance the new project can use. In either case, the conversion also gives tenants an element of choice not previously available: they can leave the project with a tenant-based housing voucher when one becomes available from the PHA's pool of vouchers and use it to rent a different housing unit.[83]

The original concept developed during 2009 under Secretary Donovan's direction would have merged the various forms of rental assistance into a single program. The tenant-choice feature would have applied to project-based Section 8 contracts as well. This echoed Cisneros' Blueprint proposal of merging of housing assistance into the market and was too radical for key members of Donovan's subcabinet. The proposal that was announced in February 2010 was limited to the conversion of public housing developments and a few smaller "orphan" programs.[84]

The public housing industry—particularly the larger and more sophisticated agencies—were more comfortable with a conversion proposal than they would have been in the past. HOPE

[83] The two forms of assistance are "project-based vouchers" and "Section 8 projects." From the standpoint of the tenant, the difference is in how soon the tenant can receive a tenant-based voucher.

[84] For example, Rent Supplement units that had never been converted to Section 8. Including all the orphans, HUD staff counted 13 different types of HUD rental assistance.

VI had given them experience with mixed finance, as had the optional use of a portion of their housing voucher funding for "project-based vouchers."[85] After almost 15 years of HOPE VI, the public housing developments least likely to cover their costs when converting to rental assistance no longer existed. The opposition to the proposal—at that point called Preservation, Enhancement, and Transformation of Rental Assistance (PETRA)—came from another quarter. Tenant advocacy groups convinced members of Congress that giving up on public ownership of part of the housing stock was a bad idea, arguing that tenants would be at risk of displacement if a property went into foreclosure.[86] The compromise was for a demonstration program with ceilings in annual appropriations acts for the number of units that can be converted. The demonstration also is limited to "no-cost" conversions in which Section 8 subsidies would not cost more than the development's public housing operating and capital funding. The program has been popular with PHAs and oversubscribed (Schwartz, 2015).

The public housing program remains large and diverse, still consisting of a million units even after the shrinkage that went on through HOPE VI demolition and redevelopment. Even if RAD authority is expanded substantially, many PHAs are likely to remain owners of traditional public housing projects, especially those designated for occupancy by seniors and people with disabilities. Those properties tend to have lower backlogs of capital needs and, therefore, a less compelling need to find new sources of funding (Finkel et al., 2010).

LIHTC and HUD Multifamily Assistance Programs

Secretary Donovan continued the approach to the Low-Income Housing Tax Credit (LIHTC) that HUD had taken ever since the enactment of LIHTC. During the Obama Administration, HUD focused on encouraging the use of tax credit investments as a resource for HUD programs and initiatives—in particular, as part of financing packages for RAD. HUD did not use its potential leverage—for example, stimulus funds for keeping the LIHTC pipeline going that were given to HUD to allocate—to influence the way in which states chose to use LIHTC resources. Instead, Donovan and his Assistant Secretary for Housing, Carol Galante, worked to better align the rules and procedures of HUD multifamily housing programs with LIHTC. For example, a change recommended by affordable housing industry organizations makes it possible to refinance multiple small properties together, making the "deal" easier to syndicate under LIHTC. Another change, with implications for affirmatively furthering fair housing, permits Section 8 subsidies to be transferred from one multifamily rental property to another.

Reforms during the Obama Administration to the Section 811 program for people with disabilities have an additional dimension. Under the Project Rental Assistance (PRA) option, rental assistance is to be used in portions of existing and newly constructed rental developments. Historically, Section 811 has used capital and operating subsidies for

[85] The San Diego Housing Commission, with HUD's approval, had converted its entire public housing program to project-based vouchers.

[86] Others have argued that the absence of real consequences to PHAs of physical deterioration and mismanagement has been the main weakness of the public ownership model. See Khadduri and Wilkins (2008).

freestanding developments for people with disabilities. Advocates for people with disabilities support "mainstreaming" housing for people with disabilities and argue that separate developments can have an institutional character. They are supported by the Supreme Court's Olmstead decision, which created a mandate for states to provide housing for people with disabilities in the least restrictive possible setting. This approach also has the potential to produce a larger number of units than the capital grant program, which had high per-unit costs.

Defending Housing Assistance

Secretary Donovan's first budget proposal, for fiscal year 2010, did not request incremental units of housing assistance. Instead, the Administration's budget proposed an amount of funding for the voucher program deemed sufficient to permit PHAs to achieve high lease-up rates and to fully use voucher funding that had been appropriated for "tenant protection" (HUD, 2009). The fiscal 2009 appropriation for vouchers had not been large enough to achieve those objectives. Then during the negotiations over the fiscal 2011 budget, HUD attempted to persuade OMB to support a substantial number of vouchers. In the end, the proposal announced in February 2010 was for two demonstration programs that would have used vouchers for homeless families and for chronically homeless individuals. Following the 2010 mid-term election that brought back Republican control of the House of Representatives, appropriations for these demonstrations were not enacted. The only incremental vouchers were for HUD-VASH, a HUD-Department of Veterans Affairs program serving homeless veterans for which incremental units were funded each year starting with the end of the Bush Administration.

In negotiations with OMB and Congress in the difficult budgetary environment over the next 4 years, Donovan sought to protect funding for rental assistance—both the voucher program and project-based Section 8—by accepting cuts in other programs such as Community Development Block Grants and HOME. Donovan was determined to boost the rates at which PHAs used their voucher funding—and, therefore, the number of households using vouchers. He used internal management systems at HUD to that end. In his view that would make it more difficult for Congress to underfund the program. Voucher subsidy slots would not "melt away" painlessly.

The most recent HUD budget, proposed by Secretary Julián Castro in February 2015 for fiscal 2016, includes 67,000 new vouchers. The budget justification characterizes these vouchers as "new," but not "incremental." Instead, they are characterized as a restoration of the number of households the voucher program was able to support before the Sequester. Some of the proposed vouchers are for homeless people and other people with special needs, but 37,000 would be allocated to PHAs on the basis of need (HUD, 2015).

FHA Redux

During the Great Recession, FHA played its intended countercyclical role "to stabilize credit markets in times of economic disruption" (Szymanoski et al., 2012). Minority homebuyers had been hit particularly hard by the losses in house value that left millions of Americans with underwater mortgages. Responding to the crisis in credit availability that followed the housing crash, Congress raised FHA loan limits. Perhaps even more important, FHA did not sharply tighten its underwriting standards, unlike conventional lenders. The share of all single-family mortgages insured by FHA rose from 5 percent in 2007 to 20 percent in 2009 and 2010 (Szymanoski et al., 2012; Van Order and Yezer, 2014; Weicher, 2014). At its peak in 2009 and 2010, FHA had 37.3 percent of the home purchase market, and more than 59 percent of the home purchase market for African-American and Hispanic borrowers (Szymanoski et al., 2012).

FHA also helped large numbers of homeowners facing payment shocks from the expiration of teaser rates refinance into FHA loans. Mortgagors with FHA insurance used their option to "streamline" refinance (without further appraisals or income documentation) into loans with lower interest rates. Legislation enacted in 2009 gave FHA the authority to pay a partial claim of up to 30 percent of the unpaid principal balance and created an FHA-Home Affordable Modification Program (HAMP) (Szymanoski et al., 2012). The FHA program joined earlier mortgage modification programs administered by the U.S. Treasury, none of which has been as successful as had been hoped in preventing foreclosures. The Obama Administration, like the Bush Administration, has been reluctant to apply sanctions to lenders who did not cooperate with loan modification programs (Immergluck, 2013).

HUD lost the function of mission regulator of the GSEs with the establishment in 2009 of a Federal Housing Finance Agency (FHFA) to oversee all aspects of the GSE's operations (DiVenti, 2009).[87] As the housing market recovered, the GSEs remained in conservatorship, but joined FHA in playing a countercyclical role and providing a substantial share of all loan originations as the market began to recover. They showed profits again beginning in 2012 (Schwartz, 2015).

A white paper released jointly by HUD and the U.S. Treasury in February 2011 proposed three options for the future of the secondary mortgage market, all of which would retain FHA and involve an explicit government guarantee of other mortgages. None of the options would continue to have Fannie Mae and Freddie Mac operate under direct government control (HUD/Treasury, 2011; Schwartz, 2015). As of mid-2015, there has been little movement on these proposals, and the future shape of the housing finance system remains unclear.

[87] Safety and soundness oversight by OFHEO, which had been in HUD but independent of the HUD Secretary, was also moved to FHFA.

Returning to an Active Fair Housing Role

As had happened at the start of the Clinton Administration, the incoming Obama Administration returned to a willingness to settle fair housing cases in which HUD was a defendant. HUD also showed some willingness to use its ability to withhold funds from communities with apparent fair housing violations, in the wake of a 2009 court decision in which Westchester County was found to have made false claims when it certified it was in compliance with fair housing requirements (Pearl, 2014).

In 2012 HUD proposed a regulation on affirmatively furthering fair housing that would go beyond the *Fair Housing Planning Guide* to provide clear standards and early HUD review of a community's Assessment of Fair Housing. HUD has expressed its intention to provide data, analytical tools, and technical assistance help communities comply with the rule (Pearl, 2014). A final rule was published in 2015, putting many of the proposed provisions into effect.[88]

The Obama Administration at HUD has also revived a focus on housing vouchers as a tool for affirmatively furthering fair housing. The proposal for transforming public housing that eventually became the Rental Assistance Demonstration included a $50 million grant program to encourage regional administration of the voucher program, which has long been thought important for helping voucher families gain access to high opportunity neighborhoods in the suburbs. Perhaps more important, HUD is moving toward a new approach to determining the subsidy levels for the voucher program. Small Area Fair Market Rents would be set at the level of ZIP Codes rather than for metropolitan areas as a whole. Small Area Fair Market Rents have been implemented in Dallas in connection with fair housing litigation and on a demonstration basis in five other communities.[89]

Managing to Numbers and Reviving Research

Shaun Donovan came to HUD with some management concepts he had used in New York City's Department of Housing and Preservation. He created an Office of Strategic Planning and Management and held regular meetings called "HUD STAT" during which program offices had to explain why they had or had not met goals to which they had agreed. The idea was to hold the department accountable for a limited set of outcomes that could be measured. HUD had implemented performance measurement systems ever since the Government Performance Results Act began to require them in the 1990s. This was different in that it was used directly by the HUD Secretary as a serious management tool. [90] For example, Donovan used HUD STAT to speed implementation of HUD-VASH vouchers for homeless veterans and to increase utilization rates for rental housing assistance programs.

[88] *Federal Register* 80 (136), July 16, 2015/Rules and Regulations: 42271–42371.

[89] *Federal Register* 77 (224), November 20, 2012/Notices: 69651–69658.

[90] Looking over a longer period of time, Shaun Donovan's effort was perhaps not so new. HUD STAT might be seen as a more technologically advanced version of Carla Hills' use of management by objectives to hold HUD program offices accountable.

One of Donovan's successful proposals included in the fiscal year 2010 budget request was a Transformation Initiative that, for the first time, created a set-aside from HUD's program appropriations to be used for purposes essential for sound program management: technical assistance, technology improvement, and program evaluation. The Transformation Initiative provided the funding needed for a major revival of HUD research, consistent with the recommendations of a National Research Council study that reviewed the history of HUD's research program and recommended such a revival (National Research Council, 2008). The Transformation Initiative also supported an Obama Administration determination to evaluate programs using rigorous methods such as randomized, controlled trials. The Transformation Initiative requires annual approval from congressional appropriators. It was not included in the fiscal year 2015 Appropriations Act, but HUD is trying to revive it in fiscal 2016.

11. Concluding Thoughts

Looking back at what has happened to HUD programs over the last 50 years, it is more apparent than ever that HUD's predominant business is providing housing for poor renters. Housing assistance dominates HUD's budget because it should. A consensus has developed that tenant-based housing vouchers are the best approach to housing assistance—indeed that consensus was already apparent 20 years ago (Winnick, 1995). But pressures remain to project-base some deeply targeted assisted housing, despite the availability of LIHTC to provide capital subsidies for housing in which tenant-based assistance can be used.

Ending homelessness, added to HUD's mission almost 30 years ago, is an important dimension of housing assistance. Indeed, preventing and reducing homelessness has now become the policy imperative that keeps housing assistance going.

The urban agenda is less compelling in 2015 than it was in 1965—or perhaps there is more humility about what federal programs can do to alter the fortunes of American cities. The most sustained urban initiatives have been those that are centered on failed housing developments—HOPE VI and now Choice Neighborhoods. CDBG funding levels have crashed, although the political base for the program, originally enacted in 1974, endures. Mayors appreciate a flexible pot of money, even if it is not large.

Overall, the enthusiasm for block grants that began in the 1960s and persisted through the 1980s has waned. The HOME program never became the predominant source of subsidies for housing. The Continuum of Care that funds homeless programs is not a block grant. And the effort to turn the voucher program into a formula grant to states was stillborn.

Enthusiasm for homeownership as a path out of poverty has waned as well. The Section 235 program and Jack Kemp's HOPE programs were ephemeral, and the home purchase option has been a minor use of HOME. The Great Recession has demonstrated that Robert Weaver was correct in warning about the risks of homeownership for vulnerable households. At the same time, FHA's position is secure as one component of a complex finance system for homeownership. FHA has an important countercyclical role and an ongoing role in supporting home purchases by households with modest incomes, especially minorities.

Fair housing has been at the heart of HUD's mission since its birth and especially since the Fair Housing Act of 1968. But the use of HUD programs to affirmatively further fair housing has stumbled repeatedly and has aptly been called "a work still in progress" (Pearl, 2014).

HUD's mission is not easy, and HUD secretaries, their subcabinets, and career civil servants have struggled with some challenges that are as salient in 2015 as they were in 1965. Among them are:

- How to make headway on providing housing opportunities for poor people and minorities in places where they and their children are safe and have access to high-quality schools and other public services.
- How to follow a successful "place-based" policy that turns around a distressed neighborhood rather than simply building new housing there.
- How to overcome the budgetary challenges to making housing assistance a fair and effective part of the social safety net.

The task of the early HUD secretaries of turning HUD into a single organization capable of pursuing cross-cutting policy agendas has by and large succeeded. The record of HUD secretaries is one of strong leadership, although each secretary has focused on particular initiatives that matched his or her interests or were compelled by external events such as natural disasters. Journalism from time to time has also played an important role in motivating HUD secretaries or clearing the way for their policies.

Congress often has a larger role in determining HUD policies than the secretary of HUD. The compendium of HUD laws is 1,700 pages long. And every secretary has the mayors, the housing industry, and the PHAs to deal with. Industry and advocacy groups are as important for influencing laws and the regulations that implement them in 2015 as they were in 1965, although which interest groups are the most important has shifted over time.

The ideal secretary of HUD is a visionary, a good political in-fighter, and a strong administrator. It's a tall order.

Author's Note and Acknowledgments

A political scientist by training, I joined the Office of Policy Development and Research at HUD in November 1973 as a career civil servant. In 1983, I filled a vacancy in a career position and became the second director of PD&R's Policy Development Division, a job I held until I left HUD to go to Abt Associates in June 2000. During my tenure at HUD, I was able to observe closely many of the policy debates within the Department, between HUD and OMB, and between the executive branch and Congress.

Given the scope of an assignment to write a paper covering the 50-year history of HUD, I could review primary sources such as legislative histories and budget documents only very selectively. I have cited published sources based on more thorough research when possible. I am particularly indebted to those who participated in policymaking at HUD and then wrote about it, as the reference list of this paper will make clear to those who recognize names.

I am especially indebted to Larry Thompson's carefully balanced and factually accurate *A History of HUD* and to Alex Schwartz's thoroughly researched and documented textbook, *Housing Policy in the United States,* which jogged my memory and often led me to the best published material.

I have supplemented published material with interviews with people who have had key roles at HUD or have been close observers of the evolution of HUD policy. These interviews, many lasting 2 hours or more, confirmed or revised my understanding of what happened and why and in many cases led me to examine additional published sources. Of course, interpretations ultimately are my own.

In alphabetical order: William Apgar, Harold Bunce, Harry Carey, Dennis Culhane, Paul Dornan, Jacqueline Lawing Ebert, Charles Edson, Frederick Eggers, Anthony Freedman, David Garrison, John Goering, David Hardiman, Otto Hetzel, Feather O'Connor Houston, Bruce Katz, William Kelly, Robert Kenison, Marge Martin, Charles Orlebeke, Lawrence Pearl, Todd Richardson, Michael Roanhouse, Barbara Sard, Joseph Schiff, Leslie Steen, James Stimpson, Larry Thompson, Kent Watkins, and John Weicher.

Several people reviewed drafts of the paper and provided very helpful comments and additional information: David Garrison, David Hardiman, Robert Kenison, William Reeder, and Edward Szymanoski. I owe a great debt to them.

I would like to thank my employer, Abt Associates, for supporting my work on this paper, which I conducted as an Abt Senior Fellow. And special thanks to Abt's librarian, Sarah Curran, who provided enormous help in locating sources, and to my colleague Jennifer Turnham, who advised me on how to write history.

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Chapter 2
Race, Poverty, and Federal Rental Housing Policy

Ingrid Gould Ellen and Jessica Yager

For the last 50 years, HUD has been tasked with the complex, at times contradictory, goals of creating and preserving high-quality affordable rental housing, spurring community development, facilitating access to opportunity, combating racial discrimination, and furthering integration through federal housing and urban development policy. This chapter shows that, over HUD's first 5 decades, statutes and rules related to rental housing (for example, rules governing which tenants get priority to live in assisted housing and where assisted housing should be developed) have vacillated, reflecting shifting views about the relative benefits of these sometimes-competing objectives and the best approach to addressing racial and economic disparities. Also, HUD's mixed success in fair housing enforcement—another core part of its mission—likely reflects a range of challenges including the limits of the legal tools available to the agency, resource limitations, and the difficulty of balancing the agency's multiple roles in the housing market. This exploration of HUD's history in these areas uncovers five key tensions that run through HUD's work.

The first tension emerges from the fact that housing markets are local in nature. HUD has to balance this variation, and the need for local jurisdictions to tailor programs and policies to address their particular market conditions, with the need to establish and enforce consistent rules with respect to fair housing and the use of federal subsidy dollars.

The second tension is between serving the neediest households and achieving economic integration. In the case of place-based housing, if local housing authorities choose to serve

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the very poorest households in their developments, then those developments risk becoming islands of concentrated poverty. Further, by serving only the poorest households, HUD likely narrows political support for its programs.

The third tension is between serving as many households as possible and supporting housing in high-opportunity neighborhoods. Unfortunately, in many metropolitan areas, land—and consequently housing construction—is significantly more expensive in the higher-income neighborhoods that typically offer safer streets, more extensive job networks and opportunities, and higher-performing schools (Norman, 2014). As a result, a given level of resources can typically house fewer families in higher-income areas than in lower-income ones.

The fourth tension is between revitalizing communities and facilitating access to high-opportunity neighborhoods. Research shows that, in some circumstances, investments in subsidized housing can help revitalize distressed communities and attract private investment. Yet, in other circumstances, such investments do not trigger broader revitalization and instead may simply constrain families and children in subsidized housing to live in areas that offer limited opportunities.

The final apparent tension is between facilitating integration and combating racial discrimination. Despite the Fair Housing Act's (FHA's) integration goal, legal decisions, which are discussed further in this chapter, have determined that the act's prohibition on discrimination limits the use of some race-conscious approaches to maintaining integrated neighborhoods.

To be sure, these tensions are not always insurmountable. But addressing all of them at once requires a careful balancing act. The bulk of this chapter reviews how HUD programs and policies have struck this balance in the area of rental housing during the agency's first 50 years. The chapter ends with a look to the challenges HUD is likely to face in its next 50 years.

I. Overview of HUD's Role in the Rental Housing Market

As the central federal agency charged with creating "strong, sustainable, inclusive communities and quality housing for all Americans," HUD fundamentally shapes the nation's rental housing market—both by providing subsidies to low-income households and by enforcing the national commitment to fair housing principles (HUDa). The key elements of HUD's programs can be divided into three main groups: public housing; privately owned, subsidized housing; and tenant-based vouchers. The features of these programs and a discussion of HUD's enforcement of the FHA with respect to rental housing follow.

Public Housing

Established by the Housing Act of 1937, public housing was the federal government's first major low-income housing program. The federal government provided funding to construct public housing developments and later contributed to operating support. Although largely financed by federal funds, developments are owned and operated by local housing authorities, which have control (subject to limits set in federal law and regulation) over siting, design, and tenant selection. Public housing currently serves 1.1 million households, virtually all of whom are very low-income. Forty-five percent of household heads are black and 24 percent are Hispanic (HUD, 2014).

Privately Owned Subsidized Housing

The federal government has created numerous programs to subsidize the construction of privately owned, low-income rental housing through a combination of low-interest loans, tax benefits, and rent subsidies. Congress ended support for HUD's multifamily construction programs in 1983, but HUD continues to oversee the portfolio, which amounts to approximately 1.4 million assisted housing units. HUD also provides support to the owners of existing buildings to maintain affordable rents after the expiration of initial financing contracts and affordability requirements (HUDb). The vast majority of these units are supported through the Section 8 project-based rental assistance programs. The incomes of residents living in these developments are very close to those of public housing residents, but residents are somewhat more likely to be white (Collinson, Ellen, and Ludwig, 2015).

With the defunding of HUD's major production programs, the largest government subsidy for affordable housing production by far is the Low-Income Housing Tax Credit (LIHTC) Program, which is operated by the U.S. Department of the Treasury instead of HUD. Established by the Tax Reform Act of 1986, the LIHTC Program is administered by state allocating agencies that receive tax credits from the IRS and then award them to developers who construct or rehabilitate low-income, rental housing. Developers typically sell credits to equity investors, and the proceeds of those sales reduce the amount of debt their projects must support. Projects can be mixed-income and are eligible for tax credits if at least 20 percent of their tenants have incomes below 50 percent of the area median income (AMI) or at least 40 percent have incomes below 60 percent of AMI. In practice, the vast majority of LIHTC projects contain only low-income units.

Many LIHTC developments also receive other sources of funding to cover construction costs, including HUD subsidies like the HOME Investment Partnerships Program (HOME) and HUD rental assistance payments for very low-income tenants. A recent HUD analysis estimates that slightly more than one-half of LIHTC tenants either receive tenant-based rental assistance or reside in a unit receiving project-based rental assistance (Hollar, 2015).

Housing Choice Vouchers

Congress created the Section 8 Existing Housing Program in 1974 to provide vouchers for low-income households to use to rent apartments on the private market. Over the years, several different tenant-based programs have emerged, but the basic structure has remained the same. Tenants pay 30 percent of their income for rent, and the government pays the difference between the tenant contribution and the rent, up to the payment standard calculated as 90 to 110 percent of the fair market rent, which is in turn set at the 40th or 50th percentile of rents in the metropolitan area. Landlords are not required to participate in the voucher program, though 12 states, the District of Columbia, and several localities have enacted laws that prohibit landlords from refusing to rent to voucher holders. (Owners of LIHTC developments also are prohibited from discriminating against voucher holders.)

HUD's current program, the Housing Choice Voucher Program, is now the largest subsidy program, serving 2.2 million households, most of whom are very low-income. HUD estimates that, in 2013, 48 percent of voucher holders were black and 15 percent were Hispanic (HUDe). Up to 20 percent of these vouchers can be "project-based," meaning they are tied to particular housing developments and can help pay for construction or rehabilitation. While these hybrid vouchers are tied to particular developments for a set period of time, households with project-based vouchers are given priority for tenant-based vouchers or other forms of rental assistance if they decide to move to a new housing unit.

Enforcement of the Fair Housing Act

HUD plays an important role in the nation's housing market as the administrator and one of the enforcers of the federal Fair Housing Act. While other provisions of federal law have been used to address discrimination in housing (including Title VI of the Civil Rights Act of 1964, the Equal Protection Clause of the U.S. Constitution, and the Civil Rights Act of 1866), the FHA, Title VIII of the Civil Rights Act of 1968, contains the strongest fair housing mandate found in federal law. One of the legislative enactments brought into existence in response to the Civil Rights Movement of the post-Brown v. Board of Education era, the act prohibits discrimination in the sale, rental, or financing of housing on the basis of race, religion, national origin, gender, disability, or family status (42 U.S.C. §§ 3604-3606). The act also imposes upon HUD and its grantees a duty to affirmatively further fair housing in the administration of its programs (42 U.S.C. § 3608(d), (e)(5)).[1]

[1] For a detailed timeline of fair housing advances, both legal opinions and the evolution of laws, rules, and HUD programs, see Poverty and Race Research Action Council. (n.d.). *Fifty Years of "The People v. HUD": A HUD 50th Anniversary Timeline of Significant Civil Rights Lawsuits and HUD Fair Housing Advances.*

II. Looking to the Past: Shifting Rules at HUD

Since the establishment of HUD in 1965, Congress has passed many laws, and the agency has issued many rules that govern who can live in subsidized rental housing and where that housing should be located. This section reviews the history, with an eye towards analyzing implications for poverty concentration and racial segregation.

a. Public Housing

Despite providing affordable housing for millions of Americans for close to 80 years, public housing is considered a failure by many. The program is faulted for concentrating poverty; exacerbating racial segregation; and creating large, institutionalized, low-quality developments that clash with the scale and character of surrounding neighborhoods. In reality, a relatively small number of public housing developments are high-rises, and many developments continue to provide sound, affordable housing to residents in need. But the residents of public housing are disproportionately poor and minority, and the developments have been disproportionately located in areas with large shares of poor and minority residents. The fluctuating rules governing public housing, and in particular the rules about tenant selection and siting, reveal underlying tensions and disagreements about the objectives of the program.

i. Tenant Eligibility and Preferences

A key area of dispute has been eligibility standards for tenants. The central tension here is between the desire for public housing to serve the neediest applicants on the one hand and the objective of economic integration and minimizing the concentration of poverty on the other.

When the public housing program was first developed, the law did not specify a particular income eligibility level. Rather, it simply stated that public housing tenants could earn no more than five times the rent that they paid for their homes (Collinson, Ellen, and Ludwig, 2015). Many public housing authorities appear to have used this flexibility to house working-poor families whom they expected to be more reliable than other poor households (Schwartz, 2014; Vale, 2000). By the time HUD was established in 1965, the median income of public housing tenants had fallen dramatically, due in part to the aging of the housing stock and the availability of subsidies for homeownership. Schwartz (2014) reports that in 1970, the median income of public housing tenants had fallen to 29 percent of the national median income. Many public housing developments had become occupied almost exclusively by poor residents.

In 1974, apparently motivated by a concern about the growing concentration of poverty in public housing, Congress required housing authorities to set out tenant selection criteria that allow for "families with a broad range of incomes and will avoid concentrations of low-income and deprived families with serious social problems" (Housing and Community Development Act, 1974).

Just 7 years later, in 1981, Congress reversed course and mandated that 90 percent of occupants in existing public housing and 95 percent in newly constructed buildings have incomes below 50 percent of the AMI (Schill, 1993). In addition to these income requirements, in 1979, Congress established selection preferences for families who were involuntarily displaced or living in substandard housing, and HUD interpreted this to include giving priority to families living in homeless shelters. A few years later, Congress extended the preferences to households paying more than half of their income on rent (Spence, 1993).

During these years, the goal of serving the neediest clearly trumped any concern about poverty concentration. Not surprisingly, incomes of public housing residents fell further in the wake of these new provisions. During the 1980s, the proportion of public housing tenants with incomes below 10 percent of AMI surged from under 3 percent to nearly 20 percent (Spence, 1993).

In 1998, Congress shifted course once again with the passage of the Quality Housing and Work Responsibility Act, which reasserted the importance of poverty deconcentration. While the law mandated that public housing authorities (PHAs) reserve at least 40 percent of public housing units for households with incomes below 30 percent of AMI, it allowed the lowering of that threshold to 30 percent of units for developments located in high-poverty neighborhoods in some circumstances.[2] The law also explicitly prohibited PHAs from concentrating the poorest families in certain developments and required each housing authority to submit an annual admissions plan to encourage income mixing and minimize concentrations of poverty in developments. In implementing this law, HUD suggested that local agencies might adopt a preference for admission of working families in developments that have an average income of less than 85 percent of the PHA-wide average. The rules even allowed a PHA to skip a family on the waiting list to reach another family if admitting that family would enhance the mixing of incomes in a very low-income development.

During the 1990s, Congress also relaxed the rules governing the use of federal selection preferences for the neediest tenants that were originally established in 1979. HUD issued a rule in 1994 implementing the Housing Community Development Act of 1992, explaining that the aim was to open "the admissions process to more flexibility for local choice" (59 Fed. Reg. 136). The rule also removed a previous prohibition on using employment as a selection criterion, reasoning that agencies "must have the flexibility to give preference to working families to assure diversity in the residency of projects and to include families who can serve as role models for other families." In 1998, Congress eliminated the use of federal selection preferences entirely, leaving local agencies to determine their own preferences for tenant selection.

[2] The act allowed PHAs to reserve just 30 percent of public housing units for households with incomes below 30 percent of AMI, if more than 75 percent of vouchers administered by the PHA were distributed to households with incomes below 30 percent of AMI.

ii. Site Selection

A second key area of contention has been the selection of sites for public housing. In issuing site selection rules, HUD has to balance a number of competing objectives: improving the quality of the housing stock in low-income and largely minority areas; providing a wide range of neighborhood choices to low-income and minority tenants; and fostering economic and racial integration.

Before HUD was established in 1965, the federal government had wielded little control over site selection. The local control built into the public housing program had allowed many, typically suburban jurisdictions to opt out of participating in the program altogether, and allowed those that did participate to choose where to build developments. The result was public housing developments were overwhelmingly built in central city neighborhoods occupied by poor, typically minority, residents, deepening poverty concentration and racial segregation (Schill and Wachter, 1995).

In response to these geographic patterns, HUD issued site selection rules in 1967, which required housing authorities to ensure a balanced distribution of public housing developments within their jurisdictions (Lev, 1981). In 1972, HUD issued revised rules to address both the Fair Housing Act and the 1970 *Shannon v. HUD* decision, which ruled that HUD could only approve proposals for new assisted housing that would increase the racial concentration of an integrated or largely minority neighborhood if the local agency argued persuasively that the development would help to spur revitalization (Lev, 1981). The new rules prohibited the construction of new assisted housing developments in areas of minority concentration unless "comparable opportunities" for federally subsidized housing existed outside of largely minority areas, or HUD deemed the project necessary to address an "overriding" need for affordable housing in the local area (24 C.F.R. § 880.206).

The passage of the Housing and Community Development Act of 1974 led HUD to issue new site and neighborhood standards that applied to Section 8 New Construction projects. The act weighed in on the broader conditions of the neighborhoods appropriate for assisted housing. Congress instructed HUD to simultaneously pursue community revitalization and access to opportunity by requiring that annual PHA plans indicate general locations for assisted housing that would: (a) further neighborhood revitalization; (b) promote greater choice of locations and avoid "undue concentration of assisted persons in areas containing a high proportion of low-income persons;" and (c) ensure residents had access to adequate services.

When implementing the 1974 act, HUD largely maintained the same set of rules regarding the construction of assisted housing in areas of minority concentration, but the new rules stated that proposed developments "shall promote greater choice of housing opportunities and avoid undue concentration of assisted persons in areas containing a high proportion of lower-income persons" (24 C.F.R. § 1273.103 (1974) (available on WestlawNext as 39 FR 45169-01). In addition, the rules also stated that development must not be in a neighborhood "which is seriously detrimental to family life; and substandard dwellings or other undesirable elements should not predominate unless there is actively in progress a concerted program intended to upgrade the neighborhood" (39 Fed. Reg. 14301, 14310 (Apr. 22, 1974) (codified at 24 C.F.R. pt. 1272)). Further, the rules stated that the housing should be accessible to facilities and services that are equivalent to those typically enjoyed by unsubsidized, standard housing of similar rents and convenient to employment centers that provide a range of jobs for low-income workers (39 Fed. Reg. 14301, 14310 (Apr. 22, 1974) (codified at 24 C.F.R. pt. 1272)). Here, HUD highlighted the importance of access to opportunity for assisted tenants.

In 1980, Congress weighed in again on neighborhood standards, apparently to address concerns that HUD was approving too few assisted housing developments in minority areas (Lev, 1981; Vernarelli, 1986). The new statute specified that HUD should not reject a proposed development simply because of its location in a largely minority area. In response, HUD loosened its site regulations and recommended giving more consideration to local conditions (Lev, 1981; Vernarelli, 1986).

In 1996, HUD updated its site and neighborhood standards once again to incorporate the new HOPE VI program. The rules permitted the construction of new public housing units after demolition if the number of new public housing units being constructed on the site is "significantly fewer" than the number of units demolished on the site (24 C.F.R. 941.202 (1996)).

Fair housing advocates have criticized these siting rules, which have not been updated since 1996, for being too weak, and perhaps more importantly, too weakly enforced. While the language of the rules affirms a commitment to furthering integration through siting, many in the civil rights community charge that HUD officials too often draw on waivers and exceptions to allow development to go forward (PRRAC, 2011). Meanwhile, others, typically from the community development world, have voiced concerns that the rules are too strict and may discourage development that would help to revitalize low-income, predominantly minority areas (PRRAC, 2011).

The repeated revisions of the site selection standards since 1967 highlight the competing objectives of revitalizing urban communities through new housing investments and promoting poverty and racial deconcentration. On the one hand, community development practitioners point to evidence showing that, at least in some circumstances, creating subsidized housing in blighted areas can help to revitalize neighborhoods and attract private investment (Schwartz et al., 2006). On the other hand, building subsidized housing in low-income and largely minority areas without other investments does not always trigger revitalization; rather it may simply sustain segregation and constrain subsidized families and children to live in areas that offer limited opportunities. A further tension is that the lower land prices that often characterize blighted areas can allow local housing authorities to create more affordable units than they could if they chose to subsidize units in higher-income areas. (Although Orfield et al. (2014) point out that, despite lower land prices, affordable housing development in central cities can be more expensive than development in more affluent suburbs in some cases.)

The key for HUD—and for the housing authorities it monitors—is to come up with an approach (including clear standards and oversight mechanisms) that allows for subsidized housing investments in distressed areas when part of a promising plan for revitalization. Such a plan would balance subsidized housing investments with efforts to create housing opportunities in areas that already deliver safe streets, high-performing schools, and rich job networks.

iii. Reconceiving Public Housing

Starting in the 1990s, HUD introduced several programmatic efforts that aimed to deconcentrate poverty in public housing. Congress launched the first, HOPE VI, in 1993 in response to a report issued by the Commission on Severely Distressed Public Housing, which estimated that 86,000 of the nation's 1.3 million public housing units were severely distressed. Between 1993 and 2010, HOPE VI supported the demolition and redevelopment of public housing developments comprising more than 150,000 units. When enacted, the HOPE VI program provided funds for rehabilitation, management improvements, and supportive services. It aimed to replace severely distressed public housing developments with redesigned, mixed-income housing. One of the explicit goals of the program was to provide housing that would "avoid or decrease the concentration of very low-income families."[3]

Views about the success of the HOPE VI program vary widely. On the one hand, the program has replaced hundreds of deeply distressed developments with high-quality, mixed-income housing, which may have helped to revitalize surrounding communities. On the other hand, the program may not have done as much to improve the lives of the original residents, many of whom were forced to move and did not return to public housing or to the new development after the projects were completed. (The program did not include a one-for-one replacement rule, and only about 55 percent of the demolished units have been replaced with public housing (Schwartz, 2014).)[4] Of the residents who moved to private homes, many have reported problems paying rent and utility bills (Popkin et al., 2004).

As the HOPE VI program was phased out in the late 2000s, the Obama Administration introduced the Choice Neighborhoods Program. The purpose of this new program was to demolish and redevelop distressed public housing. Like HOPE VI, the program aims to replace distressed public housing with high-quality, well-managed, mixed-income housing. But unlike HOPE VI, it includes a one-for-one replacement rule; affords the right to return to a redeveloped unit; requires the collaboration of a broader range of local partners, with an eye towards improving the surrounding community; and supports the redevelopment of privately owned, subsidized housing developments as well as public housing.

[3] See Purpose 3 of the Quality Housing and Work Responsibility Act of 1998 (QHWRA).

[4] The percentage of occupied public housing units that were replaced is higher, as many of the original units were vacant and uninhabitable at the time of demolition (Schwartz, 2014).

b. Subsidized Private Housing

Although not as commonly singled out as contributing to segregation as public housing, HUD's other project-based assisted housing programs house a similarly disadvantaged population and also tend to be concentrated in high-poverty areas (Collinson, Ellen, and Ludwig, 2015). The rules that have governed tenant eligibility and siting standards in Section 8 project-based assistance and most other HUD-assisted new construction are similar, or in some cases identical, to the rules that apply to public housing.[5]

To some extent these rules are moot, as no new housing has been built for years through HUD's project-based Section 8 program (its largest program supporting private development of affordable housing).[6] But HUD continues to subsidize the new construction of affordable units through HOME program block grants.[7] Since its enactment in 1990 as part of the Cranston-Gonzales Affordable Housing Act, the HOME program has helped support the production of nearly 450,000 units, largely through providing gap financing for LIHTC developments, as the equity raised from selling tax credits is not always sufficient to cover all the capital required by a project. Although HUD's site and neighborhood standards apply to HOME-supported new construction, the use of HOME and Community Development Block Grant program funds for rehabilitation are not subject to HUD site and neighborhood standards.[8] Still, HOME-supported units are more likely to be located in low-poverty neighborhoods than public housing units and rental units subsidized through other HUD production programs.[9]

In crafting HOME rules, HUD had to adjudicate among competing claims about whether block grants should be subject to federal rules about siting. Block grant programs are designed to provide wide flexibility for localities to craft initiatives that address their particular needs and market conditions. That said, HUD should not and cannot give localities complete flexibility. The agency is still responsible for ensuring that local governments do not violate fair housing laws, and HUD must affirmatively further fair housing through its programs.

The agency also had to weigh whether site and neighborhood standards should be less stringent in the case of renovating and preserving existing housing. These are clearly

[5] For rules, see 59 Fed. Reg. 136: 36616 (tenant selection for public housing and some other assisted housing programs); Lev, 1981: 213 and n. 52 (site selection for Section 8); 24 C.F.R. § 92.202 (citing 24 C.F.R. 983.57(e)(2) and (3)) (site selection for HOME)). One point of departure is the HOME rules for tenant selection, which are less detailed than the public housing rules (24 C.F.R. § 92.253(d)).

[6] The rules about site selection in the Section 8 program were officially taken off the books in 1995 in an effort to clear the regulations of rules pertaining to obsolete programs. 60 Fed. Reg. 47,262 (Sept. 11, 1995).

[7] HUD also provides partial support for creating and rehabilitating subsidized housing through the use of project-based vouchers. While the project-based voucher rules include standards for the acquisition of existing housing, the regulations do not reference racial composition of the neighborhood (PRRAC, 2013a).

[8] The rehabilitation of vacant buildings supported by HOME funds is only required to "promote greater choice of housing opportunities" (Tegeler, 2005: 207).

[9] See Gayles and Mathema (2014) for HOME-supported units; and Schwartz (2014) for neighborhood distribution of other federally assisted rental housing. Note tenants living in HOME-supported units also tend to have slightly higher incomes than the tenants living in HUD's other rental assistance programs (Schwartz, 2014).

investments of federal dollars into neighborhoods, and in that sense, they should be subject to fair housing laws. Yet applying site and neighborhood standards to preservation may undermine other HUD goals, such as maintaining high-quality, affordable housing. Also, it would be unfair to offer less rehabilitation and preservation assistance to families already living in subsidized developments in higher-poverty or largely minority areas. In general, HUD has opted to exempt preservation efforts from siting rules. For example, no neighborhood rules govern the use of HUD funds to extend the affordability of project-based Section 8 units when those subsidies expire (PRRAC, 2011).

As noted, the largest federally assisted housing production program is now the Low-Income Housing Tax Credit Program. The FHA requirement that all federal agencies affirmatively further fair housing in the administration of their programs related to housing and urban development (see Section II.d) applies as much to the Treasury Department as to HUD. However, the LIHTC statute is largely silent on the obligation, and the Treasury Department has not provided fair housing guidance to state housing finance agencies. In fact, to the chagrin of many fair housing advocates, the LIHTC statute requires that states give preference to low-income housing development in "qualified census tracts." These tracts have a poverty rate of at least 25 percent or at least half of the households have incomes of less than 60 percent of the AMI.[10] They also are much more likely than other tracts to be predominantly minority (Horn and O'Regan, 2011). Other than this requirement, state administering agencies have leeway to decide on criteria to use for allocating credits across proposed developments, consistent with antidiscrimination laws.

c. Housing Choice Vouchers

The voucher program was developed, in part, to expand the choices of assisted households and allow them to live in neighborhoods that offer greater opportunities for economic mobility. As compared to the shifting goals of HUD's place-based programs, HUD and Congress have been somewhat steadier in this commitment. HUD has recently adopted or considered a set of voucher program reforms that aim to further assist voucher holders in moving to higher-opportunity neighborhoods. These policies seem to emerge from a growing recognition that while vouchers deliver free choice in principle, in practice they are not sufficient to overcome the many barriers that low-income families face in renting homes in lower-poverty and less racially concentrated neighborhoods.

Research reveals that while most voucher holders still live in highly disadvantaged neighborhoods, on average, they live in neighborhoods that are less disadvantaged than those lived in by public housing residents (Hartung and Henig, 1997; Kingsley, Johnson, and Petit, 2003; Pendall, 2000; Devine et al., 2003; Schwartz, 2014). Their neighborhoods look very similar to those lived in by the average poor household (Wood, Turnham, and Mills, 2008; Galvez, 2010), and they are only very slightly less disadvantaged than those

[10] While the favored developments are supposed to be part of a community revitalization plan, no federal agency has provided guidance on what constitutes such a revitalization plan (Ellen et al., 2015).

lived in by residents of privately owned, subsidized housing (Schwartz, 2014). Further, voucher holders with children appear to live near schools that are lower performing than the schools near LIHTC tenants and unassisted poor households (Ellen, Horn, and Schwartz, 2014). That said, while vouchers appear to be doing little to help poor white families reach low-poverty neighborhoods, they appear to be doing more to help minority families reach such neighborhoods. Black and Hispanic voucher households live in lower-poverty-rate neighborhoods than similarly poor residents of their same race (Galvez, 2010; Sard and Rice, 2014).

As for access to racially integrated communities, voucher holders, who are disproportionately minority, are no more likely to live outside of racially concentrated areas than other poor households. In 2004, the average voucher holder lived in a neighborhood with a minority proportion that was very similar to that of the average neighborhood lived in by poor residents within the same metropolitan area (Galvez, 2010).

Part of the challenge of using vouchers to help households reach different neighborhoods (or to achieve HUD's fair housing goals) is the issue of landlord participation. A 1997 HUD study reported that only one in six owners of single-family rental properties was aware of the voucher program. The study found that while owners of multifamily buildings were much more likely to know about the program, many reported concerns about paperwork and worries about potential problems with tenants. Perhaps not surprisingly, owners of higher rent apartments were far more likely to voice such concerns and were less willing to house voucher holders (HUD, 2000). It is possible that these numbers have shifted today. This study was undertaken when the "take one, take all" provision was still operating, which required owners who participated in the program to take all voucher holders who wanted to rent from them, and which another HUD study found discouraged landlords from participating in the program. The "take one, take all" requirement also potentially concentrated poverty as it encouraged the concentration of voucher holders in a relatively small number of participating buildings (Daniel, 2010). Congress repealed the provision in 1998, making participation in the voucher program voluntary, but potentially encouraging a broader set of landlords to participate. Meanwhile, as of March 2015, 12 states, the District of Columbia, and several localities had passed source-of-income discrimination laws that prohibit landlords from discriminating against voucher holders (PRRAC, 2013b).[11]

In recent years, HUD has taken a number of steps to address concern about the concentration of voucher holders. First, when the agency introduced its Section 8 Management Assessment Program in 1998, which monitors the performance of housing authorities administering housing choice voucher programs, it included expanding housing choice outside areas of poverty or minority concentration as one of 14 criteria on which housing authorities will be

[11] For a list of these states and localities and a description of the laws, see PRRAC, 2013b, Appendix B, updated 2015.

judged (HUDc). Specifically, HUD awards bonus performance points to housing authorities if at least half of the voucher families with children they have assisted in the last year live in low-poverty census tracts or if the share of voucher families with children moving into low-poverty census tracts in the last year is at least 2 percentage points higher than the percentage who had lived in such tracts in the previous year (HUD, 2000). But as of 2008, just 224 of the roughly 1,500 agencies operating in metropolitan areas had claimed these bonus points (Sard and Rice, 2014).

Second, working in collaboration with nonprofits and local governments, HUD has supported several programs to assist voucher holders in making moves to lower-poverty and less racially concentrated neighborhoods. In truth, these programs have generally not been voluntary; most have emerged from litigation that accused HUD or a local housing authority of discriminatory housing practices. The oldest of these programs is the one born from the *Gautreaux* litigation in Chicago, which was established in 1976 by a consent decree and in the subsequent 22 years helped over 7,000 low-income families find homes in predominantly white neighborhoods (Rosenbaum and DeLuca, 2008). Nonprofit organizations administer several other programs around the country, each of which receives a special allocation of vouchers from HUD as well as funding for housing search assistance (HUD, 2000).

Motivated by initial findings evaluating the effects of these litigation-born programs, HUD launched the Moving to Opportunity (MTO) Program in 1993, which aimed to test whether improved neighborhood opportunities can significantly improve the life-chances of low-income residents living in distressed public housing. The program was implemented in five sites around the country, each of which received a special allocation of vouchers and funding for housing search counseling. Families were randomly assigned into one of three groups:

1) Treatment group families received mobility counseling and vouchers that they could only use to move to low-poverty neighborhoods.
2) Comparison group families received conventional, unrestricted vouchers and no counseling.
3) Control group families received no vouchers but were able to continue to live in their public housing units.

Finally, HUD established the Regional Opportunity Counseling Program in 1997, which provides funds to assist current and new voucher recipients who wish to move to a different community. Unlike the earlier mobility programs, the Regional Opportunity Counseling Program allows participating families to live in any neighborhood (Schwartz, 2014).

Research has yielded mostly encouraging results about how these various efforts have affected family outcomes. While the Gautreaux program showed fairly dramatic impacts on children's long-run educational and employment outcomes, the MTO program appears to have delivered minimal improvements in education, employment, or income, at least after 10 years. The modest MTO effects may be explained by the considerable dislocation that families suffered in moving, which may have undermined any benefits from moving to lower-poverty neighborhoods. Further, many families in the treatment group never moved or failed to stay in their originally assigned neighborhoods. That said, the MTO treatment group participants reported feeling significantly safer than those in the comparison and control groups and exhibited improvements in health and well-being. And recent research suggests that children whose families moved to low-poverty areas when they were young were more likely to attend college and enjoyed significantly higher earnings than children in control-group families (Chetty, Hendren, and Katz, 2015).

More recently, HUD has begun to experiment with several promising administrative reforms that could help voucher holders reach lower-poverty neighborhoods. First, the agency has supported a regional collaborative of housing authorities in the Chicago metropolitan area that work together to reduce portability barriers and to establish a regional project-based voucher program with a regional waiting list. Second, the agency has proposed a number of programmatic reforms that could make it easier for voucher holders to move across jurisdictions. Proposed reforms include requiring PHAs to obtain HUD approval before refusing a voucher holder from a neighboring jurisdiction and allowing voucher holders additional time to make such moves. Third, HUD recently partnered with Great Schools to provide local housing authorities with information about local schools to share with voucher holders. Finally, and perhaps most importantly, HUD recently launched a Small Area Fair Market Rent Demonstration program, which allows housing authorities to use separate fair market rents (FMRs) for each ZIP Code. The current voucher program relies on a single FMR for each metropolitan area, set at the 40^{th} or 50^{th} percentile of rents, which means that units rented under that threshold are generally located in the lowest-income neighborhoods within the metropolitan area. Collinson and Ganong (2014) evaluate the shift from a single metropolitan area-wide FMR to ZIP Code-specific FMRs in the Dallas metro area. They find that, relative to voucher holders in neighboring Fort-Worth, Dallas voucher holders reached neighborhoods that scored substantially higher on a composite measure of quality 3 years after the policy change, with little net cost to the government.

d. Enforcement of the Fair Housing Act

In addition to administering federal programs that create housing and foster urban development, HUD is also charged with enforcing the nation's Fair Housing Act (42 U.S.C. § 3601, *et seq*.). While there are a number of provisions of federal law that have been used to combat discrimination in the housing market, the FHA is the most detailed prohibition on discrimination in housing found in federal law. It expressly outlaws discrimination in renting, selling, or financing housing on the basis of race, color, religion, sex, familial status, national origin, and disability (42 U.S.C. §§ 3604-3606). It further mandates that the Secretary of HUD, as well as all federal departments and agencies, "shall administer their programs and activities relating to housing and urban development . . . in a manner affirmatively to further" fair housing (42 U.S.C. § 3608(d), (e)(5)).

Despite the commitment expressed in the FHA, and the almost 5 decades of litigation and enforcement activities that have followed, many believe that the law has failed to achieve its mandate. In 2008, the National Commission on Fair Housing and Opportunity found, "When the Fair Housing Act became law in 1968, high levels of residential segregation had already become entrenched. However, the [a]ct's promise as a tool for deterring discrimination and dismantling segregation remains unfulfilled. During the 40 years since the [a]ct was passed, these segregated housing patterns have been maintained by a continuation of discriminatory governmental decisions and private actions that the Fair Housing Act has not stopped" (National Commission on Fair Housing and Equal Opportunity, 2008: 10).

John Goering and others have argued that the nation's fair housing enforcement mechanism should not be housed at HUD, an agency that has a concomitant obligation to provide housing for low-income households and to revitalize economically struggling urban areas (Goering, 2007; National Commission on Fair Housing and Equal Opportunity, 2008). Goering argues that the FHA's imposition upon HUD to police both itself and its grantees puts the agency in a very difficult position. It also forces HUD to choose between conflicting goals (Goering, 2007). As Goering explains, "[t]he agency is preoccupied by issues of production, building conditions, and rents, so that the goal is often getting housing built no matter where it is located, segregated or not" (Goering, 2007: 258).

Efforts to enforce the FHA are also complicated by the tension that can sometimes exist between the act's core mandates: to prohibit discrimination in housing and affirmatively further integration. The U.S. Court of Appeals for the Second Circuit's *Starrett City* ruling highlights the complexity of attempting to achieve and maintain housing integration in a judicial context that also limits the ability to use some race-conscious methods to achieve this goal. Decided in 1988, *United States v. Starrett City Associates,* 840 F.2d 1096 (2d Cir. 1988), involved a challenge to the rental practices of Starrett City, the largest housing development in the nation at the time, consisting of 46 buildings and over 5,000 apartments in Brooklyn, New York. The developers sought to maintain a strict racial quota system in order to, they claimed, avoid white flight and maintain the integration of the development. The policy was supported by a number of pro-integration advocates (Schuck, 2003). The government brought suit alleging that Starrett City's quota system violated the FHA's antidiscrimination prohibition, and ultimately the Second Circuit agreed (*United States v. Starrett City Associates,* 1988). The *Starrett City* decision makes clear that, despite the FHA's integration goal, the act places a limit on the use of race-conscious solutions to maintain integrated neighborhoods.

Despite the tensions inherent in the act's design highlighted by Goering, Schuck, and others, HUD's fair housing enforcement has had some notable successes (PRRAC, n.d.). In recent years, new obstacles to achieving the act's goals have emerged; yet, at the same time, HUD appears to have reinvigorated its commitment and approach. A brief discussion of the evolution of the act and its enforcement follows, focusing first on the antidiscrimination provisions of the law and then examining the law's affirmatively furthering fair housing mandate.

i. Enforcement of FHA's Antidiscrimination Mandate

When the FHA was initially passed, its enforcement mechanisms were weak. The Justice Department was able to sue in court where it found a defendant had a "pattern or practice of discriminat[ing]" (Schill, 2007: 145). However, HUD's enforcement powers were limited to "conferences, conciliation, and persuasion" to eliminate discrimination (Ware, 1993; Schill, 2007). Where those efforts failed, complainants were on their own to pursue a claim in federal court. But the private right of action had a short statute of limitations and a low cap on punitive damages (Ware, 1993). In addition, the federal enforcement mechanisms were not available to complainants when local or state laws existed that "were deemed substantially equivalent to the procedures and remedies accorded by" the FHA (Ware, 1993: 75). Over the first 2 decades the FHA was in effect, discrimination in the housing market remained widespread, and the act was seen as doing little to address it (Schill, 2007). The act's enforcement provisions came to be seen as its main limitation (Schill, 2007).

1. 1988 Amendments

Motivated to invigorate what Senator Edward Kennedy famously characterized as a "toothless tiger," there was widespread support in Congress for FHA reform by the late 1980s (Schill, 2007). In 1988, Congress' amendments to the law were intended to overhaul its enforcement mechanisms and expand HUD's enforcement powers. A number of revisions strengthened the private right of action in the original law. The amendments removed the cap on punitive damages, authorized courts to award attorney fees and costs and appoint an attorney upon a showing of need, lengthened the statute of limitations, and made clear that complainants need not exhaust administrative remedies before filing in court (Ware, 1993; 42 U.S.C. § 3613). The amendments also created an administrative enforcement procedure, administered by HUD, through which civil penalties were available, with judicial review of final decisions (Ware, 1993; 42 U.S.C. § 3612). The other significant reform imposed by the law was the addition of familial status and disability to the list of protected classes under the act (Ware, 1993; 42 U.S.C. § 3604-3606).

2. Enforcement Since 1988

Despite the intention of Congress to bolster the efficacy of the act in 1988, post-amendment evaluations find that enforcement problems persisted (Schill, 2007; Johnson, 2011). A 2004 report by the U.S. General Accounting Office critiques HUD's enforcement of the act, noting, among other things, that there were regional differences in investigation outcomes, and that new HUD staff often lacked skills needed to conduct investigations (Schill, 2007).

The addition of new protected classes (disability and family status) in the 1988 amendments led to many more complaints being filed, slowing down an already-long administrative process and resulting in failure to comply with the allotted timeframes of the statute (Schill, 2007;

Ware, 1993). Analyzing data on complaints filed with HUD[12] between 1989 and 2003, Schill (2007) finds that claims based on disability status steadily rose after 1988; and by 1999 they had become the most common basis of discrimination claims.

Schill (2007) systematically examined data on HUD's enforcement activities from 1989 through 2003 and found that HUD's enforcement since the 1988 amendments did little to improve the influence of the law. Only 3.3 percent of all complaints filed resulted in HUD bringing claims against the respondent; and the number of cases in which this occurred dropped over the course of the study period (Schill, 2007). In cases that settled between 1989 and 2003 (35.6 percent of complaints), the median settlement was less than $2,000 (Schill, 2007). Claims that were adjudicated by HUD administrative law judges or in federal court had average awards of less than $10,000 (Schill, 2007). Schill concludes that, in the current complaint-based system of regulation, fair housing enforcement is "destined to fail," and penalties are too low to have the broad impact required to reduce discrimination significantly (Schill, 2007: 169). He argues that laws such as the Fair Housing Act can have a substantial deterrent effect only if one of two conditions holds true: (1) if penalties are not high, enforcement must be intensive so that most violators will face consequences; or (2) if widespread enforcement is not feasible, penalties must be high for violators who are caught (Schill, 2007). According to Schill, "[c]urrent enforcement of the Fair Housing Act shares neither of these characteristics—very few meritorious cases are actually brought (when measured against baseline estimates of the amount of discrimination in the housing market) and the average penalty is exceedingly low" (Schill, 2007: 169).

In recent years, HUD's efforts to enforce the antidiscrimination provisions of the act have been reinvigorated (PRRAC, 2013a). In 2013, HUD took an important step to safeguard one of the legal theories central to the enforcement of the act's antidiscrimination mandate. HUD issued, for the first time, an official rule acknowledging its long-held position that the FHA permits claims of discrimination based on intentional acts of discrimination but also on acts that have a disparate impact (24 C.F.R. Part 100.500 (2013); Lawyers' Committee for Civil Rights et al., 2013).

Even though plaintiffs have successfully argued disparate impact theories of discrimination since soon after the FHA's inception, and a strong consensus among federal courts had emerged holding that the act permits disparate impact claims (Schwemm and Pratt, 2009), the issue was set to be decided by the Supreme Court for the first time during the 2014–2015 term. In June 2015, the U.S. Supreme Court put an end to any doubt about the validity of disparate impact claims under the FHA, holding that "disparate-impact claims are cognizable

[12] If a local or state government has a fair housing law that is substantially equivalent to the Fair Housing Act, agencies charged with enforcing that law can receive funding from HUD to address fair housing complaints (HUDd). Immediately after the 1988 amendments, HUD was handling more complaints than state and local fair housing agencies; but that balance shifted in the mid-1990s, as the number of complaints filed with HUD dramatically declined while the number filed with local and state agencies grew (Schill, 2007). By 2003, state and local fair housing agencies were handling over two-thirds of all housing discrimination complaints Schill, 2007). The overall number of complaints peaked at over 10,000 in 1993, and then dipped later in the 1990s. Between 2000 and 2003, it inched back up, with a total of 8,570 fair housing complaints filed in 2003 (Schill, 2007).

under the Fair Housing Act" (*Inclusive Communities Project, Inc. v. Texas Dep't of Hous. & Cmty. Affairs,* 2015: 23). Following the decision, HUD Secretary Julián Castro acknowledged the importance of this tool for furthering HUD's mission: "Today is another important step in the long march toward fulfilling one of our nation's founding ideals: equal opportunity for all Americans. The Supreme Court has made it clear that HUD can continue to use this critical tool to eliminate the unfair barriers that have deferred and derailed too many dreams" (HUD, 2015a).

ii. Enforcement of FHA's Affirmatively Furthering Fair Housing Mandate

The Fair Housing Act requires the Secretary of HUD and all executive departments and agencies to administer their "programs and activities relating to housing and urban development in a manner affirmatively to further the policies of [fair housing]" (42 U.S.C. § 3608(e)(5) (2006)). While the statute itself is silent on what it means to further fair housing, its legislative history and subsequent case law make it clear the FHA is intended not only to eliminate housing discrimination, but also to foster integration (Schwemm, 2011–2012; Roisman, 2008). HUD regulation requires jurisdictions to implement this mandate by "conduct[ing] an analysis to identify impediments to fair housing choice within the jurisdiction, tak[ing] appropriate actions to overcome the effects of any impediments identified through that analysis, and maintain[ing] records reflecting the analysis and actions in this regard" (24 C.F.R. § 91.225(a)(1)).

Housing experts, including former HUD officials, have criticized the lack of enforcement of the mandate to affirmatively further fair housing (The Opportunity Agenda, 2010; Pearl, 2014). HUD has historically relied on, and often deferred to, certifications of compliance with the mandate from its grantees (The Opportunity Agenda, 2010). In a 2010 report, the Government Accountability Office (GAO), reviewing a sample of the analysis of impediments, found that many were out of date and a number were missing altogether (GAO, 2010). The GAO concluded that "HUD's [analysis of impediments] requirements and oversight and enforcement approaches have significant limitations that likely contribute to our findings that many such documents are outdated or contain other weaknesses" (GAO, 2010: 22).

Unlike the antidiscrimination provisions of the FHA, the mandate found in Section 3608 has been widely interpreted as having no private right of action (Rothstein and Whyte, 2012; Schwemm, 2014). In 2010, Congress considered and rejected an amendment to the law that would have added failure to comply with the affirmatively furthering fair housing mandate as one of the "discriminatory housing practices" actionable under the law by private plaintiffs (Schwemm, 2011–2012). As a result, private litigants must use other provisions of law to enforce the act's affirmatively furthering fair housing mandate, namely the Administrative Procedures Act, the False Claims Act, and 42 U.S.C § 1983. These other mechanisms, however, are more limited than a private right of action would be (Rothstein and Whyte, 2012; Schwemm, 2014). Relying on HUD to enforce the affirmatively furthering fair housing requirement limits its reach, not only because of HUD's resource limitations, but also because individuals and experts on the ground are often better situated to identify instances of noncompliance (Rothstein and Whyte, 2012).

A landmark case filed in 2006 illustrated the impact that private litigation can have and created a model for both public and private enforcement of Section 3608's mandate. The Anti-Discrimination Center of Metro New York filed suit under the False Claims Act against Westchester County, New York, claiming that the county falsely certified that it had complied with HUD's affirmatively furthering fair housing mandate, as defined in regulation and applicable to the county because of its receipt of Community Development Block Grant funds (Schwemm, 2011–2012; Steil, 2011). Ultimately, the court held "that the county had made false certifications on seven annual AFFH certifications and more than a thousand implied certifications of compliance" (Pearl, 2014: 294). After the plaintiff won partial summary judgment, the parties entered into a "landmark consent decree, which was brokered by HUD" (Lawyers Committee for Civil Rights et al., 2013: 3). Pursuant to the settlement, the county is required to spend $52 million in white municipalities to develop affordable housing, pay the plaintiff $7.5 million, and pay attorney fees totaling $2.5 million (Pearl, 2014).

Many experts have suggested that this case was a watershed moment for HUD, ushering in a new approach to fair housing enforcement with sharper teeth and much more serious consequences for violators. Johnson (2011: 1222) writes that the Westchester case "puts the state and local grantees regulated by HUD on notice to take more concrete and substantive action to enforce" the affirmatively furthering fair housing mandate. She argues that this coercive power of the law over federal grantees is a more promising mechanism for achieving lasting reform than the antidiscrimination enforcement, which has a number of practical impediments and "risks leaving out central institutional players—state actors—who contribute to interrelated problems of discrimination and segregation" (Johnson, 2011: 1214). Schwemm (2011–2012: 163) argues that the Westchester case was a "wake-up call to the federal government regarding the fact that its 1,200 CDBG grantees could be, and should be, required to do what for many years the law has mandated as a condition of receiving HUD funds."

Criticism of HUD's enforcement of the mandate to affirmatively further fair housing, and the high-profile Westchester case and settlement, ultimately resulted in a number of important shifts in HUD's approach to enforcing the affirmatively furthering mandate (Pearl, 2014).

A 2013 fair housing program review conducted by a trio of fair housing organizations acknowledged a significant improvement in the agency's efforts to enforce the affirmatively furthering fair housing mandate, listing four major indications of this commitment. First, HUD increased is affirmatively furthering fair housing enforcement through federal litigation against its grantees; second, it investigated complaints involving Section 3608 violations filed by private individuals; third, it increased its scrutiny of analyses of impediments to fair housing submitted by grantees; and finally, it conducted compliance reviews of the Section 3608 mandate that have resulted in grantees entering into voluntary compliance agreements (Lawyers Committee for Civil Rights et al., 2013).

Also in 2013, HUD issued a far more extensive proposed rule for compliance with the affirmatively furthering requirement than has previously existed (Pearl, 2014). The final rule was signed by Secretary Castro in June 2015 (HUD, 2015b). In the Executive Summary accompanying the rule, HUD acknowledged the new rule was "[i]nformed by lessons learned in localities across the country, and with program participants, civil rights advocates, other stakeholders, and the U.S. Government Accountability Office all commenting to HUD that the [analysis of impediments] approach was not as effective as originally envisioned" (HUD, 2015b: 3).

III. Looking to the Future: Emerging Challenges

The previous sections summarized HUD's efforts to balance its multiple and sometimes conflicting goals in the rental housing market in its first 50 years. In this section, we turn to the challenges HUD faces today and will face in the coming years as the nation's legal, demographic, and fiscal landscapes evolve.

a. Demographic Change

When the Fair Housing Act was passed in 1968, Congress envisioned it as addressing black-white segregation and discrimination against African-Americans. Close to 50 years later, Latinos are the country's largest minority group, Asians comprise nearly 6 percent of the population, and non-Hispanic whites make up just 63 percent. Further, the share of non-Hispanic whites is projected to fall to half by 2040. This greater diversity, generated through an increase in immigration subsequent to the passage of the Hart-Celler Immigration Act of 1965, has made the issues of racial and ethnic integration more complex for policymakers at HUD and elsewhere. Some of the policies adopted to address a world of only blacks and whites may need to be reconsidered.

As for implications for segregation, it is possible that this growing diversity could make some white households anxious and deepen their resolve to live in all-white enclaves. Yet, as the country becomes more diverse, it is also possible that racial attitudes will soften as the traditional black-white divide is blurred. And though the causes are unclear, segregation between blacks and whites has fallen steadily since 1980 (De la Roca, Ellen, and O'Regan, 2014).

Meanwhile, the growing diversity may conceal persistent segregation. Asians and Latinos are less segregated from whites than blacks are, and some argue that the causes of their segregation are more benign. As non-black minorities grow in number, calls to address segregation may thus be seen as less urgent. Recent research suggests, however, that segregation is undermining the economic advancement of Latinos to the same degree that it is undermining the progress of African-Americans (Steil, De la Roca, and Ellen, 2015).

b. Growing Income Inequality, Economic Segregation, and Rent Burdens

HUD's mandates to provide quality affordable housing and foster integrated, inclusive communities are becoming more daunting in light of the economic shifts in recent years that have exacerbated income inequality, economic segregation, and rent burdens.

Income inequality has risen steadily in the United States in the past few decades. In 1978, the richest 1 percent of households earned about 9 percent of all income in the United States; by 2012, that percentage had risen to 23 percent (Piketty and Saez, 2003).[13] Social scientists are finding that income inequality has important implications for economic mobility and health. This growing inequality has likely had important implications for local housing markets as well.

For one thing, growing inequality has likely contributed to economic segregation (Watson, 2009). Although black-white segregation has been falling in the past few decades, and Latino-white and Asian-white segregation have remained fairly steady, income segregation has been growing. Between 1970 and 2010, the share of households in large metropolitan areas living in neighborhoods with median incomes close to that of the metropolitan area as a whole fell from two-thirds to just 42 percent (Reardon and Bischoff, 2014). Instead of being filled with middle-income or mixed-income neighborhoods, metropolitan areas are now populated by economically homogeneous neighborhoods that are either very poor or very rich. This polarization has likely widened disparities in access to neighborhood services and opportunities. And Chetty et al. (2014) find that economic mobility is higher in metropolitan areas with lower levels of economic and racial segregation.

In addition to fueling residential segregation, growing inequality may be exacerbating rent burdens. In many metropolitan areas, expansion of the very high-income population may be bidding up prices and rents, making it more difficult for those with lower incomes to afford homes. Since 2000, rent burdens have been increasing in most areas of the country and are climbing up the income ladder to reach moderate-income renters (Capperis, Ellen, and Karfunkel, 2015).

c. Budget Cuts

The fiscal environment is another significant challenge. Federal, state, and local governments are all facing budgetary shortfalls that may increase in the coming years, given the looming retirement of the baby boomers. HUD's Office of Fair Housing and Equal Opportunity is currently staffed at its lowest level since 1989. Housing programs have already faced

[13] Updated table available at: http://eml.berkeley.edu/~saez/TabFig2013prel.xls.

cutbacks. While expenditures on housing assistance to low-income families were fairly stable throughout the 2000s and rose in 2010 and 2011, partly due to one-time spending authorized by the American Recovery and Reinvestment Act, they declined significantly as a result of budget sequestration. In response, local housing authorities cut back on the number of families that they serve. Between December 2012 and June 2014, the number of families receiving vouchers fell by 100,000 (Center on Budget and Policy Priorities, 2014). Meanwhile the public housing capital fund, which provides support for repairs and renovations, has eroded after a decade of funding cuts. In 1999, Congress authorized an amount equivalent to $4.26 billion in 2014 dollars for the public housing capital fund. By 2015, that amount fell to under $1.9 billion (Office of Management and Budget, 2015). And importantly, these shrinking resources are not the result of diminishing needs.

In such a tight fiscal environment, it will be difficult to introduce any new programs or even programmatic reforms that do not clearly save money. And the previously discussed debates about whom to serve and where to build will likely become more contested.

* * *

HUD will clearly face serious challenges in its next 50 years as it continues to support affordable housing, foster community redevelopment, and encourage inclusive communities. But despite these challenges, there is much HUD can do that will help to stretch resources as well as further economic and racial integration.

First, it can do more to encourage regional collaboration and pooling of resources among housing authorities. Most housing authorities around the country are quite small; however, economies of scale could be achieved if neighboring authorities shared some administrative functions. Such collaboration would also likely open up greater housing choice for assisted households if agencies shared waiting lists and marketing efforts.

Second, HUD—and Congress—might adjust laws and rules to take into account how assisted housing's siting and tenant composition interact. Currently, the rules about tenant composition and preferences treat developments like islands, paying no attention to the characteristics of the surrounding community. Yet, at least some assisted housing developments are surrounded by very affluent neighborhoods offering access to a robust set of services and opportunities (Dastrup et al., 2015). In such developments, especially when they are relatively small, concentrations of poor households are less concerning. By contrast, HUD might aim to serve households with a wider range of incomes in developments surrounded by high-poverty environments. Similarly, HUD may want to give local agencies greater leeway to site new assisted housing in low-income neighborhoods that are experiencing gentrification pressures to help ensure economic diversity over the longer run.

Third, HUD could adopt reforms to the voucher program that allow households to have a more meaningful choice of options and make it easier for them to find housing in safe, low-poverty neighborhoods with high-performing schools. As noted, research has already shown that moving to small area FMRs can expand housing choices without raising costs (Collinson and Ganong, 2014). HUD could also require housing authorities to provide more information about neighborhoods and schools to voucher holders (especially those with children) and broaden the lists of voucher-friendly housing units that they provide to voucher holders, as those lists currently include a disproportionate number of homes in high-poverty neighborhoods (DeLuca, 2014). Further, HUD could loosen its rules around portability to make it easier for voucher holders to move into other jurisdictions (Sard and Rice, 2014). Finally, HUD might ask housing authorities to think strategically about using project-based vouchers to lock in affordability in higher-opportunity neighborhoods (Norman, 2014).

In its 50-year history, HUD has grappled with complex often competing goals of providing affordable housing, improving neighborhoods, and ensuring access to inclusive communities. There are still vexing challenges facing the agency as it enters its second half-century, but there are also opportunities to continue to move forward on these critically important objectives.

Acknowledgments

We are grateful to Barbara Sard, Justin Steil, Philip Tegeler, and the editors at HUD for their very helpful comments on earlier drafts of this chapter. We also thank Adam Ezrapour, Jack Nelson, Mariana Oliver, and Roman Pazuniak for their excellent research assistance.

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Chapter 3 Urban Development and Place

Raphael W. Bostic

Although housing is often the first and only association with the U.S. Office of Housing and Urban Development (HUD), urban development has always been an important element of the department's charge. In fact, HUD largely resulted from the major problems in America's urban places, which were often driven by frustration about the lack of opportunity and equal access in the largely minority urban core. It was this frustration that required attention to how urban areas developed, leading to the creation of an agency whose primary mission would be to implement an urban development strategy that changed the fortunes of these disaffected populations.

This chapter analyzes the broad history of urban development in America. It begins with a brief review of the rise of cities in the United States to provide context for considering the period when the nation explicitly recognized federal urban policy. Then the chapter turns to the turbulent 20th century, during which cities in the United States became ascendant, fell on hard times, and then began to reemerge as an important and vibrant force. This review is brief and is not intended to present a complete treatment of any one subject. Rather the goal is to provide a broad picture of how urban America evolved from colonial times. The chapter closes by highlighting several key areas in which cities will need to excel if this recent revitalization is to endure.

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Rise: From Agrarian to Industrial

Colonial Origins

Tracing the origins of urban America requires recalling European settlers who migrated to North America to seek refuge from the dominant European cultures or the rhetorical promise of freedom and self-determination. The earliest colonists "were of two sorts: Those who chose to immigrate to the 'New World' and who sought an escape from the hard realities of life in Europe and wished to create new spiritual, social, economic, and political lives and lifestyles. These colonists mainly included a) religious dissidents—especially the Protestant sects—and b) peasants impoverished by the social and economic death of feudalism and who hoped to find economic freedom in North America" (Olson-Raymer, n.d.). Added to these were the "undesirables," such as criminals, as Europe saw the New World as a means of ridding itself of troublesome elements.

The pioneers who landed on the eastern and southern shores of North America discovered a land that had been significantly humanized by natives. Denevan argued that "the Indian impact [on the environment] was neither benign nor localized and ephemeral, nor were resources always used in a sound ecological way" (Denevan, 1992).[1] Native American cities of the time were relatively impermanent, unlike the development of urban cities that would follow. This was because of both technology and ecology.

> No Indian group had a single dwelling suited to all seasons; even Pueblo people were seminomadic, moving into summer quarters near their cornfields. Most tribes relied on different food sources at least for summer and winter, and occupied different camps in fall and spring. … [Even] for more sedentary people such as the woodland dwellers of upper New York state, intense occupation of a single village site often exhausted both local supplies and garden soil. Every ten or fifteen years, when the saplings they used as the primary building material became sparse, the Iroquois would resettle the entire community, often downhill from the original site. Insect infestation, overcrowding, and a pile-up of garbage could also cause a village to move on" (Nabokov and Easton, 1989).

That said, some Native American tribes established significant towns, in particular the Iroquois. Richter argues that Iroquois towns "were the most densely settled places in the European or Native Northeast before the 19th century" (Boehm and Carey, 2015).

[1] Interestingly, evidence suggests that the height of the Native American mark on the environment occurred close to when Europeans first arrived in North America and declined from that point forward, largely the result of native depopulation. Denevan wrote: "The Indian landscape of 1492 had largely vanished by the mid-eighteenth century, not through a European superimposition, but because of the demise of the native population. The landscape of 1750 was more 'pristine' (less humanized) than that of 1492" (1992).

This Native American settlement pattern gave way to a development pattern driven by the emergent trading economy in which North American ports of call became a new node on a global trading industry. These ports became North America's first major cities, and through them, settlers provided European trading companies with natural goods, such as furs, lumber, and cotton, and in return received finished goods and goods from other parts of the world. The cities in the northern colonies that grew to be the most substantial—that is, Boston, Massachusetts; New York, New York; Philadelphia, Pennsylvania; and Baltimore, Maryland—were those well-positioned for commerce and connections with the interior. They had deep harbors to facilitate receiving trading ships and established connections to the interior sources of natural goods. The cities in the southern colonies developed similarly, with larger cities emerging due to comparative advantages of ports accommodating ship traffic and relatively easy connections to the broader interior. Population density was lower in the southern colonies than the northern colonies, owing in part to an abundance of land, the widespread availability of food and energy resources, and a baseline smaller number of residents (Russell, 2013).

Westward expansion barely changed this dynamic. The land in the present-day Midwest was wild forest with fertile land and abundant wildlife. These characteristics led to thriving agricultural and fur trades and the associated need for trading centers. New posts appeared, with Detroit, Michigan; Chicago, Illinois; New Orleans, Louisiana; and Cincinnati, Ohio, all becoming major hubs as westward expansion brought more people and economic opportunity to these wilderness lands (Cronon, 2009). Despite this expansion, the United States remained a largely non-urban country, with the urban population representing a minority of the total U.S. population.

Urban Explosion: The Industrial Revolution

The Industrial Revolution marked a turning point in the urban history of the United States. With the widespread introduction of technologies such as the steam engine and factory assembly lines, mass production of goods became possible. This in turn led to the rise of factories and industrial growth that triggered explosive population growth in production centers and set the nation on the trajectory to produce the network of cities that prevails today. As shown in Table 3–1, this growth was not evenly distributed, with New York and Midwestern cities, such as Chicago, Illinois, and St. Louis, Missouri, being particular beneficiaries. New York more than tripled in size within 40 years, and Chicago in 1900 grew an incredible 16 times larger than it had been in 1860. London, by contrast, grew from 2.35 million people in 1860 to 4.14 million in 1900, a significant rate of growth, though not at the pace of the fastest-growing American cities.

Table 3-1.

Population for Selected U.S. Cities, 1860, 1880, 1900 (in Thousands)

	1860		1880		1900	
	Population	Rank	Population	Rank	Population	Rank
New York City	1,079	1	1,773	1	3,347	1
Philadelphia	565	2	847	2	1,294	3
Baltimore	212	3	332	6	508	6
Boston	177	4	362	4	561	5
New Orleans	168	5	216	9	287	12
Cincinnati	161	6	255	7	326	10
St. Louis	160	7	350	5	575	4
Chicago	112	8	503	3	1,699	2
Buffalo	81	9	155	12	352	8
Newark	72	10	137	14	246	16
San Francisco	57	14	233	8	342	9
Cleveland	43	20	160	10	382	7

Note: *The table includes population figures for cities ranked within the 10 largest in either 1860, 1880, or 1900. New York City population figures include Brooklyn.*

Source: *U.S. Census Bureau*

The large inflow of immigrants and others seeking work in U.S. factories had a major impact on urban form. Most significantly from a policy perspective, factory workers in the large industrial cities typically lived in low-quality dense housing close to the workplace, resulting in the rise of large tracts of tenement housing and slum conditions. The conditions in these slums were deplorable. Day (1999) documented a newspaper description of the plight of grocer Edward Rafter:

> At two of his buildings, a baker and fish seller worked in two of the three stores on the first floor, and they shared the sink in the basement. The baker used water from the sink for his bread; the fish seller washed his fish in the sink; and the sixteen families in the two buildings used the sink as a urinal.

The spread of tenements and slums in cities during the Industrial Revolution triggered major responses from many societal segments, but for the future of urban development, three groups were particularly influential: city planners, architects, and the public health community. First, city planners established approaches to urban development they believed represented models for making cities high-quality places to live, in contrast to the terrible conditions that prevailed in the slums. The "City Beautiful" movement, which emerged from planning theory, advocated for the creation of grand public spaces and monuments, which it was argued would promote social order and spur civic pride and responsibility (Wilson, 1994). The Mall in Washington, D.C., with its grand buildings and monuments, is an example of City Beautiful planning in action, and many cities pursued similar strategies. Such efforts were a precursor to later urban redevelopment and urban renewal programs.

Similarly motivated, architects developed physical designs for city buildings to minimize negative aspects of dense, high-rise development patterns and accentuate the positive potential. Though this line of thinking had begun in the early 20th century, it made a dramatic mark in the 1950s. Architects such as Le Corbusier started designing buildings and streetscapes based on the premise that intensely urban places could provide all possible amenities, from food and shelter to art and recreation. Indeed, public housing was built with the hope that the large projects (although ultimately doomed) would become model cities for many future developments. In total, about 500,000 units were built or started between 1949 and 1967 (National Commission on Urban Problems, 1968). Fully one-quarter of these were in high-rises, which accounted for a majority of families living in public housing (Atlas and Dreier, 1994).

The third community to mobilize in response to emergent slums and tenements was the public health community. Public health professionals, aware of the plagues of earlier times arising from unsanitary conditions, advocated forcefully for national standards for buildings to minimize the likelihood that poor housing quality could spark a public health emergency. These efforts were ultimately successful and resulted in the first federal foray into housing policy, the National Housing Act of 1937, also known as the Wagner-Steagall Act (Stoloff, 2004). Notably, the impetus for housing policy—and by extension HUD—was the quality of housing and its impact on public health rather than the more contemporary concerns about affordability or location.

The New Urban Form: Metropolitan Areas

The Industrial Revolution transformed the United States into an urban nation, evidenced in that the majority of the population lived in urban areas by 1920. Industrialization and urbanization persisted through the 1930s and 1940s, with World War II accelerating the industrial mindset of the nation. Victory in the war allowed the United States to invest domestically, including in the housing realm. Pouring more dollars into domestic development inevitably required updating regulations and inspired new initiatives. Two policy efforts in particular were significant in shaping the form of urban places.

First, the National Housing Act of 1949 marked a turning point for federal housing policy. This major piece of legislation gave the federal government a role in providing subsidized housing for low-income families, initiated a rural housing program, and set aside federal funds for housing research for the first time. In addition, through Title I of the Act, more than $1 billion was appropriated for slum removal and urban redevelopment. The second major piece of federal legislation was President Eisenhower's Federal Aid Highway Act of 1956. This law authorized $25 billion to create the federal interstate highway system, which was designed to be about 40,000 miles when fully built out (Weingroff, 2008).

The National Housing Act and the Federal Aid Highway Act both sparked considerable development and redevelopment in urban areas, fundamentally changing cityscapes. Title I of the Housing Act eliminated thousands of housing units in the cores of American cities, and only a fraction of them were replaced. During the 1950s, for example, more than 400,000 slum units were demolished, but only slightly more than 120,000 were built to replace them (Collins and Sheser, 2013; Leavitt, 1996). Nationally, the volume of housing targeting low-income families reduced by 90 percent. Thus urban renewal "thinned" the urban core and reduced its energy and vitality. Illustrating the imbalance, Stoloff wrote regarding Boston's urban renewal of a West End project: "Especially disturbing was the erasure of a community that, upon closer inspection, appeared perfectly functional. Perversely, the renewal process could be quite lengthy, leaving large barren areas in the center of a city waiting for development to begin" (Stoloff, 2004).

Moreover, this thinning often did not occur randomly, but rather was concentrated in long-established and viable poor and minority neighborhoods. The impacts were significant. This account of the redevelopment of Chavez Ravine in Los Angeles is but one example.

> Located in a valley a few miles from downtown Los Angeles, Chavez Ravine was home to generations of Mexican Americans. Named for Julian Chavez, one of the first Los Angeles County Supervisors in the 1800s, Chavez Ravine was a self-sufficient and tight-knit community, a rare example of small town life within a large urban metropolis. For decades, its residents ran their own schools and churches and grew their own food on the land. Chavez Ravine's three main neighborhoods—Palo Verde, La Loma and Bishop—were known as a 'poor man's Shangri La.' […] In July 1950, all residents of Chavez Ravine received letters from the city telling them that they would have to sell their homes in order to make the land available for the proposed Elysian Park Heights. […] By August 1952, Chavez Ravine was essentially a ghost town. The land titles would never be returned to the original owners, and in the following years the houses would be sold, auctioned and even set on fire, used as practice sites by the local fire department (Mechner, 2004).

Local leaders' decisions regarding the location of interstates exacerbated the plight of urban poor and minority neighborhoods. These neighborhoods often bore the brunt of highway planning because they were located near job centers and urban cores, and some neighborhoods were carved up with freeways or disappeared completely to make way for the thoroughfares. Boyle Heights in Los Angeles, California, which was historically a Jewish and Latino enclave, was divided into distinct, disjointed segments as it became the confluence of four major freeways (I-5, I-10, CA-101, and CA-60). Similarly, the Cross Bronx Expressway disrupted the existence of ethnic Bronx neighborhoods in New York in ways that took decades for recovery (Caro, 1998). So while urban renewal did produce significant community assets, such as the highway network and New York's Lincoln Center, the poor and minorities bore severe costs in terms of dislocation and isolation, which contributed to urban difficulties in the decades that followed.

Creating the interstate highway system had a second effect on the urban form. Because the system was developed in part to increase the resilience and war-readiness of the nation, it not only increased the efficiency of transportation among cities, but also strengthened ties between the urban core and its periphery by substantially reducing the time it took to get from one to the other. These new ties, together with the propagation of the affordable personal automobile, for the first time made it possible for workers in the city to live farther from their workplaces. This reality, in addition to federal policy promoting development of and easy financing for single-family homes, resulted in suburban communities becoming increasingly common nationwide.

The rise of the suburbs meant it no longer made sense to talk of "the city." Cities became embedded into the core of broader metropolitan areas, which created the potential to sprawl expansively. The initial wave of suburbanization was largely a residential phenomenon; jobs still were heavily concentrated in the urban core. While the majority of urban dwellers lived in the suburbs in 1960, employment was still predominantly urban (Table 3–2).

Decline: Hard Times Hit the City

The fortunes of cities began to change in the 1960s and 1970s. Suburbanization and the evolution of cities into metro areas fundamentally changed, primarily related to race and class. Racially, America's history of segregated neighborhoods was long-standing, and the white flight that had been occurring accelerated with the urban disturbances of the 1960s, leaving an increasingly segregated metropolitan area with intense pockets of minority families (Massey and Denton, 1987). Many factors contributed to this sorting, including public-sector institutions, realtors and mortgage brokers, decisions on where to locate subsidized housing, and whites' perceptions of minority populations (Morton, 2014). The class-based trend was pioneered by more affluent white-collar families who could comfortably afford the tract housing and sought space, quiet, and solitude in day-to-day living without sacrificing access to cultural and other amenities. This ignited a migration of employment, retail, and other amenities from the urban core to suburban locations. Minority families also resettled by class, resulting in neighborhoods that were not only highly segregated, but isolated in pockets of concentrated, minority-specific poverty (Wilson, 2012).

These developments sparked a deep urban crisis, with fissures opening along two dimensions: socially and economically. Socially, the isolation of minority families in the urban core escalated long-standing tensions, ultimately resulting in a series of riots. Grievances included poor-quality housing, unsafe and oppressive neighborhoods, abusive police practices, expanding pockets of blight, and dwindling access to good-paying jobs (National Advisory Commission on Civil Disorders, 1967; McCone Commission, 1965; Dawsey, 1990). These disturbances were an important catalyst for the establishment of HUD (see Chapter 1, page 5).

Economically, the migration of jobs to the metropolitan periphery coincided with the technological transformations in modes of production and the rise of intense international competition in the 1960s and 1970s. Together these crippled many of the industrial investments representing the urban core's economic foundation. The thinning urban population was now coupled with an employment-based hollowing, leaving the core with increasingly little economic activity, particularly in sectors offering manufacturing jobs paying good salaries but requiring relatively little formal education (National Commission on Urban Problems, 1968).

Together these social and economic issues caused a "spatial mismatch," where low-skilled, largely minority workers lived in the central city, and the jobs best suited for them were located in the suburbs. John Kain, a Harvard economist, was a leading and vocal proponent of the view that this geographic dynamic was extremely detrimental for the employment prospects of minority (black) households, and that it was caused in part by racial segregation in residential markets (Kain, 1968). Although the theory was viewed as extremely controversial at the time, nearly 25 years later Kain pointed out that evidence continues to support this idea:

> There is growing evidence that housing market discrimination, and the particular pattern of racial residential segregation it created in most, if not all, U.S. metropolitan areas, are important causes of low employment levels of the Afro-American residents of central-city ghettos (Kain, 1992).

The suburban shift of population and jobs, coupled with discrimination in housing markets, led to major declines in many metropolitan areas' urban cores and a split in the fortunes of the city and the suburbs. Detroit, Michigan, was a classic case, as the metropolitan area continued to grow even as the city lost more than half of its population (Hill et al., 2012). Similar dynamics played out in other former urban powerhouses across the country, including St. Louis, Missouri; Philadelphia and Pittsburgh, Pennsylvania; and Milwaukee, Wisconsin. This period perhaps reached its nadir around 1980, when the nation's largest and most powerful city, New York, nearly declared bankruptcy (Weiner, 2008; Roberts, 2013).

Trends for the second half of the 20th century demonstrated the dramatic shift in the location of urban jobs. As shown in Table 3–2, employment was heavily based in the central city in 1950, after which commenced a rapid shift of jobs to the suburbs. The change was particularly dramatic in the 1960s, when the city employment share fell by 13 percent. The majority of urban jobs were located in the suburbs for the first time in the 1980s, and the pro-suburban trend continued through 2010 (although it slowed considerably in the 2000s). The timing of location shifts for jobs contrasted that of people, as a significant amount of the population migrated from the central city to the suburbs long before job opportunities. The majority of the urban population lived in suburbs as early as 1960.

Table 3–2.
City-Suburb Shares in Employment and Population

	Jobs		Population	
	City Share	Suburb Share	City Share	Suburb Share
1950	70	30	57	43
1960	63	37	49	51
1970	55	45	43	57
1980	50	50	40	60
1990	45	55	37	63
2000	39[a]	61[a]	33	67
2010	38[a]	62[a]	31	69

[a] *– For the 100 largest metropolitan areas in 2012*

Sources: *Mieszkowski and Mills (1993); Frey (2012); Brookings Institution analysis of Census ZIP Business Patterns data*

Resurgence: Revitalizing the Core

After decades of fallowness, urban places began to bear fruit, seeded by local decisionmakers and federal policymakers. Local decisionmakers reinvented urban development by developing and implementing strategies for planning, land use regulation, and financial investment. Through these vehicles, some local leaders—including elected officials, private and nonprofit institutions, and community leaders—successfully changed the trajectory of their cities by pursing initiatives designed to appeal to new business opportunities and people seeking particular lifestyles, such as the walkable streetscapes of New Urbanist communities. Examples of these include Old Pasadena, California, and Denver, Colorado's LoDo district, both of which were major transformations of distressed and underutilized central neighborhoods.

At the federal level, successive administrations took different approaches in supporting urban redevelopment. President Reagan championed governmental devolution of decisionmaking to give a much larger role to local decisionmakers, and his administration emphasized block grant programs, such as the Community Development Block Grant (CDBG) and Home Investment Partnership Act (HOME), that provided significant financial resources, but only limited direction on their use. In the George H. W. Bush Administration, HUD Secretary Kemp's passionate advocacy for unleashing entrepreneurial and business energy in urban areas resulted in the Empowerment Zone/Enterprise Communities (EZ/EC) program. Under Secretaries Henry Cisneros and Andrew Cuomo, the Clinton Administration continued these business-oriented programs and added the New Markets Tax Credit (NMTC) program as a potential catalyst. The NMTC established a new tax credit, issued through community-development financial institutions, to incentivize private investment in economically depressed or underserved communities. In addition, believing that blight associated with remaining concentrations of urban poverty were hampering redevelopment efforts, Cisneros, Cuomo, and the Clinton Administration created the HOPE VI program (see Chapter 1, page 77), which provided resources to convert public housing into less dense, mixed-income, and sometimes mixed-use communities. Most recently through initiatives such as the Neighborhood Revitalization Initiative and the Promise Zones program, the Obama Administration has provided incentives for communities to invest in a multidimensional manner to ensure that housing, education, public safety, transportation, and other community assets all meet minimum quality thresholds. All of these programs hearken back to place-based programs like Model Cities and the Urban Development Action Grant programs that were early efforts to redevelop urban areas.

There are not many evaluations of these programs, and overall they have found a mixed record of impact. Rohe and Galster (2014) made clear that the effectiveness of the CDBG program, which is a key source of federal support for urban development, remains an issue of considerable debate despite evidence it attracts resources that have improved low-income neighborhoods (Galster, Tatian, and Accordino, 2006; Pooley, 2014). Researchers documented gains in employment, job retention, and wages associated with the EZ/EC program, though few were able to link those directly to the tax credits the program offers (GAO, 2006; Herbert et al., 2001; Neumark and Kolko, 2008; Busso, Gregory, and Kline, 2009; Ham et al., 2011). The NMTC has been shown to be associated with job creation, blight reduction, and redevelopment of industrial areas, though a formal evaluation has not been completed (New Markets Tax Credit Coalition, 2012; Wong and Wolff, 2010; HUD, 2014). Evidence on the HOPE VI program suggests that the redevelopment efforts have improved private investment and reduced economic and social isolation for some communities (Goetz, 2010; Turner et al., 2007; Zielenback, Voith, and Mariano, 2010). More research is needed about each of these programs in order to provide a clear and definitive understanding of their long-term impacts as well as the mechanisms through which success is achieved—and ultimately ensure available resources are used effectively and efficiently.

Despite examples of success across the country, the task of urban development is far from finished. Many urban communities have not recovered from the hollowing out of population and jobs, and pockets of blight and despair remain. The extreme civil unrest in Baltimore, Maryland, in the wake of potentially criminal police activity was a stark reminder that tensions lie very close to the surface for many in urban America—and that more needs to be done.

The Future: Positioning Urban Places for the Economy of Tomorrow

For America's cities to continue growing, avoid stagnation, and retain their high standards of living, a number of policy challenges must be handled properly, otherwise American cities might be at risk of losing their place among some of the world's strongest.

Maintaining Competitiveness

Cities exist fundamentally for economic purposes. The most successful American cities have leveraged their natural and human capital advantages to evolve into powerful regional economies that support large metropolitan populations. As industries modernize, new production technologies, industries, and patterns and modes of trade will continue to emerge. Only if cities and metropolitan areas engage in this innovation process will they remain competitive and not lose ground.

One way to guarantee progress is for cities and metropolitan areas to be a source of innovation, whether for new products and industries or new ways to produce existing products. History has shown that innovation lies at the heart of economic leadership. For example, a Brookings Institution report found that metropolitan areas with lower-than-average growth in patents between 1990 and 2010 had an unemployment rate about 20 percent higher than metropolitan areas with higher-than-average rates of patent growth (Rothwell et al., 2013). The report further found that "the effect of patents on growth is roughly equal to that of having a highly educated workforce" (Rothwell et al., 2013), suggesting that an emphasis on creating new things pays large dividends.

However, most places will not drive innovation in products or production. Even if a city is not a source of innovation, it can still remain strong if it can capitalize on and support emergent economic drivers associated with that innovation. Therefore, cities must ensure regional infrastructure remains effective and efficient, as well as continually assess changes and adapt adroitly. Often this will require investments to upgrade existing assets, such as retrofitting existing industrial areas so they can be used by industries of today and tomorrow. Many of the nation's leading cities have buildings that are too small, have layouts that poorly serve today's modes of industrial production, and streets that are too narrow to accommodate today's trucks. Cities across the country are working to repurpose areas to provide much-needed housing, flexible space, or production centers to serve different kinds of industries, especially those needing the large scales cities offer.

Similarly, transformations in shipping technologies have resulted in ever-larger container ships that require deeper ports and more efficient onboarding and offloading of imports. Los Angeles, California, successfully accomplished one such transformation in the 1970s when Mayor Tom Bradley and other leaders pushed for and executed a major deepening of the ports in Los Angeles and Long Beach. This investment helped keep the region in its leading role as a hub for goods movement. Other cities, such as Jacksonville, Florida; Charleston, South Carolina; and Savannah, Georgia, are currently taking similar steps with the hope of a comparable outcome.

Investing Equitably

The past 40 years have seen a marked widening in income and wealth inequality in the United States. Piketty and Goldhammer (2014) showed that the share of national income accounted for by the top 10 percent of households increased from less than 35 percent in the 1970s to nearly 50 percent in 2010. Federal Reserve Chair Janet Yellen argued that rising income inequality is a major policy issue:

> The extent of and continuing increase in inequality in the United States greatly concerns me. … It is no secret that the past few decades of widening inequality can be summed up as significant income and wealth gains for those at the very top and stagnant living standards for the majority. I think it is appropriate to ask whether this trend is compatible with values rooted in our nation's history, among them the high value Americans have traditionally placed on equality of opportunity (Yellen, 2014).

Implicit in this is a belief that stagnation for the middle class is a threat to the nation's economic vitality and long-run health.

Rising inequality is in part the by-product of constraints on those at the bottom of the income distribution. These barriers, which limit access to opportunity for large segments of the population, place an upper bound on a community's aggregate potential by preventing people from realizing their greatest productivity and contributions to the economy and society. The income inequality at a national level also exists at the metropolitan and city level.

Segregation plays an important role in this disparity. As is the case for race, cities are typically segregated by income, with lower-income and upper-income families living in distinct neighborhoods. As documented in the US2010 Project, a report of societal changes directed by sociologist John Logan from Brown University, such income-based segregation has increased rapidly in recent decades (Logan, 2011). Between 1980 and 2010, the share of lower-income households living in a census tract where the majority of residents had lower incomes increased by 25 percent; the share of high-income households living in majority high-income census tracts doubled during the same period. From 1970 to 2007, the share of families in either rich or poor neighborhoods doubled from 15 percent to 31 percent (Reardon and Bischoff, 2011). These trends point to growing isolation of poor families and significantly lower prospects for success and self-sufficiency. This latter reality has been a point of interest in recent research by Harvard economists, who have found in several contexts that intergenerational mobility and emergence from poverty is less likely for people who live in income-segregated and high-poverty neighborhoods (Chetty et al., 2014; Chetty et al., 2015).

At the metropolitan-area level, economist Charles Tiebout's famous "vote with their feet" hypothesis made in 1956, which predicted that people with similar characteristics will sort into exclusive jurisdictions, has been proven by research. Both research and policy experiences have shown that income is an important dimension for determining commonality. For example, Banzhaf and Walsh (2008) showed that the worsening air quality in a neighborhood results in "the emigration of richer households and/or immigration of poorer households." Moreover, some communities throughout the nation have actively excluded lower-income families.

For example, in the landmark Mt. Laurel lawsuit, New Jersey residents supported by legal advocates sued the city because its zoning provisions made it virtually impossible to build housing within the city limits that would be affordable to lower-income families. These effectively prevented lower-income families from living in the suburban community, forcing them to move to other cities. Exclusionary zoning laws limiting the creation of low-income housing were not uncommon through the 1940s and 1950s.[2]

HUD is embarking on an important effort to try to break down these barriers and increase access to opportunity. A little known provision of the Fair Housing Act of 1968 required HUD to "affirmatively further fair housing" in addition to working to stamp out discrimination based on protected classes.[3] HUD has released new regulations that will, if effective, cause jurisdictions to review the patterns of their investments in housing, education, business development, transportation, and other amenities to see if they have reduced race-based disparities in opportunity, among other possible objectives.

This new regulation will hopefully spark a conversation in communities, one that creates a revived awareness of structural barriers to success and begins to break down the Tieboutian impulses toward exclusion. Yet success will not be possible unless communities seriously engage in this effort, and HUD will need to be an honest and substantive partner, helping communities grapple with and work through the sometimes-difficult issues that will arise—even though HUD has at times been ineffective in doing so. However, if both communities and HUD commit, their dedication could bring the beginning of a more inclusive—and more productive—era for the nation's cities and metropolitan areas.

Facing the Changing Geography of Need

Because unaddressed social problems swamped cities in the 1960s and 1970s and made them chaotic, dangerous places, cities must pay particular attention to that era so as not to repeat mistakes—and hopefully forever avoid the same saddening injustice and fearful unrest. From the 1970s well into the 2000s, it took a concerted effort by cities to address the concentrated poverty, crime, and other factors that made urban areas unattractive and contributed to a broad-based population flight to the suburbs.

Fortunately, these efforts revitalized and repopulated many urban areas across the nation, from booming development in downtown Los Angeles, California, to the emerging urban loft area in Kansas City, Missouri, to the wholesale transformation of the H and 8th Street corridors on Capitol Hill in Washington, D.C. These changes have produced more viable neighborhoods, which are now experiencing significant private investment and seem to be on the road to stability and prosperity. But in context of equitable economic development, many places

[2] Communities in St. Louis, Missouri, for example, enacted a series of exclusionary laws after the Supreme Court declared illegal race-based deeds and covenants restricting to whom a home could be sold (Hellerstein, 2015).

[3] In the United States, it is illegal to discriminate based on age, disability, ethnicity, gender, national origin, race, color, religion, and sex.

have yet to see positive changes in fortune. HUD's new, affirmatively furthering fair housing approach will hopefully help many places get onto upward trajectories.

However, there has also been an important change in the geography of need over the past 40 years. In their book *Confronting Suburban Poverty in America,* Elizabeth Kneebone and Alan Berube made the startling discovery that the majority of those in poverty live in suburban cities and towns—a stark departure from the long-standing pattern of the poor living in the urban core and more affluent families living in the suburbs. By Kneebone and Berube's estimate, of the 28.1 million U.S. households with incomes below the poverty line, 55 percent of them live in the suburbs. Moreover, the suburbs in some metropolitan areas have high poverty rates that are comparable to the concentrations seen in the central city in decades past. In 2010 the poverty rates in the suburbs of El Paso, Texas (36.4 percent); McAllen, Texas (35.4 percent); Fresno, California (23.1 percent); and Bakersfield, California (22.6 percent), were all significantly above the 15.1 percent rate for the nation as a whole.

The challenge here is that the policy and service infrastructure for addressing the needs of those in poverty are disproportionately located in central cities. Specialized social service providers gained their expertise largely by working in the urban core. Similarly, networks linking lower-income unemployed or underemployed job seekers with employment opportunities have historically been based in the central city. Successful connections with suburban employment centers will likely require models involving collaborations or colocation with large institutions that draw from the region, such as larger community colleges.[4] Moreover, in suburban communities, local elected officials and staff are more likely to be inexperienced with combatting problems associated with poverty and developing effective strategies and collaborations to provide the necessary supports.

These hurdles raise the specter of another period where communities with large poor populations become increasingly isolated from society and vulnerable to unrest and chaos. In recent glimpses from both Ferguson, Missouri, and North Charleston, South Carolina, the distance between the populace and the governing institutions created situations that were highly combustible. More attention must be given to these types of communities and steps must be taken to make sure that they are better integrated, both internally and with the broader region. Otherwise the nation risks another period of extended disruption and distraction from the critical investments needed to promote productivity and growth.

Building Urban Resilience

Resilience is one of the most essential goals for urban areas, yet achieving it is in some ways the most difficult of all quests of improvement. However, it is absolutely critical for urban places in today's world because disasters could strike at any time. There are at least three

[4] One possible model is the collaboration between the State of California and both the City of Los Angeles job training providers and Los Angeles Trade-Technical College to administer services through the Greater Avenues for Independence (GAIN) and California Work Opportunities and Responsibility to Kids (CalWORKs) programs (Los Angeles Trade-Tech College, 2015).

types of disasters to which cities must become resilient, and each presents a unique set of potentially existential challenges.

First urban and metropolitan communities must become resilient against human-made disasters. In recent decades, countries throughout the world have endured events that changed their economic and geopolitical landscapes, and these events seem to occur with increasing frequency, leaving nations, metropolitan areas, and families in almost perpetually reactive positions. Terrorism, the most obvious example, has scourged the world especially within the past 15 years. Becoming resilient to it requires developing and deploying technologies for monitoring and detection, strategizing for proactive and rapid response to threats, and effectively coordinating across levels of government.

While these widely recognized considerations have received considerable investment, far less attention has been given to building linkages among communities and law enforcement, which is an increasingly important tactic needed to combat human-made disasters. Recent years have seen a new paradigm in terrorism, where terrorists are largely homegrown. This is a departure from the September 11 attack, when all of the attackers were foreign nationals. Moreover, most recent domestic terrorists have been identified as extremist within their own local community and have been expelled (Nye, 2013). Establishing robust communication channels could allow for the quick identification of terrorists, improved monitoring, and perhaps detecting and preventing destruction.[5] But these channels will only emerge if local communities believe they are part of a network of communities and trust people outside of their circles of affinity. In many ways this is basic community development, and HUD's constituents have a rich history that could help build intercommunity relationships. They should seek a central role in progressing these efforts.

A second area where urban areas need to become more resilient is in response to natural disasters, and the growing volume of record-breaking storms and extreme weather patterns have resulted in significant loss of life and property and threatened long-standing ways of life. There are three aspects to natural disaster resilience: disaster preparedness, disaster response, and long-term disaster recovery. Both Hurricane Katrina in the United States and Cyclone Pam in Vanuatu showed how lacking these three aspects debilitated the areas in the storms' aftermath, so investments in all are needed. Since Hurricane Katrina the United States has responded better to natural disasters, suggesting the nation has learned lessons and is more effective in responding to disasters. On the other hand, disaster preparedness and long-term disaster recovery vary in cities throughout the nation. Some places have sophisticated preparedness plans. California, for example, has changed its building codes and conducts regular "Shake Out" public awareness exercises to prepare the public for earthquakes. By contrast, many coastal cities and towns that are in flood zones have not assessed their level of risk or considered the necessary steps for protection. This unpreparedness motivated HUD

[5] While this discussion emphasizes cross-community communication, the need to identify potential threats and alert authorities quickly is important for all. For example, the family of the perpetrator of the 2013 shooting at Los Angeles International airport alerted police he was potentially a danger, but police did not arrive at his apartment until after he had left for the airport (Simpson, 2013).

to partner with the National Oceanic and Atmospheric Administration (NOAA) to promote a geographic information system (GIS) tool that simulates floods and shows how these assets will be affected. HUD's Office of Policy Development and Research and NOAA jointly toured coastal areas in 2011 to increase awareness of the tool and spark local mitigation efforts. Finally, with respect to long-term recovery, a clearly successful blueprint for success remains elusive. There are examples of success, such as Grand Forks, North Dakota's rebound from their 1997 flood (Smith, 2014), but other cases—think New Orleans—demonstrate the great difficulty of achieving recovery that returns a metropolitan area to sustained growth and prosperity.

The third resilience dimension is economic. Economic productivity is the raison d'etre for the existence of urban and metropolitan areas, and change is necessary to drive comparative advantage. Without a resilient economy, cities have drowned when unable to stay above the crest of the waves of rapid industrial and technological change. During the 20th century alone in the United States, modes of communication evolved from the parcel post and land-line telephone; to express mail, faxes, and short-range wireless phones; to email and cellular phones. Similar, quick-evolving sea changes have occurred in virtually every other market domain. Changes like these placed considerable strain on metropolitan areas, with innovation challenging dominant industries and regions—and thus cities' economies. "Specialty cities" like Lowell, Massachusetts (textiles); Pittsburgh, Pennsylvania (steel); and Detroit, Michigan (automobiles), all experienced tremendous hardship when technologies shifted in ways that eliminated or reduced their comparative advantages. Cities that retained economic strength and positions of leadership were those that repositioned and reimagined themselves, ultimately finding a way to stay afloat during economic change. This resilience often resulted from repurposing or multipurposing investments.

So what drives this resilience? Some point to innovative spirit. Places that have leveraged agglomeration economies and became the source of the innovations that drive change have a head start on other places, a first-mover advantage that often results in a long-term leadership position. Silicon Valley's emergence in the early 1990s as the leader in computer-based innovation has persisted 25 years later, defining the region as a world economic powerhouse. Others point to economic diversification as a critical element, recalling that tremendous difficulties that nondiversified "specialty" places had no simple answers for how to retain leadership and growth and ultimately succumbed to shifting tides. Recovery stories like Pittsburgh, Pennsylvania, make clear that decline and loss are not preordained, mainly due to vision and leadership (Greenblatt, 2014). Though often overlooked or ignored in the success stories of many cities, the human element—particularly in a public context—has proven time and again to be vital to urban prowess. From the boosters and political leaders in Chicago, Illinois, who chose the train over the steamship to the leaders in Los Angeles, California, who recognized the importance of the port for driving international trade, the nation has seen many examples of the importance of local leadership. Resilience when tomorrow's challenges arise will require similar, vision-driven players.

Success in each of these areas of resiliency will require getting over some significant hurdles. Recognizing this, policymakers and thought-leaders have made resilience a centerpiece of new policy initiatives since the mid-2000s. In 2009 HUD, under the Obama Administration, began a new Office of Sustainable Housing and Communities, which provided grant funding to incentivize metropolitan areas to develop comprehensive, regional plans to advance economic resilience. This office has been folded into the Office of Community Planning and Development and is now called the Office of Economic Resilience. Since 2013 the Rockefeller Foundation has taken a leading role in regional planning through their 100 Resilient Cities initiative, which provides cities with resources to support a Chief Resilience Officer and develop a long-term resilience strategy. Regarding community development to thwart human-made disasters, the U.S. Department of Homeland Security is working more closely than ever with local communities to build trust and communication and has directed university research centers to become involved (Southers and Heinz, 2015). Finally, the Federal Emergency Management Agency continues to work with states and localities continually to improve preparedness and disaster planning.

Closing

Before the United States officially became a nation, its urban development was long and rich. This history of strength facilitated the transition from a heavily agrarian, largely trade-oriented economy into a powerful production economy that helped the country become a global leader. It also produced a dramatic shift in the spatial layout of cities and urban places, which has altered how people live and interact in fundamental ways. These changes produced both winners and losers, and the latter have become an important focal point for policy. HUD's mission places considerable emphasis on trying to mitigate the costs of urban change and promote a more inclusive society that benefits from the full, productive potential of all of its citizens. This is an important and worthy mission.

However, HUD and its panoply of policies and programs reflecting this mission will not achieve their goal without considerable support from nongovernmental organizations, including private-sector companies, nonprofit organizations, civic-minded individuals, philanthropists, and others. The government does not have sufficient capacity fully to solve any of society's most enduring challenges, and making progress to find and implement these solutions will require an all-hands approach.

Particularly important in this regard is the notion that governance will play a critical role. Successful urban development requires sustained collaboration and coordination, since it often takes up to a decade for an economic program to run its course (Bostic, 2014). Working across institutions and sectors over an extended period of time is inherently difficult and requires skilled managers and communicators, as it will be necessary to gain buy-in from a diverse set of interests and sustained commitment to a singular goal. This implementation challenge is often underappreciated until well into a development effort and can be a key reason why seemingly promising initiatives fall short or fail.

Looking ahead, HUD will continue to play a critical role in promoting future urban development that helps augment the economic contributions of all Americans and results in urban areas that innovate and remain resilient in the face of international competition and changing economic fundamentals. HUD must strongly advocate for policies and approaches that create great neighborhoods and cities, and provide a convening force that allows neighborhoods, cities, and regions to come together and establish coherent governing structures to facilitate and coordinate needed investments.

Acknowledgments

The author would like to thank Regina Gray, Anthony Orlando, Seva Rodnyansky, Alan Berube, and the editors for helpful comments and suggestions.

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Chapter 4 Housing Finance in Retrospect

Susan Wachter and Arthur Acolin

Introduction

The U.S. Department of Housing and Urban Development (HUD) is generally associated with its public housing, rental assistance, and low-income homeownership programs. However, looking at HUD's past 50 years shows that its programs have had a much broader reach and have contributed to shaping the American housing finance system. HUD was created as a Cabinet-level agency in 1965, but through predecessor agencies that were later folded into HUD, it has been an active player in the housing finance system since the 1930s. Indeed the Federal Housing Administration (FHA) and the Federal National Mortgage Association ("Fannie Mae"), which were developed in response to the Great Depression, are important actors in today's U.S. housing finance system.[1]

This chapter reviews the evolution of HUD's role in housing finance throughout the years. HUD played a critical role in the recovery from the Great Recession, ensuring access to mortgages during the crisis by providing a counter-cyclical credit source. Today even as the United States emerges from the most severe housing crisis since the Great Depression, HUD has taken on additional importance in the nation's housing finance system and is the major source of affordable lending to assure continued access to home ownership for first-time homebuyers.

[1] HUD's responsibility in enforcing Title VIII of the Civil Rights Act of 1968, the Fair Housing Act, also impacts the overall U.S. housing finance system. It prohibits discrimination in the sale, financing, or leasing of housing based on race, religion, and national origin; the act created the Office of Fair Housing and Equal Opportunity (FHEO) as an agency within HUD that was, and remains today, responsible for enforcing fair lending and housing laws. See Chapter 2 for further details on HUD's role in enforcing the Fair Housing Act through FHEO.

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Within this chapter, Section 1 presents the historical context around HUD's creation in 1965 and the functions it was given. Section 2 analyzes HUD's role in the development of the modern U.S. housing finance system in the decades after World War II. Section 3 discusses the Savings and Loan (S&L) crisis of the 1980s, and in its resolution, the impact on HUD's responsibilities and the so-called period of the "Great Moderation." Section 4 discusses the housing boom and bust and the financial crisis that followed, resulting in the Great Recession and HUD's renewed mission in the aftermath.

1. HUD Origins

HUD was launched as a Cabinet-level agency in 1965. Eventually the major housing finance institutions that were developed after the Great Recession were integrated into HUD's orbit. The origin of HUD, however, was as a central part of President Lyndon B. Johnson's Great Society programs (the largest federal reform initiative since the New Deal), which were initiated in response to a combination of factors, including disquiet around social and urban unrest, the nascent civil rights movement, and the desire for economic prosperity in the years following World War II.

By the 1960s the decline of many central cities was evident as they experienced population losses along with rising levels of blight, concentrated poverty, and racial segregation. Concomitantly, postwar investments and policies encouraged suburban development and shifted economic activity to outlying areas. Furthermore the development of the interstate highway system that began in the 1950s and aligned urban renewal programs tore through the cores of many cities, demolishing low-income, predominantly minority housing and hastening white flight.

The signing of the Housing and Urban Development Act of 1965, which authorized the creation of HUD, was one of several legislative steps directed toward reversing the plight of deteriorating central cities. The act recognized a need "to improve [the] living environment in urban areas" and authorized federal grants—distributed through local public agencies—to low-income households in urban renewal areas to rehabilitate deteriorated residential structures. The act also provided a new program of federal grants to fund urban beautification efforts and construct local water and sewer facilities and neighborhood community centers (H.R. 7984, 1965). To carry out these functions, HUD was established as an executive department, overseeing the administration and coordination of the principal federal programs for housing and community development.

At its inception HUD assumed oversight of several key housing agencies, many of which had evolved out of post-Great Depression efforts to stimulate housing development and, thus, the overall economy. Importantly, the 1965 act also transferred the functions of the Home and Housing Finance Agency (HHFA)—which oversaw FHA and Fannie Mae, among other federal housing agencies—to HUD's authority. These two agencies played instrumental roles in shaping the modern mortgage finance system.

FHA's Great Depression Origin: A Mortgage Insurance Program

Like HUD, which was created as part of the Great Society response to the crisis in the cities, FHA was created to respond to and reduce the economic impact of the Great Depression and prevent another from occurring. Prior to 1929, the typical mortgage was a balloon instrument in which the principal was not fully amortized over the loan term, leaving a significant balance (the balloon) due at maturity (Levitin and Wachter, 2012b and 2012c).[2] Mortgage terms were short, from 3 to 5 years, and lenders typically covered no more than 60 percent of a property's value, often leading borrowers to obtain second and third mortgages (Green and Wachter, 2005). During the Great Depression, credit markets froze, preventing households from refinancing their mortgages as they reached maturity. As millions of Americans lost their jobs, they were no longer able to make their monthly payments, leading to widespread foreclosures. By 1933 more than 50 percent of all mortgages were in default, and more than 1,000 mortgages foreclosed daily (Schwartz, 2010).

The 1920s-era system of mortgage finance contributed to the depth of the Great Depression, compelling the government to implement sweeping reforms to the financial system. An important component of these reforms dealt with housing finance (Wheelock, 2008).

The FHA, established by the National Housing Act of 1934, was the first of these reforms. FHA deviated from most Depression-era federal responses, which typically relied on direct application of funds to generate economic activity in the period following the stock market crash of 1929. For example, the Home Owners' Loan Corporation (HOLC) made loans directly to distressed homeowners to bail out and stabilize the collapsed lending industry (Semer and Zimmerman, 1974). In contrast, FHA's purpose was to provide mortgage insurance to induce private lenders with funds to originate mortgage loans free from default risk. Lenders in the 1930s, much like in the aftermath of the 2008 recession, were wary of lending, given high loan defaults.[3] FHA public insurance removed the risk of default; if an approved borrower defaulted on an FHA-insured loan, then the government would pay the lender the unpaid balance, assume ownership of the property upon foreclosure, and dispose of it. By ensuring lenders would not lose capital even in the event of default, the FHA increased the availability of funds for home purchase and construction.[4]

To qualify for FHA insurance, lenders, borrowers, mortgages, and properties securing the mortgages were required to meet certain standards, which FHA was authorized to prescribe by regulation with the intent of protecting the federal government and taxpayers (Semer

[2] Detailed information exists about the source, cost, and types of mortgages in the pre- and post-Depression, thanks to work by the NBER in the early 1950s based on survey data made available to researchers (Snowden, 2013). The extent to which the frequency of amortizable mortgages increased post-Depression is discussed by Grebler et al. (1956), who show that before the Depression, at least 50 percent of mortgages issued by life insurance companies, savings and loans, and commercial banks—which collectively represented more than 60 percent of the market—were already fully or partially amortizable in the 1925–29 period. Whether government guarantee was necessary for the provision of long-term, fixed-rate, fully amortizable mortgages remains unsettled (Willen, 2015).

[3] Moreover, the traditional sources of capital were decimated as a result of the Great Depression. While there was a private mortgage insurance industry prior to the Great Depression, companies were insufficiently capitalized to support the claims associated with a high rate of foreclosures (Alger, 1934; Graaskamp, 1967).

[4] It is estimated that FHA insurance lowered interest rates by up to 2 to 3 percent (Schwartz, 2010).

and Zimmerman, 1974). FHA provided insurance against default to lenders who (1) offered fixed-rate, long-term, fully amortizing mortgages and (2) ensured that mortgages, lenders, borrowers, and properties met national underwriting and construction standards.[5] Only loans within the conforming limit were eligible to receive FHA insurance, but this limit was originally set high enough to cover most houses.[6] The advent of the insured mortgage instrument contributed to the later transformation of mortgage debt through securitization to a relatively liquid form of investment, helping to create a national mortgage market.[7]

FHA Integration Into HUD

FHA provided an important stabilizing force in the housing market, and its uniform underwriting standards laid the foundation for eventually adopting the 30-year, self-amortizing, fixed-rate mortgage as the standard mortgage product (Green and Wachter, 2005). However, FHA also had an early history of limiting lending in urban, largely minority communities. For example, initial FHA underwriting standards stipulated that approval for FHA insurance depended upon, among other factors, the location and racial and ethnic composition of the neighborhood where the property was located. The underwriting manuals stated: "The more important among the adverse influential factors are the ingress of undesirable racial or nationality groups" (FHA, 1934). These standards led lenders to identify at-risk areas through a practice that came to be known as "redlining,"[8] which resulted in limited credit availability in neighborhoods generally located in central cities and with a high proportion of minority residents (Nourse and Phares, 1975; Bratt et al., 2006).[9]

Redlining typically meant that lending was concentrated predominantly in white suburban areas. In using race and ethnicity to determine mortgage eligibility and limiting insurance to new residential developments on the edges of metropolitan areas rather than in central cities, FHA contributed to the disinvestment in central cities. For example, during a 1965 Senate hearing on housing legislation, data submitted by FHA local housing offices on the distribution of properties with FHA mortgage insurance indicated that, as of 1964, "not much over 2 percent of the total FHA home mortgage insurance during that period was written in central city areas that could be described as blighted and deteriorating, and hardly more than 10 percent in all 'in town' or 'downtown' central city locations, whether blighted or standard" (Semer and Zimmerman, 1974: 43).[10]

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[5] Long terms (originally up to 20 years) and relatively low down-payment requirements (as low as 20 percent) ensured continued access to credit for borrowers and provided them with a measure of certainty about their long-term financial picture (Semer and Zimmerman, 1974).

[6] FHA was not designed to only serve a small fraction of the market. Though over time, due to inflation and house price appreciation, the loan limit became a binding constraint, restricting FHA to a limited segment of the market, especially in more costly areas, despite the development of different limits for high- and low-cost areas.

[7] However, the mortgage market remained largely local into the 1980s, with restrictions on S&L geography.

[8] See Guttentag and Wachter (1980) and Ling and Wachter (1998) for a discussion on how negative externalities contributed to the persistence of redlining practices.

[9] In doing so, FHA continued a practice that was already in place with the Home Owners' Loan Corporation (HOLC) established in 1933 (Hillier, 2003).

[10] See Schill and Wachter (1995) for a discussion of policies that led to racial and ethnic stratification.

In response to these past practices and in the context of the burgeoning civil rights movement, the government took steps to reverse past discriminatory practices in the 1960s. Executive Order 11063, issued in 1962, prohibited discrimination in government-assisted housing. Major legislation combining civil rights with housing followed, culminating in Title VIII of the Civil Rights Act of 1968—commonly known as the Fair Housing Act—which prohibited discrimination in the sale, financing, or leasing of housing based on race, religion, and national origin (later expanded to gender in 1974, and people with disabilities and families with children in 1988).[11] The Fair Housing Act created the Office of Fair Housing and Equal Opportunity (FHEO) as an agency within HUD responsible for administering and enforcing fair housing and lending laws, and establishing fair housing and lending policies (see Chapter 2).

In addition to the creation of FHEO, the transfer of FHA to HUD's authority marked a new chapter for the agency, contributing to FHA's assuming a new role to solve the housing problems in deteriorating central cities that had, in many ways, been exacerbated by prior FHA insurance patterns (Semer and Zimmerman, 1974). When Congress authorized FHA to be consolidated into HUD, it also required changes in FHA insurance practices designed to broaden its emphasis. Prior to 1966, FHA approval for insurance depended upon the borrower's credit rating, the soundness of the physical property, and the stability of the neighborhood where the property was located; following the change, FHA was allowed to insure mortgages based on the first two considerations alone, neglecting neighborhood stability (Nourse and Phares, 1975). Section 106(a) of the 1965 act also authorized a federal grant program for low-income households to fund essential repairs that would "help achieve rehabilitation for whole neighborhoods," as well as a matching program to fund "neighborhood facilities" providing amenities and social services to low- or moderate-income families (Semer and Zimmerman, 1974: 52–53). Furthermore, Congress approved the establishment of a special risk fund for unstable areas in 1968, which represented a definite shift in FHA policy, favoring loans on properties in transitioning neighborhoods (Nourse and Phares, 1975).

Today, as discussed further below, FHA continues in its role as a major provider of mortgage insurance to lenders on single-family and multifamily properties throughout the United States. FHA influences mortgage products on the market through the criteria it sets for loans it will insure. FHA consists of several insurance funds supported by premium, fee, and interest income; congressional appropriations if necessary; and other miscellaneous sources. Currently, the FHA insurance guarantee is funded by a combination of an upfront mortgage insurance premium, ranging from 1 percent to 2.25 percent of loan value, and an annual mortgage insurance premium up to 1.15 percent. FHA had never required a taxpayer bailout until the mandatory appropriation of about $1.7 billion in 2013 to cover expected future losses on mortgages originated during and after the housing crash (Courchane et al., 2014; Park and Quercia, forthcoming).

[11] But this was followed by Section 236, a failed program with low or no downpayments, which led to defaults and blighted neighborhoods. See Wachter (1980) for a discussion.

FHA, Fannie Mae, and the Secondary Market

The 1965 act that created HUD also gave it regulatory oversight over another important actor in the housing finance system: the Federal National Mortgage Association ("Fannie Mae"). Fannie Mae was created in 1938 to provide a secondary market for FHA-insured loans. Prior to the 1930s, while some secondary markets for mortgages existed in which lenders would sell loans to investors, these markets were limited due to variations in mortgage characteristics and potential risks to investors (Stone, 1993).

FHA mortgage insurance, as noted above, provided the needed security and uniformity to make mortgage markets more liquid, but banks and other private lenders were still unwilling to purchase and hold FHA-insured mortgages (Stone, 1993). This was due to interest rate risk—that is, the fear rates would precipitously rise, lowering the value of mortgages, and rendering them illiquid. Thus, while FHA had removed credit risk, Fannie Mae (at its onset) removed interest rate risk from banks by guaranteeing purchase at par (Levitin and Wachter, 2012a and 2012b).

The National Housing Act of 1934, which created the FHA, had also included a provision (Title III) for the chartering of private, for-profit national mortgage associations to facilitate mortgage loan liquidity, allowing banks to sell rather than hold their mortgages and enabling banks to issue more loans. Although the original requirements of the act were liberalized twice, reducing capital requirements and increasing borrowing authorizations, no associations were formed (Bartke, 1971). In response to the lack of private initiative, President Roosevelt enjoined FHA in 1937 to establish Fannie Mae to buy FHA-insured mortgages using funds raised by the sale of government-backed securities (Stone, 1993).[12] Fannie Mae facilitated the creation of a secondary mortgage market that replenished working capital to banks. It also contributed to the widespread adoption of FHA-insured loans, as Fannie Mae was limited to purchasing only these loans.

Fannie Mae grew slowly at first, buying just more than 200,000 mortgages before World War II. After the war, the Servicemen's Readjustment Act ("GI Bill") created the Veterans Administration (VA) mortgage insurance program, offering low-cost, long-term loans to veterans. Fannie began purchasing VA-insured loans in 1948. Following the World War II economic expansion, its business grew rapidly.

With these innovations in place, the U.S. homeownership rate increased dramatically, from 44 to 63 percent between 1940 and 1965 (Fetter, 2011). The creation of FHA and VA programs along with Fannie Mae laid the foundation for securitization and the post-World War II mortgage market. This enabled the United States, in a period of rapid economic growth, to develop as a nation of homeowners.

[12] That is, government-backed debt, not mortgage-backed securities.

2. Evolution of the Secondary Mortgage Market

As Fannie Mae expanded in the 1950s, private lenders were critical of what they viewed as Fannie Mae's unfair advantage (its status as a government agency allowed it to borrow money at low interest rates), and many called for its abolishment or privatization (Forrester, 2004). As a compromise, the National Housing Act of 1954 reestablished and reorganized Fannie Mae's ownership structure; banks that sold it mortgages were required to purchase nonvoting common stock in the company, but the federal government remained Fannie Mae's majority owner (Forrester, 2004). During the period following the act, Fannie Mae became more important in residential mortgage finance; its share rose from 11 percent of all residential mortgages originated in 1957 to 18 percent in 1966 (Forrester, 2004).

Like FHA, Fannie Mae experienced significant changes during the time of its direct HUD oversight. Only 3 years after HUD assumed oversight of Fannie Mae and FHA, the Housing and Urban Development Act of 1968 partitioned Fannie into two entities: (1) Fannie Mae, a private, shareholder-owned company with government sponsorship over which HUD retained regulatory authority, and (2) the Government National Mortgage Association ("Ginnie Mae"), a wholly government-owned corporation also overseen by HUD, which was created to support the FHA and VA programs and expand the availability of funds for low- to moderate-income families primarily served by these programs.

In part, this was done to exclude Fannie Mae's financial activity from the federal budget and to finance the Vietnam War by trading its reliable stream of income for large, upfront funds from selling shares (Ellen et al., 2010; Nothaft, 2012). It also provided a source of liquidity for non-government backed mortgages (Green and Wachter, 2005). Although the Emergency Home Finance Act of 1970 originally restricted Fannie Mae to purchasing FHA and VA mortgages, it did permit Fannie Mae to purchase private loans that were not guaranteed or insured by the government, but met specific balance limits and underwriting standards (that is, "conventional" or "conforming" loans).

While Fannie Mae became a conduit for purchasing and selling private conforming mortgages, its existing portfolio of government-insured mortgages and prior function of securitizing FHA-insured mortgages was transferred to Ginnie Mae, which did not hold mortgages purchased as part of its portfolio, but instead guaranteed the timely payment of principal and interest on a pool of loans compiled by approved issuers. Indeed Ginnie Mae pioneered the issuance of mortgage-backed securities (MBS).[13]

The Emergency Home Finance Act also created the Federal Home Loan Mortgage Corporation ("Freddie Mac") to compete with Fannie Mae by purchasing loans originated by the 12 Federal Home Loan Banks (FHLBs) and their thrift members. Freddie Mac's charter reflected that of Fannie Mae's new private charter: both had missions of expanding

[13] Ginnie Mae also provided that guarantee to USDA rural housing service mortgages and Public and Indian Housing (PIH).

the secondary market for conforming mortgages by buying mortgages made by savings and loan associations and other depositories. While Fannie Mae was regulated by HUD, Freddie Mac was owned by the FHLB system and governed by the FHLB Board (FHLBB). At the time, Fannie Mae and Freddie Mac worked to develop uniform mortgage documents and national standards for conforming loans. Their original charters did not include an affordable housing component, although the development of securitization contributed to the supply of affordable mortgage products. In particular it made possible the supply of long-term, fixed-rate mortgages despite volatile inflation that contributed to the decline in the share of the market of savings and loan associations with short-term deposits.

The diversified business of these government-sponsored enterprises (GSEs) and their subsequent growth contributed to the standardization of mortgage products. From the 1970s to their conservatorship in 2008, the GSEs were two for-profit corporations competing against each other. Nonetheless they had similar federal charters and were subject to similar laws and regulations. As a result they introduced uniformity to the mortgage market and to the development of securities as an important source of funding for mortgages. Ginnie Mae created the first MBS in 1970 for government-insured mortgages, and Freddie Mac issued the first MBS for conventional mortgages in 1971, with Fannie Mae following suit in 1981 (Fabozzi and Modigliani, 1992). In exchange for a fee, holders of MBS pass-through securities were guaranteed timely payment of interest and principal, but assumed interest rate risk. This enabled institutional investors such as pension funds and life insurance companies to invest in the GSEs' MBSs without having to service loans and manage credit risk.

GSEs issuance of MBSs contributed to the development and enforcement of uniform underwriting practices for conventional loans, as the GSEs needed to have homogenous loans that could be easily bundled into liquid securities. As a result, the GSEs were able to pool mortgages efficiently and offer similar terms to borrowers with lower or higher risk profiles as long as they met the same underwriting criteria, extending the market to marginally creditworthy borrowers (Levitin and Wachter, 2012b).

This pooling efficiency, lower mortgage costs, and the subsequent growth in the importance of securitization relied on the development of the To Be Announced (TBA) market. The TBA market enabled forward sales of MBS whose mortgages had not yet been identified or even issued, providing liquidity for mortgage issuers and enabling banks to offload interest rate risk from their balance sheet and to hedge interest rate risk during the mortgage origination process (pipeline risk), as they guaranteed borrowers a lock-in rate for up to 3 months in advance of closing. The TBA market required homogenous underwriting criteria and mortgage products in order for investors to be able to price these MBS appropriately based on pre-determined characteristics (Kanojia and Grant, forthcoming). The fact that there were only three issuers that trade in the TBA market (Fannie Mae, Freddie Mac, and Ginnie Mae) and that each of these issued only a limited number of securities contributed to the depth and liquidity of the pool, attracting wide variety of investors and enabling bid-ask spreads in the

TBA market to be lower than on corporate bonds and only slightly higher than on Treasury bonds and low-trading costs (Kanojia and Grant, forthcoming). In addition, providing a future market enabled market participants to take risk in the mortgage market without having physically to manage the collateral, enabling investors to maintain long or short positions. The TBA market therefore provided the following benefits to its participants: risk management, liquidity, and ability to trade without taking physical delivery (Kanojia and Grant, forthcoming). Combined, the development of MBS and the TBA market contributed to bringing liquid and stable sources of capital to the mortgage market and to decreasing the cost and increasing the affordability of the long-term, fixed-rate mortgage.

The importance of this function and the government's role in maintaining it through oversight of securitization in this period cannot be overstated. Investors focused on interest risk and prepayment risk and were able to assess these risks due to the relatively homogenous characteristics of the collateral and the presence of government guarantee. Kanojia and Grant (forthcoming) reported concerns that the TBA market would not function (1) with more heterogeneous securities as substantial prepayment differences would emerge with differences in underwriting standards; and (2) if investors have to determine credit risk in addition to interest rate risk. To maintain a TBA market that provides liquidity and enables risk management and forward trades, a unique guarantor or a higher-level regulatory body needs to insure against credit risk and enforce compliance with a set of underwriting standards.

Through its administration of FHA and its oversight of Fannie Mae and Ginnie Mae, HUD played an important part in the development and adoption of underwriting standards in the private, conventional, and government-insured space. In its function as regulator, HUD also ensured that the guidelines adopted by the agencies it oversaw enabled access to homeownership for a wide range of borrowers by providing standard terms to all borrowers meeting required underwriting criteria. The guidelines HUD imposed were important factors in managing default risk, keeping the capital requirements for Fannie Mae (and eventually Freddie Mac), and limiting FHA's insurance fund, since the guidelines curtailed risky lending. This also contributed to the affordability of these mortgages backed by FHA and the GSEs. Local recessions, such as the one that occurred in Texas in the 1980s, required the use of the reserves (Green and Wachter, 2005), but the guarantees did not require public financial support until the Great Recession.

3. Savings and Loan Crisis

HUD expanded its mission in regulating GSEs following the Savings and Loan (S&L) crisis of the 1970s and 1980s. From the 1930s through the 1970s, Regulation Q imposed maximum rates of interest on deposit accounts and restricted loan products that S&Ls, banks, and other depository institutions could issue. For example, banks could not issue adjustable-rate mortgages (ARMs) that could provide them with a hedge against interest rate changes

(Benston and Kaufman, 1997). Effectively, Regulation Q restricted thrifts' ability to compete for deposits and offer mortgage products other than, essentially, the "plain vanilla," 30-year fixed-rate, pre-payable, self-amortizing mortgage.

These regulations combining the secondary market limitations of Fannie Mae and Ginnie Mae, as well as the origination limitations of the S&Ls, led to a strict regulator regime or, as termed by Levitin and Wachter (2012b and 2012c), the "public option," which essentially limited the mortgage market to the standard "American Mortgage" (Green and Wachter, 2005). This instituted a regulated housing finance system in place of the unregulated mortgage market that had prevailed prior to the Great Depression.

The system was vulnerable to interest rate shocks, however, as the S&Ls that created these mortgages continued to hold them in their portfolios as opposed to offloading them through securitization. With steady interest rates, this was a good business. S&Ls lent mortgages for some time at 6 percent funded by 3 percent deposits, and closed their businesses at 3:00 p.m., the so-called 3-6-3 business (Haveman, 1992).

After World War II interest rates increased with episodes of high and rising inflation. As a result, many S&Ls came to the brink of financial insolvency because of the mismatch between rates on long-term loans and short-term deposits. As long as Regulation Q was in place, depositors withdrew their funds to invest them in higher-earning money market funds. Even when Regulation Q was lifted,[14] higher market-rate yields of money market funds required S&Ls to compete with these funds at rates exceeding the return on long-term, fixed-rate mortgages held in their portfolios.[15]

In response to the threat of mass S&L failures, Congress passed two pieces of legislation: the Monetary Control Act in 1980 and the Garn-St. Germain Depository Institutions Act in 1982. Together the acts removed limits on the amount of interest that could be charged on deposits and allowed banks and thrifts to issue many new product types, including ARMs. Intended to stabilize the depository sector and reestablish the soundness of the S&Ls, the legislation actually only provided S&Ls with a temporary lifeline. The "public option" of a regulated mortgage market was effectively undone by this, as lenders raced to the bottom to make risky mortgages, with the upside retained by the S&Ls and the downside by taxpayers (Levitin and Wachter, 2012b and 2012c). The Garn-St Germain Depository Institutions Act of 1982 (Garn-St. Germain Act) and the actions of the FHLBB undid the regulatory constraints on imprudent lending and increased the cost of bailing out the S&Ls. They did so by enabling insolvent S&Ls to engage in risky practices rather than shutting insolvent institutions down, therefore increasing moral hazard, as they did not have anything to lose (Benston and Kaufman, 1997; Green and Wachter, 2007).

[14] Lifting most interest rate ceilings imposed under Regulation Q took place progressively between 1981 and 1986 (Ducca, 1996).

[15] Nationwide banking restrictions exacerbated financial risk by requiring S&Ls to invest depositors' savings in mortgages secured by properties within a 50-mile radius of the S&L's main office, preventing geographic diversification in the event of adverse local economic shocks (Norton et al., 2006).

Ultimately the crisis deepened, and between 1986 and 1995, the number of federally insured S&L institutions declined by about 50 percent (Curry and Shibut, 2000; Benston and Kaufman, 1997). While they had more diversified investment and funding structures, commercial and saving banks also experienced a significant number of failures over that period. Between 1983 and 1990, the number of banks that failed was more than double the number that had failed between the creation of the FDIC in 1934 and 1983 (Benston and Kaufman, 1997).

In the aftermath of the ensuing bankruptcy of the Federal Savings and Loan Corporation (which insured deposits for the S&Ls), the government passed the Financial Institutions Reform, Recovery, and Enforcement Act in 1989 (FIRREA). FIRREA placed thrifts and S&Ls under FDIC insurance, created a new thrift regulator, and abolished the FHLBB. Going forward, financial institutions would no longer place significant holdings of long-term, fixed-rate mortgages on their balance sheet, setting the stage for the rise of the secondary market.

FIRREA also aligned Freddie Mac and Fannie Mae's structure. Until 1989 Freddie Mac had been owned by the FHLB system, and the FHLBB formed its board of directors. FIRREA severed Freddie Mac's ties to the FHLB system. FIRREA restructured Freddie Mac as a publicly traded corporation with a similar corporate structure as Fannie Mae's (owned by private shareholders rather than by the FHLBs) and subjected Freddie Mac, like Fannie Mae, to HUD oversight. While the S&Ls were outside of HUD's regulatory responsibilities until 1989, FIRREA put HUD in charge of regulating Fannie Mae and Freddie Mac as both enterprises sought to expand their market share, significantly increasing HUD's role in the post-S&L mortgage market.

As part of this new regulatory regime, Congress passed the Federal Housing Enterprises Financial Safety and Soundness Act (FHEFSSA) in 1992. FHEFSSA was motivated by concerns that the GSEs posed safety and soundness risks to the financial system because of the growing size of their portfolios and the resulting potential interest rate risk, as well as that, if a crisis occurred, a housing market with an increasing presence of the GSEs could cause similar disruptions to that of the S&L crisis.[16] FHEFSSA created a new regulatory structure for the GSEs and took steps to clarify their position in the housing finance system. It divided regulatory authority over the GSEs with a newly created, independent agency within HUD, the Office of Federal Housing Enterprise Oversight (OFHEO) (GAO, 2009), as the safety and soundness regulator.[17]

[16] Subsequent to FIRREA restructuring Freddie Mac into a publicly held corporation in 1989, Freddie Mac adopted Fannie Mae's practice of holding some of the loans it purchased in the following years. On these retained loans, the GSEs assumed both interest rate and credit risk, whereas interest rate risk would otherwise be transferred to investors through the issuance of MBS (Weicher, 1994).

[17] As safety and soundness regulator, OFHEO "lacked key authorities—such as authority to take enforcement actions based on declining capital levels and unsound financial practices—that were available to federal bank regulators" (GAO, 2009: 17).

HUD continued to serve as the GSEs' mission regulator, and among its responsibilities in this role, HUD was required to form the affordable housing goals for the GSEs and to monitor their performance (Frame and White, 2004; Weicher, 2010). These goals codified one of the public purposes of the GSEs as inscribed in both of their charters, namely "to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return on other activities)" (Weicher, 2010: 3).

HUD established three annual affordable housing goals: (1) a broad low- and moderate-income goal for families with less-than-median income, (2) a geographically targeted goal for housing located in underserved areas, such as low-income and high-minority census tracts, and (3) a targeted, income-based goal for special affordable housing, which is housing that is affordable to very low-income families and low-income families living in low-income areas (Office of Policy Development and Research, 2001). While the goals are expressed in terms of the income of homebuyers and homeowners, they also covered rental housing. For example, the low- and moderate-income goal included loans to multifamily housing owners for rental units affordable to households with incomes at or below AMI. In addition, multifamily rental housing within underserved areas counted toward that goal, as well as owner-occupied housing (Weicher, 2010).

As the GSEs' mission regulator, HUD set numerical targets for the minimum percentage of each GSE's mortgage purchases that should count toward each goal, and FHEFSSA authorized HUD to collect data from the GSEs to monitor whether they were meeting these goals (Office of Policy Development and Research, 2001; Weicher, 2010). By statute, the targets were set with reference to the performance and efforts of the GSEs toward achieving the targets in previous years, the share of the conventional conforming market composed of loans in a goal category, and the ability of the GSEs to lead the industry in making loans in a goal category (Weicher, 2010). Prior to FHEFSSA, Fannie Mae already had housing goals out of concerns that "Fannie Mae was not doing enough to promote national housing policy goals" (Weicher, 2000: 125). HUD had lacked the ability to monitor compliance, which was made possible with the FHEFSSA mandate for the GSEs to provide HUD with the required data (GAO, 2009). Under FHEFSSA, if a GSE failed to meet the housing goals and did not develop a remedial plan accepted by HUD, then HUD had the ability to impose monetary penalties and injunctive relief on the GSEs (GAO, 2009).[18]

Throughout the 1990s, the GSEs and other federal entities, including Ginnie Mae, were the main source of mortgage funding, accounting for 48 to 53 percent of outstanding mortgage debt between 1992 and 2002 (Figure 4–1). This period was accompanied by a continued decline in the share of mortgages held by depository institutions (including the S&Ls), which saw their market share decrease from 34 to 28 percent between 1992 and 2002. This

[18] Weicher (1994), however, considered that the division of oversight for safety and soundness (OFHEO) and oversight of the housing goals (HUD) enabled the GSEs to assert the need for lower housing goals based on safety-and-soundness concerns.

resulted from the decline of the S&Ls (from 45 percent of mortgage debt outstanding in 1980 to 30 percent in 1989, 18 percent in 1992, and 10 percent in 2002) and a rise in the volume and share of mortgages securitized by the GSEs or in their portfolio (from 24 percent in 1980 to 40 percent in 1989, 48 percent in 1992 to 53 percent in 2002). While private-label securities (PLS) emerged in this period[19] (MBS issued by private financial institutions without implicit or explicit government guarantee but tranched for credit risk), they had only a small and inconsequential share of the market.[20]

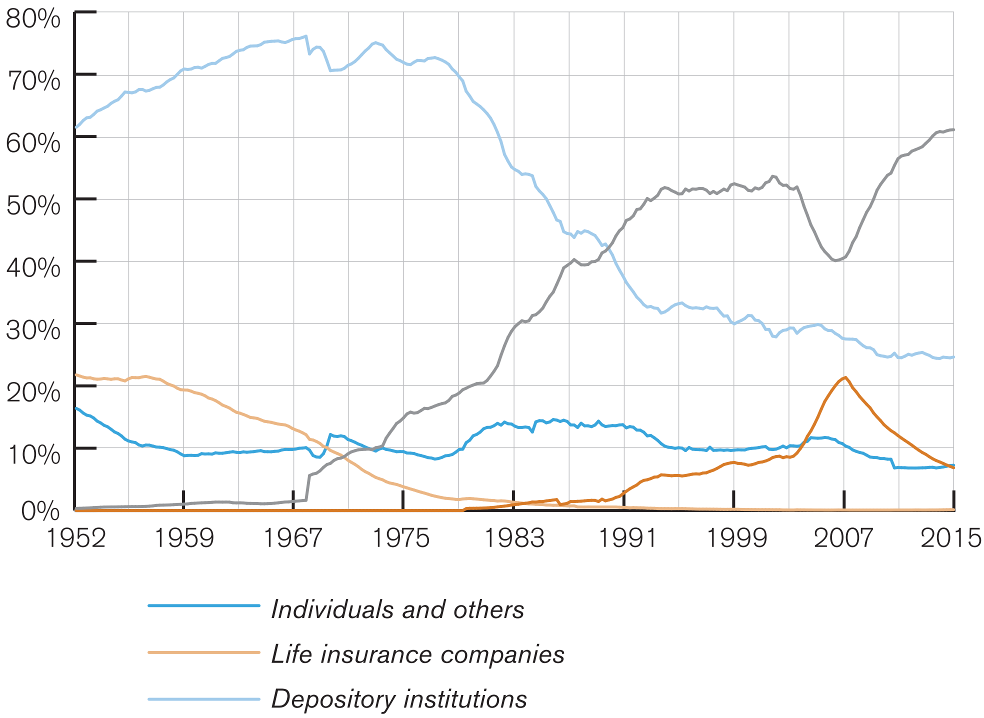
The S&L debacle and its aftermath transformed the U.S. housing finance system. Financial institutions shifted away from using deposits as the main source of mortgage funding to relying increasingly on institutional capital raised through securitization. While crises similar to that of the S&L industry in the United States had taken place in the United Kingdom and elsewhere, the response in other countries was to move toward a bank deposit-funded, short-term, ARM-dominated mortgage finance system. Due to the institutional development supported by HUD, securitization in the U.S. allowed the funding of the 30-year, pre-payable, fixed-rate mortgage, or the "American Mortgage," as identified in Green and Wachter (2005 and 2007). As housing finance integrated into global capital markets, enabled by securitization, the change eradicated episodes of disintermediation that had led to recessions. It fostered a 25-year period of economic stability, from the 1980s to the mid-2000s, that came to be known by macroeconomists as the Great Moderation (Bernanke, 2004).

The same period was also characterized by a rise in the homeownership rate, which grew from 64 to 69 percent between 1994 and 2004. Over that decade, homeownership rates increased by 7 percent for African-American households (from 42 to 49 percent) and 9 percent for Hispanic households (from 41 to 50 percent), while it increased by 6 percent for white households (from 70 to 76 percent), narrowing the homeownership gap between whites and minorities (U.S. Census Bureau, 2014).

[19] PLS's market share increased from 4.3 to 8.6 percent of the market between 1992 and 2002.

[20] PLS did not adopt a guarantor model but rather were structured such that investors able to manage interest rate risk but not credit risk were able to purchase AAA tranches with long-term maturities while investors willing to take on credit risk in exchange for higher yields purchased subordinate tranches. The AAA rating of the upper tranches was instrumental in attracting institutional investors to the PLS market.

Figure 4-1.
Mortgage Debt Outstanding by Type of Holder
One- to Four-Family Residences, 1952–2014



Source: *Board of Governors of the Federal Reserve System, "Mortgage Debt Outstanding by Holder," www.federalreserve.gov/econresdata/releases/mortoutstand*

In the aftermath of the housing crisis, many researchers have examined the potential effects of HUD's affordable housing goals for the GSEs, and some have claimed that policies aimed at increasing low-income homeownership rates led the GSEs to purchase riskier loans (Avery and Brevoort, 2015). In fact, it appears that the housing goals did not play a significant role in increasing home ownership or the risk taken by the GSEs. Looking at the impact of the housing goals on loan performance, Avery and Brevoort (2015) find no significant negative effect.

These findings are consistent with the FCIC (2010) report that finds housing goals were modest in scope, imposing limiting costs for and compliance on the GSEs. Several studies have investigated the impact of HUD's affordable housing goals on the GSEs' credit activity and homeownership outcomes and indicate the net effects of the housing goals on housing outcomes are less certain. Ambrose and Thibodeau (2004) and Bhutta (2012) use discontinuities created by the eligibility rules. These rules create a treatment and a control group since areas just above or below the threshold are very similar except for being designated an underserved area. The two studies find a small but positive net effect on mortgage activities in underserved areas targeted by HUD affordable housing goals. Other studies (An and Bostic, 2008; Gabriel and Rosenthal, 2008; Moulton, 2014) that also use a discontinuity design approach find an effect of the affordable housing goals on GSEs purchase, but do not find a net effect on overall credit supply, potentially due to crowding out effects on FHA and non-conforming loans. Gabriel and Rosenthal (2008) do not find evidence of an effect of the affordable housing goals on homeownership. Suggestive evidence provided by Bostic and Surette (2001) attributes the 1990s rise in homeownership for minorities and low-income households to broader changes in the mortgage market (that is, declines in interest rates and increased access to credit for marginal borrowers) that are consistent with an increased access to credit for minorities over that period, but it appears that HUD's impact through the affordable lending goals was limited.

4. The Great Recession

The share of mortgages securitized or held in portfolio by federal agencies remained above 50 percent between 1995 and 2004, with the GSEs accounting for the bulk of this share (Levitin and Wachter, 2012a). However, after 2002 that share declined while the share of mortgages securitized through PLS increased from around 20 percent of the MBS market in 2002 to over 50 percent in 2006 (Levitin and Wachter, 2012a).[21] The rapid rise of PLS was accompanied by an increase in nontraditional mortgage products (NTMs), which increased from about a 10 percent share of mortgage origination to a 30 percent share of the market at their height in 2006. NTMs composed more than 50 percent of origination in 2006 in certain markets—in particular, interest-only (IO) mortgages, payment-option ARMs, and teaser ARMs[22]—characterized by features that initially made the loans affordable but led to a substantial increase in monthly payments after the initial affordability period (Levitin and Wachter, 2012a; Acolin et al., 2015).

In response to concerns about these products when they first appeared in the end of the 1990s, HUD and Treasury had convened the National Predatory Lending Task Force to investigate whether they were predatory and to make recommendations (Fishbein and Bunce, 2000; U.S. Department of Housing and Urban Development and U.S. Department of the Treasury, 2000). Many of these recommendations were then implemented after the crisis by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd Frank Act) of 2010, as discussed below.

[21] The GSE share declined from 54 percent in 2002 to 40 percent in 2007; the PLS share increased from 8 to 21 percent over the same period.

[22] In the case of IO loans, the borrowers only paid interest, with the balance due remaining constant. With option ARMs, the borrowers could decide how much to reimburse each month, often having negative amortization features that enabled them to pay less than the monthly interest resulting in increasing balance. Teaser ARMs have a fixed rate for a set period (2 to 3 years), with a low teaser rate before to convert to ARMs with a higher margin. Most of these products combined one or several affordable features for a given period but start amortizing, or their teaser rates reset to a higher value after a few years.

Nontraditional products were generally targeted to subprime borrowers and packaged in PLS, and were not under the regulatory power of OFHEO and HUD (Mayer et al., 2009; Thomas and Van Order, 2010; Simkovic, 2013; Wachter, 2014). FHA did not purchase or insure nontraditional products, leading it to lose market share from 2003 to 2006. FHA was then limited to a small market, accounting for less than 2 percent of new loan originations by dollar volume at the peak of the boom (Park and Quercia, forthcoming).

The GSEs, particularly Fannie Mae, also lost market share, although not as dramatically as FHA. Seeking to maintain their declining market share, the GSEs relaxed their underwriting standards and began providing insurance for more Alt-A loans (riskier than prime but less risky than subprime, often without full documentation), IO loans, ARMs, and borrowers with lower FICO scores (Goodman et al., 2014). The GSEs also invested heavily in PLS. During the 1990s, the GSEs invested a relatively small share of their portfolio in PLS (less than 10 percent), but in the early years of the 2000s, the GSEs became active in the market for subprime and Alt-A PLS. In 2000, the GSEs purchased 19 percent of subprime and 15.9 percent of Alt-A PLS issued that year; between 2002 and 2004, GSE purchases represented between 33.2 and 41.2 percent of the subprime market, and between 16.5 and 18.5 percent of the Alt-A market. By 2006, the GSEs had begun pulling back their purchases of PLS, and their share of purchases dropped to 29.2 percent of the subprime market and 9.9 percent of the Alt-A market (Thomas and Van Order, 2010).

Direct evidence on GSE purchase activity indicated that affordable housing goals had little, if any, impact on GSE activity in purchasing subprime mortgages. Instead, it appeared that the GSEs were responding to the same factors in the mortgage market as other lenders (Weicher, 2010; Thomas and Van Order, 2010; Levitin and Wachter, 2012a). In retrospect, OFHEO, as well as other regulators, could have lessened housing market instability by tracking the role of subprime and Alt-A security purchases in the housing bubble. However, this required the ability to detect a bubble and to establish the macroprudential response. At the time, the mispricing of risk and the risky lending practices behind the explosion in mortgage debt were not known (Duca et al., 2011; Levitin and Wachter, 2012a; Anundsen, 2015; Wachter, 2015b).

While HUD had a limited role in the buildup to the housing crisis, it played a major role during and after the crisis by maintaining the flow of mortgage credit, with FHA carrying out an important countercyclical function, reinforcing the value of an explicit government guarantee (Park and Quercia, forthcoming). In addition, a number of regulatory changes contributed to altering the structure of the housing finance system significantly, and additional reforms have yet to be implemented as the status of the GSEs remains in limbo since the conservatorship was not designed to be a permanent solution.

In 2007 and 2008, as house prices declined nationally and default rates increased to unprecedented (and unforeseen) levels, the financial condition of the GSEs deteriorated as they incurred significant credit losses in their retained portfolios and MBS guarantees. In response, Congress passed the Housing Economic and Recovery Act of 2008 (HERA), which authorized

FHA to guarantee up to $300 billion in new 30-year, fixed-rate mortgages for subprime borrowers if lenders wrote down principal loan balances to 90 percent of current appraisal value. It also established a new regulatory agency to oversee the GSEs and the FHLBs: the Federal Housing Finance Agency (FHFA). FHFA replaced OFHEO as the GSEs' regulator for safety and soundness and assumed HUD's mission oversight, including the affordable housing goals. HUD, however, continued to maintain fair lending authority over the GSEs. Through powers granted to FHFA by HERA, FHFA announced on September 7, 2008, that it was placing Fannie Mae and Freddie Mac under FHFA conservatorship, enabling the GSEs to continue purchasing and securitizing mortgages with the explicit backing of the U.S. government.

While FHFA replaced HUD as the GSEs' mission regulator, HUD's role in the housing finance system increased during the housing crisis because of the countercyclical role FHA and Ginnie Mae played in that period. While other sources of liquidity retreated from the market during and after the housing crash, FHA continued to originate loans. In the absence of FHA-insured mortgages, home sales prices would have declined another 25 percent, contributing to an additional $4 trillion loss of household wealth and exacerbating the severe impacts of the crisis (Zandi and deRitis, 2010; Griffith, 2012; Szymanoski et al., 2014). As it stepped in to fill the gap left by other retreating lenders, FHA saw its market share rise from 15 to 25 percent of all mortgages issued for purchase between 2008 and 2012 (compared to less than 5 percent of all mortgages issued between 2005 and 2007). Consequently, its resources were strained by its rapid growth in market share and the unexpectedly weak economy in the aftermath of the Great Recession. In 2012 the economic net worth of the Mutual Mortgage Insurance Fund, which funded FHA's core single-family business line, declined to negative $16 billion.

Additionally, with the collapse of the private-label market, demand for agency-issued MBS (from the GSEs and Ginnie Mae) grew. In 2006, the GSEs and Ginnie Mae accounted for 57 percent of MBS issuance; by the fourth quarter of 2008, they accounted for 97 percent of MBS issuance (GAO, 2009). Currently, the PLS market remains extremely small and is limited to jumbo loans, mortgages whose amount is above the conforming limit set by FHFA, with very conservative underwriting criteria (high credit score and low loan-to-value ratio).

As policymakers today contemplate the future of the housing finance system, it is crucial they consider the important roles played by HUD, FHA, and Ginnie Mae—particularly in ensuring access to credit for underserved communities and during times of market distress. It is also important for policymakers to consider the important role HUD has played historically in the development of a stable mortgage system and particularly a stable form of securitization by enforcing underwriting standards and limiting the potential for a “race to the bottom” (Wachter, 2014).

Several reform proposals have been developed, and the consensus appears to be that there must be a larger role for private capital as well as a continuing role for the provision of affordable housing. Note that HERA actually included a provision for the funding of a National Housing Trust that would fund affordable housing. This capital was to come from a fee imposed on the GSEs and be distributed by HUD. After the GSEs were placed in conservatorship, funding the trust was placed on hold. As the GSEs have again become profitable and paid off their debts, FHFA directed the GSEs to allocate funding to the trust (FHFA, 2014). The Johnson-Crapo GSE reform legislation proposed a new funding mechanism for the HUD-administered fund, so it seems likely that whatever role the future housing finance system takes, HUD will retain a central role in serving low- to moderate-income borrowers, at least through FHA and possibly through any successors to the GSEs.

HUD is also in a position to develop underwriting standards that balance ensuring access to mortgages to underserved populations and financial soundness. In the years prior to the crisis, many mortgages in the conventional market were made to borrowers without regard to their ability to repay the loan that included risky features such as “no doc” or IO loans. In response, the Board of Governors of the Federal Reserve System adopted a rule in 2008 under the Truth in Lending Act (TILA) that prohibited creditors from making higher-priced loans without assessing ability to repay (ATR). With the passage of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, Congress adopted similar ATR requirements for residential mortgages. A presumption of compliance with the ATR rule was granted to a certain category of mortgages, called qualified mortgages (QMs), and Congress charged the newly created Consumer Financial Protection Bureau (CFPB) with setting QM standards. QM rules do not prohibit nontraditional products, but lenders issuing such products have to show they have made a good-faith effort to assess borrowers’ ability to repay their loans in the event of a legal challenge. Moreover CFPB created two categories of QM loans: (1) safe harbor, which gives lenders the highest level of protection, and (2) rebuttable presumption, which, in case of default, exposes the lender to the risk of having to show that the lender considered the borrower’s ability to repay when issuing the loan. CFPB is the agency in charge of enforcing the QM rules among private lenders. HUD retains authority to pursue violations of fair lending that may follow from the implementation of the QM rule, which went into effect January 10, 2014.

CFPB authorized HUD to develop its own QM standard for lenders who participated in HUD’s mortgage insurance and guarantee programs (that is, FHA) and for borrowers who used FHA mortgages. HUD’s rule was designed for minimum disruption in its existing lending programs (loans that qualify for FHA insurance are HUD QM loans) while synchronizing consumer and borrower protections put in place by the CFPB QM rule. In developing its safe harbor line, HUD concluded that matching the CFPB’s threshold might create a broad class of rebuttable presumption mortgages the industry would refrain from making, so HUD’s standard for safe harbor QM is less restrictive than the CFPB safe harbor standard. Additionally HUD’s QM explicitly granted safe harbor to loans made under its Title 1 program for property improvement and manufactured homes and all Section 184 and 184A guaranteed loans (for Native American and Native Hawaiian housing), as these programs serve a particularly underserved market.

The QM rules have been in place since January 2014, but major uncertainty remains regarding the risk of put-back and litigation. As of early 2015, lenders remain unwilling to lend to the limit of the QM definition, not to mention beyond it. In particular, those who lend through FHA fear being found liable under the False Claims Act due to improper documentation or quality controls. A number of FHA lenders have been sued for violating the act following the Great Recession, and uncertainty remains regarding which mistakes trigger liability. Lenders guilty of violating the False Claims Act are subject to penalty of three times the amount of losses suffered by the government, exposing them to large liabilities. In order to protect themselves against such claims, lenders have added overlays or retreated altogether from mortgage lending (Goodman, 2015). The company- and loan-level certifications required for FHA lenders thus contribute to limiting the supply of credit because default lenders are exposed to indemnification, high servicing costs, and uncertain litigation risks (Goodman, 2015). In addition to updating its certification language, HUD is in the process of developing a "Defect Taxonomy" that will categorize loan defects and clarify to lenders how a defect's level of severity will be assessed. A work in progress, the taxonomy aims to "encourage lending to qualified borrowers across the credit spectrum" (HUD, 2015). The overlays and the judiciary uncertainty on potential liability have contributed to the decline of FHA lending by banks (Park and Quercia, forthcoming).

As a result of credit constraints, many potential borrowers remain locked out of the housing market (Goodman et al., 2014), contributing to the decline of homeownership by the first quarter of 2015 to 63.9 percent (the same level as in 1993), compared to 69 percent in 2004. Moreover, given the demographic transition of the nation, the homeownership rate is likely to fall even farther to approximately 60 percent by 2030 and lower in the years beyond, unless efforts to ease these constraints are effective.[23] However, without the increased role of FHA for first-time homebuyers, the homeownership rate would be substantially lower than it is today.

The nation's history of housing crises points to the importance of the public regulator role for mortgage lending. While there appears to be consensus around the need for a public role in providing access to capital in times of crisis and in providing affordable lending (Wachter, 2015b), there is less recognition of its importance in monitoring standard setting in mortgage lending to prevent "races to the bottom" and booms and busts in the housing sector.[24]

Across the spectrum of reforms that have been suggested, there is a call for a common securitization platform. In the period of the Great Moderation, housing finance, overseen by HUD, did succeed in providing stable credit to enable widespread homeownership through stable securitization. Hopefully the lessons of this period will inform the need for public monitoring of mortgage risk like HUD provided—that is, the establishment of a new version of the "public option"[25]—as a foundation for ongoing access to sustainable homeownership.

[23] Goodman et al., (2015) finds that if the rate of household formation and access to homeownership by age and ethnic group remain the same going forward as those experienced between 2010 and 2013, then homeownership will reach 60.3 percent by 2030.

[24] See Herring and Wachter (1999) and Wachter (2015a) on why this is so in both securitization and demand deposit-based systems. See also Wachter (2014) for a description of how the breakdown in securitization standards led to the subprime crisis.

[25] Levitin and Wachter (2012b, 2012c) argue that repetitive cycles of regulation and deregulation have characterized the mortgage market with resulting crises after periods of deregulation followed by reregulation.

5. Conclusion

HUD plays an important role in the U.S. housing finance market today. FHA-insured mortgages provide the majority of mortgages for first-time and minority homebuyers. FHA, along with Ginnie Mae, also fulfills a crucial countercyclical function by providing credit in time of crisis. In addition HUD contributes to the enforcement of fair lending laws.

In the aftermath of the Great Recession, the future role and function of FHA and Ginnie Mae remain unclear. A number of unresolved questions, especially regarding the liability lenders incur with FHA insurance, continue to impact credit supply. HUD's role in redefining the scope and presence of FHA and Ginnie Mae in the U.S. housing finance system will have important effects on accessibility to credit for aspiring homeowners.

It is important to analyze and reference the past to inform future policy choices. During the 1960s HUD absorbed FHA and became the regulator of Fannie Mae and the newly created Ginnie Mae. In these roles, it took steps to increase mortgage liquidity through the issuance of mortgage-backed securities, which were first created by Ginnie Mae. In 1989 HUD contributed to the shift from a deposit-based mortgage system toward securitization as regulator of Fannie Mae and Freddie Mac. After 1992 HUD was empowered to serve as the GSEs' mission regulator by setting affordable housing goals, while a newly created Office of Federal Housing Enterprise Oversight was empowered to monitor the GSEs' financial safety and soundness.

Although FHFA replaced HUD as the GSEs' regulator, HUD's role during the crisis increased due to the countercyclical roles FHA and Ginnie Mae played in this period. FHA and Ginnie Mae ensured the availability of mortgages for first-time and higher credit-risk borrowers while other sources of lending retreated from the market. Thus FHA significantly helped prop up the housing market and stem further loss of household wealth. However, as FHA assumed this countercyclical role, its funds were deeply affected, and it has since been slowly rebuilding its financial strength.

As the nation emerges from the greatest housing crisis since the Great Depression, HUD continues to assume important functions in the U.S. housing finance system. First, it remains responsible for developing and enforcing fair lending regulations. Second, its important, countercyclical function ensures access to mortgage credit during credit crises, especially for first-time homebuyers and higher credit-risk borrowers. Regardless of the reformed housing finance system, there appears to be a consensus that the nation needs both FHA and Ginnie Mae both for their countercyclical roles and for affordable housing. Thus, as in the past, HUD will remain critical in shaping America's housing finance system.

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Chapter 5
Poverty and Vulnerable Populations

Margery Austin Turner, Mary K. Cunningham, and Susan J. Popkin

Over the past 50 years, addressing the housing needs of low-income and vulnerable populations has been a critical part of HUD's mission. But the policy goals in this area have evolved quite substantially: from the basic goal of providing decent, affordable shelter to the more challenging and ambitious goals of promoting household stability and economic mobility. Over time, HUD's programs have been progressively refined and strengthened in response to evidence about their effectiveness and about the changing social and economic needs of the target populations. Today, HUD's portfolio of tools targeted to low-income and vulnerable populations includes deeply subsidized rental housing developments, some of which offer an array of supportive services for their residents; housing vouchers for very low-income renters, along with modest incentives for families to use these vouchers to gain access to housing in opportunity-rich neighborhoods; and funding to support local efforts that provide emergency shelter, transitional housing, rapid re-housing, and supportive services to individuals and families who experience homelessness.

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Research indicates that this portfolio of programs yields important benefits for many of the households who participate and that the incidence of homelessness and housing hardship would be far higher in HUD's absence. But the scale of these programs falls woefully short of needs. Most eligible households receive no federal housing assistance, and as a consequence, growing numbers of low-income households face severe housing problems, and family homelessness is a persistent problem. Looking forward, sweeping demographic, social, and economic trends will expand and intensify the needs among vulnerable households for decent, affordable rental housing in opportunity-rich neighborhoods and for accompanying services and supports. Effectively addressing the housing needs of poor and vulnerable populations calls for dramatic changes (and expansion) to HUD programs, not incremental refinements.

This chapter focuses on HUD's evolving responses to four interconnected policy goals: (1) providing decent and affordable housing for low-income renters; (2) ending and preventing homelessness; (3) supporting the stability and economic advancement of assisted housing residents; and (4) expanding access to opportunity-rich neighborhoods for low-income families. We conclude with recommendations for long-term reforms that could substantially expand the scale of HUD's rental assistance programs and heighten their impact on the well-being and life-chances of poor and vulnerable populations.

Providing Decent and Affordable Housing

The federal government began building subsidized rental housing during the New Deal, and in the decades that followed, a complex tangle of federal programs evolved to address the housing needs of low-income renters (Turner and Kingsley, 2008). Today, the most generous and reliable support for low-income households comes from HUD programs that provide deep, "gap-filling" rent subsidies. These programs pay the difference between a rent contribution that is considered affordable—currently set at 30 percent of monthly income—and the actual rent for a house or apartment that meets basic standards of safety and quality.

Rental housing subsidy programs evolve. Production of federally subsidized rental housing occurred in two overlapping phases. During the first phase, extending from the 1930s through the early 1970s, the federal government contracted with local public housing agencies (PHAs) to build and manage properties. Initially, the federal government only provided funding for the capital costs of public housing. Operating subsidies were added in the 1970s when federal legislation (the Brooke Amendment) limited tenant rent payments to 25 percent of their income (later increased to 30 percent), and it became clear that these payments were not sufficient to cover the costs of operating public housing.

During the second major phase of subsidized housing production, extending from the 1960s to the early 1980s, the federal government executed contracts directly with for-profit and nonprofit housing developers, rather than with PHAs. Several programs subsidizing private production of rental housing were implemented over this period, providing different levels and types of incentives. These programs generally included below-market financing of capital costs as well as operating subsidies (and accompanying affordability restrictions) for up to 30-year terms. By the start of the 1990s, the privately owned, subsidized properties provided the same deep, gap-filling subsidy terms as public housing.

Most of the public housing inventory was built by the mid-1970s, and by the 1980s, some of this stock was deteriorating badly. Little funding was provided for renovation, and a rigid "one-for-one replacement" rule, requiring construction of a new public housing unit for every unit removed from the stock, essentially prevented demolition and redevelopment. In 1989, Congress established the National Commission on Severely Distressed Public Housing, which produced a 10-year strategy to eliminate severely distressed public housing by rehabilitating 86,000 distressed units (National Commission on Severely Distressed Housing, 1992).[1] The Commission's recommendations led to passage of the HOPE VI program in 1993.[2] HOPE VI provided funds to renovate or demolish severely distressed projects and—as implementation evolved—to replace them with mixed-income developments. HOPE VI produced important improvements in housing quality, community conditions, and resident well-being (Popkin et al., 2004). But generally, it produced fewer new public housing units than were torn down (replacing them with portable housing vouchers), and associated initiatives have allowed the demolition or sale of other deteriorated projects, significantly reducing the total stock of public housing units.

The privately owned stock of federally subsidized rental housing also has shrunk over time. Almost no units have been added since the early 1980s,[3] but units are being removed from this inventory as some owners choose to "opt out" of the program when their subsidy contracts expire. Owners may have especially strong financial incentives to let their subsidy commitments expire in markets where property values are rising or the surrounding neighborhood is in particular demand. Today, Low-Income Housing Tax Credits (LIHTC) subsidize the production of rental housing at below-market rent levels. Rents for these units must be set at levels that are deemed affordable for households with moderately low income levels for the local area, and the units are set aside for residents at or below this income ceiling. But the LIHTC program does not require (nor does it provide sufficient subsidies to allow) rents to be capped at 30 percent of a particular resident's income.

For much of the 20th century, inadequate supply and deteriorated structures were America's dominant housing problems. But, by the 1970s, the primary problem facing low-income renters had become cost, with growing numbers of low-income renters paying unaffordable rent. In response, HUD's portfolio of rental assistance programs was expanded to include housing vouchers (initially called housing certificates), which allow families to rent homes and

[1] The Commission also recommended changes aimed at addressing the needs of public housing residents.

[2] The HOPE VI program is discussed in greater detail, in the context of both supportive services for residents and neighborhood environment.

[3] Production under most of these programs was terminated during the early years of the Reagan Administration. However, a very small number of projects earmarked for the elderly and disabled have been funded over the intervening years.

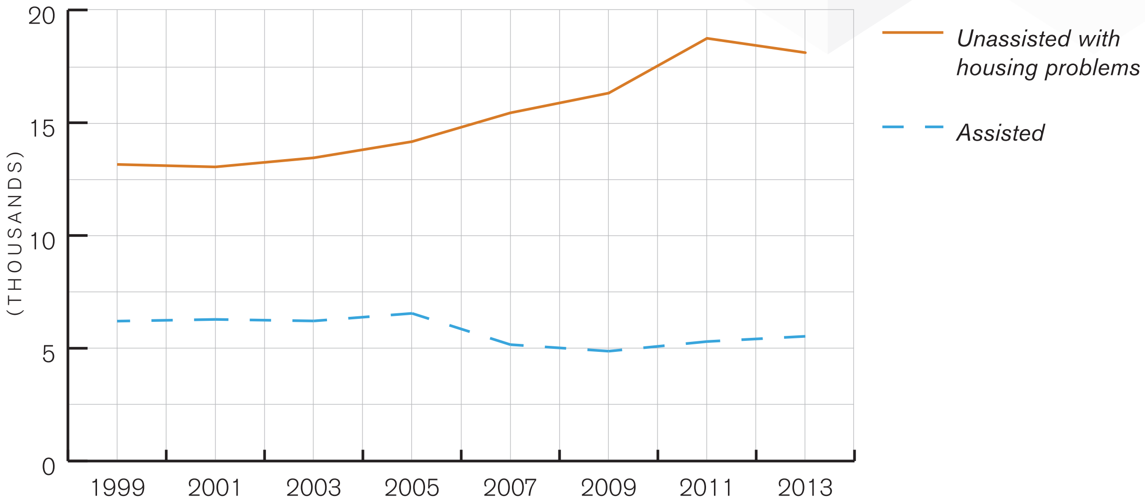
apartments on the private market. As in federally subsidized rental developments, a family contributes 30 percent of its monthly income toward rent, and the federal government pays the rest, up to a maximum pegged to local market conditions. Vouchers, however, are “tenant based” rather than “project based,” allowing the recipient rather than the developer to decide where the low-income household will live.

Rental assistance reduces housing hardship. Today, federal rental assistance enables about 5 million low-income households to afford modest housing. A third of these are families with children; another third are seniors; and the remaining third are disabled, childless adults, disabled adults with children, and seniors with children (HUD, 2013). The low-income households fortunate enough to receive federal rental assistance clearly benefit from lower housing costs than their unsubsidized counterparts. Among low-income renter households who do not receive federal housing assistance, three-quarters experience one or more housing problems and 42 percent experience severe housing problems—paying more than half their income for rent or living in severely inadequate housing (HUD, 2015).

Living in decent, affordable housing and paying a lower rent yields other important benefits as well. For example, receipt of housing vouchers has been found to reduce the likelihood that poor families will double up or experience homelessness and increase family expenditures for food (Mills et al., 2006). Other research confirms that families receiving housing assistance are able to spend more on food and are less likely to face food insecurity or poor nutrition (Dubay and Popkin, 2014; Hart Research Associates, 2014). And housing cost burdens above 30 percent of income crowd out spending on children’s education enrichment, contributing to lower cognitive achievement among children in cost-burdened families (Newman, 2014). HUD’s recently released Family Options Study found that homeless families who receive vouchers experience lower rates of domestic violence, drug and alcohol dependence, and family separation (either informally in placements with friends or family or by the child welfare system for abuse or neglect), and children in these families were less likely to change schools often (Gubits et al., 2015).

Gap between needs and assistance persists. Despite these important benefits, the availability of federal rental assistance falls far short of needs. As Figure 5–1 illustrates, the total number of unassisted renter households with housing needs (overcrowded, physically deficient, or unaffordable) rose steadily from 1999 through 2009 and much more sharply during the Great Recession, while the availability of rental assistance has remained essentially flat. More recently, the number of unassisted renters with housing needs has declined slightly, but remains very high by historical standards. In 2013, 26.3 million households (65 percent of all renters) had incomes that made them eligible for assistance (below 80 percent of the local median income, adjusted for household size). But fewer than one in five (19.8 percent) actually receive assistance. For every 100 low-income households receiving federal rental assistance, another 298 are income-eligible and experience one or more housing problems (crowding, substandard housing, or unaffordable costs). Even among renters with extremely low incomes (below 30 percent of the local median), only 33 percent receive housing assistance (HUD, 2015).

Figure 5-1.
Rising Number of Unassisted Renters Facing Housing Problems



The fundamental problem is that rents have risen faster than incomes for a growing segment of the workforce in almost every part of the country. In 2011, while only 3 percent of renters lived in overcrowded housing and 8 percent lived in housing that was structurally inadequate, 24 percent were paying from 30 to 50 percent of their income for rent, and another 27 percent were paying more than half their income for rent. The problem of housing affordability is primarily the result of widening income inequality, with incomes rising much more slowly for low- and moderate-wage workers than for those in high-skill, high-wage jobs. Rising incomes at the top of the wage ladder put upward pressure on housing prices and rents, forcing them beyond the reach of workers in lower-wage jobs. The Great Recession exacerbated both the income side and the housing cost side of this problem. Rising unemployment weakened earnings for households at or near the bottom of the income distribution, while the foreclosure crisis and tightened mortgage underwriting standards increased demand for rental housing, forcing rents up in many markets (Joint Center for Housing Studies, 2014).

The gap between ability to pay and rents in the marketplace is particularly acute for households at the bottom of the income distribution. Specifically, for every 100 extremely low-income renter households in the country (with incomes below 30 percent of the local median), there are only 29 affordable and available rental units. Without HUD rental assistance, that number would drop to only one affordable and available rental unit (MacDonald and Poethig, 2014).

Ending and Preventing Homelessness

The problem of homelessness became an issue of national concern in the early 1980s. At that time, the persistent affordable housing gap combined with a recession, high unemployment, deinstitutionalization of individuals with mental illness, and major cuts in the social safety net dramatically expanded the number of people without a place to live. One of the first homeless counts, taken in 1984 by HUD, estimated a nationwide total of between 250,000 and 350,000 homeless people in a single night (as cited in Jencks, 1994 and HUD, 1984). At the time, local and faith-based resources drove the response to homelessness, with limited funds available from the federal government's Emergency Food and Shelter Program (EFSP) administered by FEMA. The modern-day system to prevent and alleviate homelessness did not exist.

Even when the economy recovered from the recession, the rise of homelessness continued, becoming more visible to the public. Under extreme pressure from advocates and intense media scrutiny, President Ronald Reagan signed the McKinney Act [42 USC 11301] on July 22, 1987 (Jencks, 1984; Baumohl, 1996). At the time Congress passed the Act, HUD was estimating that the number of homeless people had reached 500,000 to 600,000 in 1987 (Burt and Cohen, 1989).

Federal government responds to growing homelessness. The McKinney Act importantly established that "the federal government has a clear responsibility and an existing capacity to fulfill a more effective and responsible role to meet the basic human needs and to engender respect for the human dignity of the homeless" (Pub. L. 100-77, title I, Sec. 102, July 22, 1987, 101 Stat. 484). The law provided federal money administered by HUD for homeless shelter programs and authorized the use of unused and underutilized public buildings and property to assist people experiencing homelessness. It also established the Interagency Council on Homelessness, of which HUD is a member. The Act was later amended, strengthened several times, and renamed the McKinney-Vento Act.

Largely because of federal funding provided through the McKinney-Vento Act, homeless services in the United States expanded dramatically during the 1990s. From 1988 to 1996, available shelter, transitional housing, and supportive housing beds more than doubled, from about 275,000 to 607,000 (Burt, 2001). Programs and approaches emerged that did not exist during the 1980s, including transitional housing, which provides a time-limited housing subsidy linked to transitional services, and permanent supportive housing, which provides ongoing housing subsidies linked to intensive supportive services that focus on housing stability.

During this period, the response to homelessness was fragmented and expanded haphazardly, leading to thousands of independently operated programs. Emergency shelter funds were awarded to local governments by formula, while individual service providers (public or nonprofit) competed for funding for transitional housing and permanent supportive housing

(Burt, 2001). In 1995, HUD addressed the lack of coordination by requiring communities to submit a single application for McKinney-Vento Homeless Assistance Grants in order to streamline the funding application process, encourage coordination of housing and service providers on a local level, and promote the development of Continuums of Care (CoCs). HUD describes a CoC as “a community plan to organize and deliver housing and services to meet the specific needs of people who are homeless as they move to stable housing and maximize self-sufficiency. It includes action steps to end homelessness and prevent a return to homelessness" (National Alliance to End Homelessness, 2010).

Despite communities' good intentions and a significant buildup of emergency and transitional housing, homelessness remained a serious problem. In 1996, one of the most ambitious, nationwide counts concluded that, on any given night, approximately 750,000 people experienced homelessness (Burt et al., 2001). Homelessness, initially viewed as a temporary crisis, had become a persistent social problem. At the same time, policymakers and practitioners increasingly recognized that, while emergency shelter services were critical to meeting the immediate needs of homeless people and reducing the number of people sleeping unsheltered, they did not provide homeless people with what they needed the most—housing (Mangano, 2003). And while transitional housing sought to improve people's economic self-sufficiency so they could live independently after some time, evidence of its success was mixed (Burt, 2006 and 2010). More recent evidence from HUD's Family Option Study found that transitional housing services are ineffective at achieving their primary goal of improving self-sufficiency by increasing incomes, are costly, and are not needed for housing stability (Gubits et al., 2015).

Commitments to ending homelessness promote more strategic interventions. In 2000, the National Alliance to End Homelessness released a blueprint to end homelessness. The plan was supported by research showing that a small subset of the adult homeless population (about 10 percent) was using a large share of the homelessness resources (about 50 percent), and that it was cost-neutral to provide supportive housing to these chronically homeless single adults (Kuhn and Culhane, 1998; Culhane et al., 2002).

In consideration of this evidence, President Bush stated that ending chronic homelessness in 10 years was a top goal of the administration (HHS, 2003). Communities across the country responded by developing plans to end chronic homelessness, defined by HUD as people who have experienced homelessness for a year or longer, or have experienced at least four episodes of homelessness in the last 3 years and have a disability (HUD, 2007). At the time, estimates of the number of people who were considered chronically homeless ranged from 150,000 to 200,000 or more (National Alliance to End Homelessness, 2005).

A majority of the community plans to end homelessness called for shifting to Housing First approaches that help people who experience long-term homelessness access housing rapidly, stabilize, and then, after the household is stable, provide supportive services that support health and economic well-being (National Alliance to End Homelessness, 2006). This approach rejects the popularly held notion of "housing readiness," that people who experience homelessness must overcome personal challenges, such as mental illness, substance abuse, and chronic health conditions, before entering housing. The empirical evidence shows that individuals who experience homelessness, previously categorized as "un-housable," are highly successful at remaining in housing (Tsemberis, 2004).

In 2001 Congress directed HUD to rigorously assess the effectiveness of McKinney-Vento programs by producing unduplicated counts of clients served at the local level, analyzing patterns of service use, and evaluating the effectiveness of these systems (Hovden, 2006). To fulfill this mandate, HUD now requires communities that receive McKinney-Vento funds to develop Homeless Management Information Systems (HMIS) to collect client-level data and conduct biannual counts of sheltered and unsheltered homelessness.

During the Great Recession that began in late 2007, high levels of unemployment and foreclosures further increased the risk of housing loss and homelessness. The American Recovery and Reinvestment Act of 2009 (ARRA) (Pub.L. 111–5) included a significant response, providing $1.5 billion for homeless prevention and rapid re-housing services (HUD, 2010). In May 2009, President Obama signed the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act, amending the McKinney-Vento Homeless Assistance Act and further expanding support for homelessness prevention and rapid re-housing. This legislation establishes a federal goal to "ensure that individuals and families that become homeless return to permanent housing within 30 days" and creates financial incentives to reduce the average length of stay in shelters (National Alliance to End Homelessness, 2014). In response, HUD has capped the amount of funding communities can use for emergency shelter and encouraged them to prioritize rapid re-housing programs. HUD is also working with communities to create coordinated entry points for homeless services, allocating them more strategically and efficiently.

The emphasis on rapid re-housing represents a significant shift in response to family homelessness. This approach helps homeless families exit shelters and get back into permanent housing quickly, providing short-term help with rent and other housing expenses and case management focused on housing stability (Cunningham et al., 2015). The latest evidence finds that rapid re-housing helps families exit shelter faster, is less costly, and increases income. But because it does not solve long-term housing affordability problems, some families need longer-term housing subsidies (Gubits et al., 2015; HUD Webcast, 2015).

In 2010, the Obama Administration announced its comprehensive strategy to prevent and end homelessness, calling for coordinated action by the 19 federal agencies that make up the U.S. Interagency Council on Homelessness (USICH), along with local and state partners in the public and private sectors. The plan focuses on four key goals: (1) finish the job of ending chronic homelessness in 5 years; (2) prevent and end homelessness among veterans in 5 years; (3) prevent and end homelessness for families, youth, and children in 10 years; and (4) set a path to ending all types of homelessness (USICH, 2010).

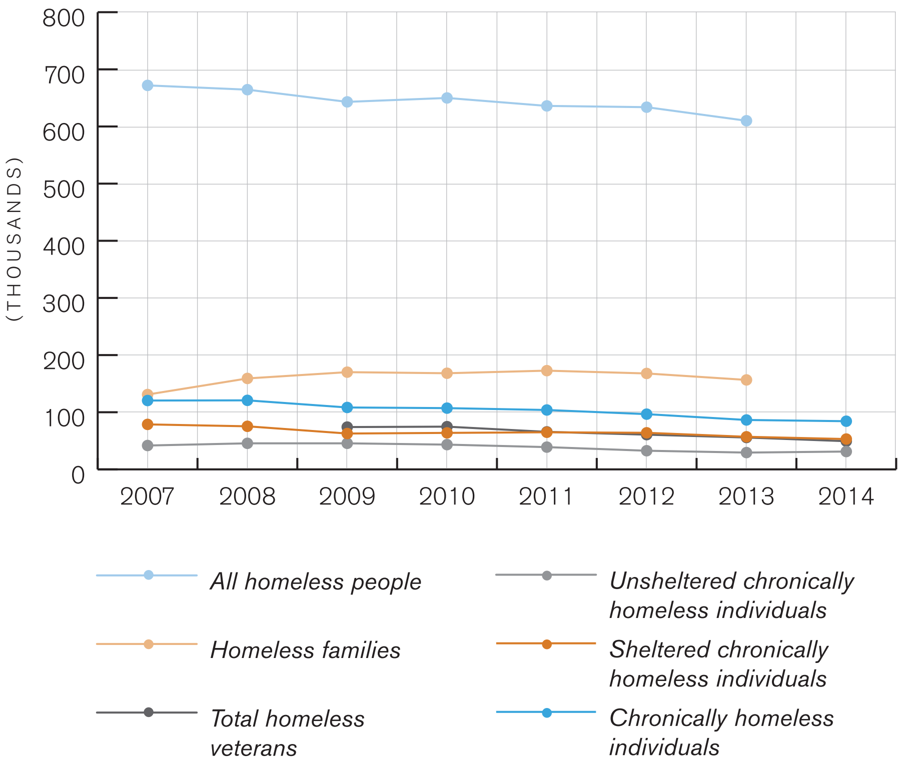
A key element of this national plan is its focus on programs for homeless veterans. The plan includes a significant multiyear investment in HUD-Veterans Affairs Supportive Housing (HUD-VASH), a program that provides housing vouchers and supportive services for veterans. More recently, the 25 Cities Campaign, a collaboration between the Department of Veterans Affairs, HUD, and the Interagency Council on Homelessness, was launched to provide support and technical assistance to cities with high rates of chronic and veteran homelessness. Coinciding with the 25 Cities Campaign, Michelle Obama announced a national challenge to mayors to end veteran homelessness in their cities. As of this writing, 662 local leaders (509 mayors, 8 governors, and 145 county officials) have signed on to the challenge and pledged to end veteran homelessness within their cities by the end of 2015 (HUD, 2015).

Chronic homelessness, including among veterans, is down. Homelessness among families peaked after the Great Recession, but is now trending downward. HUD has created an array of programs to respond to homelessness, limiting the number of people who sleep unsheltered on the street. In recent years, these efforts have shown significant progress on a seemingly intractable problem: the number of homeless veterans and chronically homeless single adults has declined significantly (see Figure 5–2). Investments in supportive housing, an evidence-based solution, will need to continue to sustain this progress.

Unfortunately, not as much progress has been made on family homelessness. This reflects the persistent affordable housing shortage (Khadduri, 2010; Leopold et al., 2015). Without a significant expansion in the availability of affordable housing or long-term housing subsidies, HUD will not be successful in ending family homelessness. Recent evidence shows that vouchers are the most effective intervention. Absent increases in vouchers, the homeless system is left with rapid re-housing as the next best intervention because it helps families exit shelter quickly and provides rental assistance for up to 24 months. A substantial expansion in rapid re-housing capacity will be required to recalibrate homeless systems away from transitional housing, which is extremely costly.

Figure 5–2.

Estimates of Chronically Homeless Individuals by Sheltered Status, 2007–2014



Source: *U.S. Department of Housing and Urban Development, (2014) The 2014 Annual Homeless Assessment Report (AHAR) to Congress: Part 1 Point-in-Time (PIT) Estimates of Homelessness.*

Notes: *The PIT estimates from 2007–2013 are slightly lower than estimates reported in past AHARs. The reduction reflects an adjustment to the estimates of unsheltered homeless individuals submitted by the Los Angeles City and County Continuum of Care. The adjustment removed: 3,345 chronically homeless individuals from 2007 and 2008; 2,584 chronically homeless individuals in 2009 and 2010; 3,233 chronically homeless individuals in 2011 and 2012; and 6,138 chronically homeless individuals from 2013.*

Supporting Stability and Economic Advancement

Public and assisted housing programs began as real estate programs, with the primary goal of providing decent, affordable housing for low-income families (Turner and Kingsley, 2008; Vale, 2007). Some developments included community centers or offered space for outside service providers, but housing authorities—and HUD—generally did not directly fund or deliver resident services. Beginning in the 1960s, HUD subsidized the development of properties targeted for low-income seniors and individuals with disabilities, and these developments provided some basic services for residents; we describe these programs briefly below. But until the 1990s, there was no systematic effort to use low-income housing as a platform for delivering services that might address residents' broader needs. In recent decades, as HUD and local housing agencies faced the impact of time-limited welfare benefits and the inadequacy of federal housing subsidies to serve all those experiencing housing hardship, interest has grown in developing strategies to link HUD-assisted families with services to help them move toward economic independence.

Housing projects for elderly and individuals with disabilities include basic services. In 1959, Congress authorized the Section 202 program to provide financing to nonprofits for construction or rehabilitation of housing for low-income seniors, including frail seniors. Housing financed under Section 202 offers both a Service Coordination program that links residents with services as well as the Congregate Housing Services program, which provides funding for meals and other services necessary for independent living for frail residents.[4] The Section 811 program, first authorized in 1990, provides similar funding for persons with disabilities. Beginning in the 1960s, public housing authorities also began to build projects, often high-rise buildings, exclusively for low-income seniors. Some also converted existing high-rise developments into senior housing (Stoloff, 2004). Although these developments generally did not include services for residents, they offered accessible units, elevators, and space for community rooms and programming.

During the 1980s, the Reagan Administration's efforts to target public housing resources to the most needy included allowing younger, disabled adults to lease units in senior housing. Many of these younger adults suffered from mental illness or substance abuse, and their presence often brought new management challenges and services. Because of these problems, Congress enacted legislation in the 1990s to allow PHAs to designate buildings as elderly only (GAO, 2010). Demographic trends such as the increasing number of "grandfamilies" who need accessible units with multiple bedrooms (Smith and Ferryman, 2006) and the preference for frail elders to age in place may require HUD to adapt its existing programs to meet the needs of today's population.

Evolving needs among residents lead services aimed at self-sufficiency. Over time, the families and individuals living in federally assisted housing—and particularly in public housing—have become poorer and more vulnerable. As discussed earlier, the Brooke Amendment, intended to protect residents from paying exorbitant rents, capped tenant payments to 25 percent of income (later increased to 30 percent), making assisted housing accessible to the lowest-income households. In the 1980s, responding to the crisis of the growing homeless population, the Reagan Administration instituted federal preferences for public housing that required housing authorities to give priority to extremely needy households. Shortly thereafter, Congress enacted legislation eliminating ceiling rents, so public housing residents with higher incomes had to pay rents that sometimes exceeded market rents, making it unattractive for them to stay. In some big-city housing agencies, poor construction and

[4] For a summary of these programs, see https://portal.hud.gov/hudportal/documents/huddoc?id=28-FY16CJ-HousingElderly.pdf

location, exacerbated by decades of weak management and deferred maintenance, essentially made public housing projects into housing of last resort for the most vulnerable households.

Faced with the challenges of meeting the needs of a very vulnerable population in public housing and containing the crime that threatened to overwhelm many distressed developments, Congress enacted the Public Housing Drug Elimination Program (PHDEP) in 1988. In addition to providing funding for security and PHA police forces, PHDEP supported small-scale resident service programs, including youth violence prevention programs, midnight basketball leagues, drop-in centers, and tenant patrols. The service component of PHDEP was never formally evaluated, but studies of PHDEP found even the most comprehensive of these programs—for example, Chicago's Anti-Drug Initiative—had only modest effects on crime and did little to improve conditions for residents (Popkin, S. J., V. E. Gwiasda, D. P. Rosenbaum, L. M. Olson, and L. F. Buron et al., 2000b).

By 1991, nearly one in five public housing residents had incomes that were less than 10 percent of the local median (Popkin, S. J., L.F. Buron, D.K. Levy, and M.K. Cunningham, 2000), a very different population than policymakers had originally envisioned. At the same time, policymakers were debating whether social welfare programs, including housing assistance, were discouraging low-income recipients from moving toward self-sufficiency. This debate eventually led to welfare reform, and the transition to Temporary Assistance for Needy Families (TANF) and time-limited cash assistance. In the housing arena, HUD and local housing agencies were faced with the stark reality that an increasing number of residents might have no source of income—and no ability to pay even modest rent—at the same time that Congress was cutting funding for public housing and vouchers. Policymakers began to focus on whether housing assistance could be a platform for helping participants improve their economic circumstances; that is, could housing agencies help residents address barriers to employment and eventually leave housing assistance.

This policy shift spurred a major expansion of services associated with public and assisted housing, including the Family Self-Sufficiency (FSS) program, the Jobs-Plus Demonstration, and several efforts targeted at helping residents transition to homeownership. The Moving to Opportunity (MTO) Demonstration, discussed in more detail later in this chapter, was also an effort to use housing to improve residents' socioeconomic status (Briggs, Popkin, and Goering, 2010). More recently, HUD created the Resident Opportunity Self-Sufficiency program (ROSS) and the Multifamily Service Coordinator program to provide housing agencies small amounts of funding for service coordinators in public and assisted housing to help link residents to employment and educational services.[5] The largest effort to link housing to supportive services was the Community Supportive Services component of the HOPE VI program (Popkin et al., 2004). That effort has continued with the Choice Neighborhoods Initiative (Pendall and Hendey, 2013) and has spurred new innovations, including the Housing

[5] These programs were preceded by the smaller-scale Family Investment Center and Tenant Opportunities Programs. http://www.gpo.gov/fdsys/pkg/CFR-2012-title24-vol4/pdf/CFR-2012-title24-vol4-part964.pdf.

Opportunities and Services Together (HOST) Demonstration, which involves a partnership of local housing agencies, researchers, HUD, and philanthropic funders (Popkin and McDaniel, 2013; Popkin et al., 2013).

Evidence is mixed about the effectiveness of supportive services, especially for the most vulnerable residents. The Family Self-Sufficiency (FSS) program is the largest of HUD's efforts to use housing as a platform for moving public housing residents and housing voucher recipients toward self-sufficiency. Even so, the program serves only a very small proportion of assisted housing residents—about 5 percent of voucher holders and an even smaller share of public housing residents (deSilva et al., 2011). The program was built on two earlier HUD efforts to link housing to employment programs and services, Project Self Sufficiency (PSS) and its successor, Operation Bootstrap, both of which offered employment and training services to low-income families. Neither effort was rigorously evaluated, but studies of the programs did indicate some modest success for participants.

Households that opt to participate in FSS enter into a 5-year contract with the PHA, which outlines family goals and obligations and the services available to them to help meet those goals. HUD requires every participant contract to include two goals: the head of household must become employed and no member of the family receives cash TANF benefits for 12 months prior to completion of the contract. The most distinctive feature of the FSS program is the escrow account. If a participant's income rises, the required rent contribution rises as well (since rent is set at 30 percent of income), but the PHA deposits the difference from initial rent and increased rent in an interest-bearing escrow account. The more an FSS participant's income increases, the larger the escrow account grows. With some restrictions, families may draw on their escrow accounts while participating in the program for expenses that will help them achieve their interim goals. Participants who voluntarily withdraw or are terminated from the program lose their escrow accounts. Participants that graduate—that is, that are employed and no longer receiving any TANF cash benefits—receive their escrow funds with no restrictions.

Many advocates have championed FSS as a successful employment and asset-building program and have called for bringing the program to scale (Cramer and Lubell, 2005; Lubell, 2004; Sard, 2001). However, the evidence on FSS' success in promoting self-sufficiency is mixed. The major concern is that only a minority of FSS participants manage to graduate from the program and withdraw their escrow. A recent study found that after 4 years, just 21 percent of the participants had graduated and received their escrow, 37 percent had left the program without graduating, and the rest were still enrolled. Presumably, some of these participants eventually graduated, which would boost the numbers somewhat higher. Outcomes for those who did graduate were generally positive—substantially higher incomes and steady employment. But the evidence on asset building was less clear: only a handful of participants used their escrow to purchase a home. Instead, most used their accounts to cover the cost of continuing education, pay off debts to improve credit, or purchase a car, all of which could help support eventually moving toward economic independence (de Silva et al., 2011). Several PHAs are testing "escrow plus" models that include enhanced case management and credit repair. In addition, a rigorous random control trial of the FSS program is currently underway, and early results indicate no consistent differences between the experimental and control groups on key outcomes like employment and participation in education and training programs.[6]

Taken together, the mixed findings from the nonexperimental research combined with the early indicators from the ongoing experimental research suggest that the current model of FSS service delivery is likely to have only modest benefits overall. In particular, the low graduation rate means that most people who enroll in the program are unable to meet the program requirements and end up forfeiting their escrow. Given that those who do graduate seem to have generally positive outcomes, a program model that provides more intensive and effective case management so a larger proportion of participants can graduate and withdraw their full escrow could lead to stronger outcomes.[7]

The Jobs-Plus Demonstration represents one such model. It was implemented in six public housing developments from 1998 to 2003 to rigorously test the impact of an intensive place-based strategy aimed at addressing persistent barriers to employment for public housing residents (Turner and Rawlings, 2005). The demonstration took a three-pronged approach to helping public housing residents increase employment and earnings: onsite employment services; income disregards so that increases in employment and earnings did not lead to increased rents; and community supports for work. In the sites where all three components were fully implemented, Jobs-Plus raised residents' earnings significantly and was regarded as a success overall (Kato, 2003; Bloom et al., 2005; Turner and Rawlings, 2005). This evidence of effectiveness has generated renewed interest in the Jobs-Plus model from policymakers and philanthropic organizations seeking evidence-based service models. The Bloomberg Philanthropies provided $8 million to fund Jobs-Plus programs in 10 sites in New York City and 1 in San Antonio, Texas, as part of its Young Men's Initiative. Most recently, HUD provided $24 million in grants to 9 housing authorities across the country to implement new Jobs-Plus programs in their communities.[8] The most ambitious effort to use HUD-assisted housing as a platform for supportive services emerged as part of the transformation of public housing that began in the early 1990s. The communities HOPE VI targeted were some of the most racially and economically segregated communities in the nation, places that were blighting

[6] Early results from the MDRC study of FSS were presented in an OPRE/SSRC webinar in January 2015: https://www.opressrc.org/file/promoting-work-public-housing-employment-service-programs. In addition, MDRC concludes that results for New York City suggest that FSS by itself does not so far appear to be effective overall (Nuñez et al., 2015).

[7] Note that HUD also offers funding to support service coordinators for public housing developments (the Resident Opportunity and Self-Sufficiency (ROSS) program). The service coordinator's job is to connect residents to employment and educational services in their communities. The program has not been rigorously evaluated, but given low levels of funding and the high caseloads, it is unreasonable to expect that service coordinators alone will have much impact on residents' long-term employment or educational outcomes. Likewise, HUD also supports service coordination for seniors in federally subsidized housing developments that are privately owned (the Multifamily Service Coordinator program), although the goal of this program is to promote stability and well-being rather than self-sufficiency.

[8] HUD is planning an implementation evaluation of this new effort, but not another random control trial.

the lives of residents and the communities around them (Turner, Popkin, and Rawlings, 2009). Although these troubled developments represented only a subset of the total public housing stock, the problems they posed for residents and surrounding neighborhoods were severe. Violence—gang, drug-related, and domestic—in these communities was pervasive. Many adult residents were disconnected from the labor market and suffered from high rates of physical and mental illness (Popkin et al., 2000; Popkin, Theodos, Getsinger, and Parilla, 2010). And children growing up in such troubled communities were at risk of developmental delays; serious physical and mental health problems; and delinquency, early sexual initiation, and teen parenthood (Popkin, Leventhal, and Weismann, 2010).

The primary goal of HOPE VI was to replace these distressed communities with new, mixed-income developments that would offer a better quality of life for residents. But the program also provided substantial funding for both relocation and community supportive services. The original legislation set aside 15 percent of the funding for community service programs and services such as day care, youth programs, and employment programs. Later rounds of funding changed the requirement to "up to 15 percent," which in practice meant the average set-aside was much lower (about 8 percent). At the same time, HUD increased its attention to resident services, including relocation services, and mandated that services be provided to all original residents, even if they did not return to the original development (Holin et al., 2003; Popkin et al., 2004). HUD also formed partnerships with other agencies and provided technical assistance and training to encourage grantees to implement approaches such as the National Heart, Lung, and Blood Institute's Every Heart Beat is Life model.[9] The Choice Neighborhoods Initiative, which succeeded HOPE VI, has continued this approach (Pendall and Hendey, 2013).

The largest study of the impact of the HOPE VI program for the original residents (Popkin et al., 2002; Popkin et al., 2009) found that most ended up in better housing in safer neighborhoods, whether or not they returned to their revitalized developments, and that anxiety and worry among adults declined. However, the research found no evidence of gains in employment or educational outcomes. These disappointing findings reflect, in part, the extremely high levels of physical and mental health problems among residents of severely distressed public housing, all of which create barriers to employment program and school success. The services provided under the HOPE VI Community Supportive Service program were not sufficient to help residents overcome such major barriers (Popkin et al., 2007; Popkin et al., 2009). Like HOPE VI, Choice requires grantees to offer community supportive services to all original residents, including case management and employment services. Early evidence suggests that Choice has faced many of the same challenges as HOPE VI—not implementing services early enough in the redevelopment process and not offering a level of service that can meet the needs of the most vulnerable residents (Pendall et al., 2015).[10]

[9] https://www.nhlbi.nih.gov/files/docs/resources/heart/aa_manual.pdf

[10] The problems in Choice service implementation were especially pronounced in the sites funded for multifamily properties where the lead agencies did not have prior experience with HOPE VI.

In response to emerging evidence about the unmet service needs of vulnerable households living in distressed public housing, the Urban Institute has partnered with housing authorities and service providers to test the effectiveness of more intensive service models.[11] These projects are intended to inform HUD's relocation and service implementation in Choice and other programs. The Chicago Family Case Management Demonstration targeted approximately 400 households in two of the housing developments with a package of services that included: intensive case management (caseload ratios of 30:1); clinical mental health services; a transitional jobs program; substance abuse services; and financial literacy. The findings were very encouraging: participants experienced gains in employment and statistically significant reductions in depression and anxiety, and their physical health stabilized (Popkin, Theodos, Getsinger, and Parilla, 2010; Theodos et al., 2012; Popkin and Davies, 2013). However, children—and especially older youth—were still struggling and showing signs of distress, including high levels of delinquent and problem behavior (Popkin, 2013). These findings informed the design of the Housing Opportunity and Services Together (HOST) demonstration, which is testing a whole-family, wrap-around model to address intergenerational poverty and disadvantage in public and subsidized housing. HOST includes a core case management component with low ratios of 30:1. The services are intended to help parents confront their key barriers to self-sufficiency—poor physical and mental health, substance abuse, low literacy and educational attainment, and historically weak connections to the labor force—while simultaneously integrating services for children and youth. HOST operated in two public and mixed-income communities in Chicago, Illinois, and Portland, Oregon, from 2010 to 2014 and is currently operating in a third community in Washington, D.C. The evaluation of HOST is still underway, but early results indicate gains in employment for participants (Scott et al., 2013).

Taken together, the evidence from programs that have used housing as a platform for services show only limited success in helping public and assisted housing participants improve their economic circumstances. Rather, they highlight the major barriers that many residents face—chronic mental and physical health challenges, low levels of literacy, substance abuse, and family members with criminal records. Even those who succeed in programs like FSS and Jobs-Plus remain very low-income, with relatively few able to move on to homeownership or success in the private market. And other research shows that residents who "graduate" from public housing or vouchers for positive reasons—increased earnings or homeownership—struggle in the private market and experience high levels of material hardship (Smith et al., 2014). Nonetheless, given the shortage of public and assisted housing relative to need, a number of PHAs are showing increased interest in strategies such as time-limiting assistance or flat subsidies. Any such strategy needs to be coupled with intensive case management and support and a gradual reduction in benefits so that families are able to make a successful transition. Otherwise, they risk tipping assisted households into instability and perhaps into homelessness.

[11] HUD is part of the funder consortium for HOST.

Expanding Access to Opportunity-Rich Neighborhoods

Assisted housing offers more than an affordable place to live. It also determines the neighborhood environment in which low-income people live and their children grow up. And neighborhoods matter to the well-being of families and their children. They are the locus for essential public and private services—schools being perhaps the most significant. The availability of quality grocery stores, reliable childcare, and safe after-school activities and healthy recreational facilities also shapes the quality of life a neighborhood offers its residents, as does access to employment opportunities. Neighbors and neighborhood institutions help transmit the norms and values that influence behavior and teach children what is expected of them as they mature. And where we live directly affects exposure to crime, disorder, and violence, which has profound, long-term implications for physical and emotional well-being (Ellen and Turner, 1997; Turner and Rawlings, 2009; Sharkey, 2013).

HUD-assisted developments historically reinforced segregation and poverty concentration. HUD's statutory responsibilities call for its programs to provide not only decent housing, but also "a suitable living environment," and, since 1968, the Department has been obligated to "affirmatively further" free and fair housing choice. Historically, however, federal housing programs aimed at helping low-income renters actually reinforced racial segregation and exacerbated the concentration of poor people—and particularly poor minorities—in distressed neighborhoods (Schill and Wachter, 1994).

At its inception, federally subsidized housing was largely segregated by race as a matter of law. Beginning immediately after World War II, when thousands of public housing units were built to address the nation's housing shortage, housing developments built in black neighborhoods (and on isolated tracts of vacant land) were exclusively for occupancy by blacks, while separate developments were built in white neighborhoods for occupancy by whites (Hirsch, 2000). Urban renewal projects of the 1950s and 60s further exacerbated racial segregation and the concentration of poverty. In cities across the country, the Urban Renewal program targeted "slum" neighborhoods for redevelopment and relocated the mostly low-income black residents to public housing in already segregated neighborhoods (Hirsch, 2000).

In 1968, with passage of the Fair Housing Act, HUD was charged not only to expand the availability of decent and affordable housing for low-income Americans, but also to combat the longstanding patterns of housing discrimination and segregation that block free and fair access to housing and neighborhoods. Despite this mandate, the Department continued to acquiesce to local decisions about the siting and occupancy of public housing (Hirsch, 2000 and 2003). By the 1980s, most public housing residents were black and living in developments isolated from mainstream economic and social opportunities (Hirsch, 2003). The racial and economic isolation of these communities was further exacerbated by tenant selection policies that targeted housing subsidies to those with the most severe housing needs (Spence, 1993; Popkin, S. J., V.E. Gwiasda, D.P. Rosenbaum, L.M. Olson, and L. F. Buron, 2000).

In the 1960s and 1970s, Congress created new programs to subsidize the development of rental housing, making it affordable for low-income renters. As described earlier, private (or nonprofit) entities rather than public housing agencies owned and managed the new generation of subsidized housing developments. Nonetheless, their locations were constrained by local zoning and land use regulations. HUD's site and neighborhood standards were intended to prevent the over-concentration of assisted housing in high-poverty and predominantly minority neighborhoods, and to expand affordable housing availability in nonpoor neighborhoods. But these standards were not vigorously enforced and allowed for numerous exceptions (Tegeler, 2005). As a result, most of the rental housing developed for low-income families was located in central cities, and often in the same, lower-income neighborhoods as public housing (Rohe and Freeman, 2001). Thus, the second generation of federally subsidized housing production largely failed to offer low-income renters access to high-quality neighborhood environments, thereby reinforcing existing patterns of segregation and poverty concentration (Newman and Schnare, 1997).

In principle, the housing voucher program gives low-income families the ability to move to neighborhoods of their choice. However, the program has never realized its full potential to provide low-income families access to lower-poverty and less-segregated communities. Housing vouchers have consistently been found to produce better locational outcomes than traditional public housing, but they perform better in this regard for recipients who live in suburban areas than for those in central cities, for white recipients than for African-Americans and Hispanics, and for the elderly than for nonelderly families and disabled people (Turner and Wilson, 1998; Devine et al., 2003; Galvez, 2010; McClure, Schwartz, and Taghavi, 2014).

Policies change to promote both mobility and mixed-income redevelopment. In the 1990s, HUD began to give serious attention to the concentration of assisted rental housing in profoundly distressed neighborhoods. Evidence emerging from Chicago's Gautreaux Housing Desegregation Program played a major role in shifting HUD's policies and practices. This program was launched as part of the court-ordered settlement in a lawsuit against the Chicago Housing Authority and HUD. The court ordered the housing authority to provide Section 8 certificates that black public housing residents (and families on the waiting list for public housing) could use to move to racially integrated suburban areas (Polikoff, 2005). Early evidence suggested that adults who moved to white suburban communities were more likely to be employed than those who remained in the city and that their children were doing better in school (Popkin et al., 1993; Kaufman and Rosenbaum, 1992; Rubinowitz and Rosenbaum, 2000).[12] Armed with these findings, then-HUD Secretary Henry Cisneros made it a priority to reverse the legacy of segregation and poverty concentration in federally assisted housing.

[12] These promising findings also led to the Moving to Opportunity (MTO) for Fair Housing Demonstration, which implemented a controlled experimental design to rigorously test the effects of offering special purpose vouchers to allow residents of high-poverty housing developments to move to low-poverty neighborhoods (Briggs, Popkin, and Goering, 2010).

The HOPE VI program played a central role, demolishing distressed public housing properties and replacing them with a combination of mixed-income housing on the original site and portable housing vouchers (Popkin et al., 2004; Popkin et al., 2009). HUD also reformed the Section 8 housing voucher program to enable recipients to move to better neighborhoods. The principle underlying these reforms was that vouchers could enable the poorest assisted households to escape from high-poverty, predominantly minority neighborhoods, while revitalized public housing developments served a wider range of low- and moderate-income levels. The Quality Housing and Work Responsibility Act set aside 75 percent of all new and turnover Section 8 vouchers for the very poorest participants, and HUD implemented regulatory changes that made vouchers more attractive to private landlords, allowed local housing authorities to set higher payment standards for desirable neighborhoods, and rewarded housing authorities that dispersed voucher households across a wider range of neighborhoods. In order to help families overcome barriers to housing mobility and choice, HUD also provided funding for nonprofit organizations to provide mobility counseling and housing search assistance to voucher recipients in a limited number of communities.

Targeted public housing investments and mobility counseling for voucher recipients were also combined as core elements of a number of desegregation plans implemented by HUD and local PHAs under court-ordered litigation settlements. Specifically, nine lawsuits charging HUD with illegal discrimination and segregation of public housing were settled during the 1990s, with most of the agreements modeled on the Gautreaux plan (Popkin et al., 2003).

In recent years, HUD has continued its efforts to tackle the legacy of segregation and poverty concentration in its assisted rental housing programs. In 2010, when the HOPE VI program was succeeded by the Choice Neighborhoods program, the mixed-income redevelopment strategy was extended to privately owned subsidized developments. Like HOPE VI, Choice provides funding for the rehabilitation or demolition and replacement of distressed subsidized housing projects with higher quality mixed-income developments. Building on lessons learned from the HOPE VI experience, Choice places more emphasis on investments in the surrounding neighborhoods (with an emphasis on safety and schools) and on supports for the original residents. In most cases, Choice also requires one-for-one replacement of subsidized rental housing units and provides stronger protections for residents who want to return to the development after it is revitalized (Pendall and Hendey, 2013).

The Rental Assistance Demonstration (RAD), launched in 2012, is primarily designed to give public housing agencies new options for financing the modernization and upgrading of subsidized properties. It also allows residents greater choice about where to live. Specifically, when public housing properties convert to Section 8 subsidy contracts, residents have the right to receive a portable housing voucher and use it to move elsewhere (Econometrica, 2014).

HUD has also continued to tweak the administration of the voucher program to enable and encourage more recipients to use their vouchers in low-poverty, opportunity-rich neighborhoods. For example, HUD's system for assessing the performance of agencies administering the Housing Choice Voucher Program includes measures designed to encourage these agencies to take actions that help families use their vouchers in low-poverty areas. And the Small Area Fair Market Rents demonstration is testing the efficacy of setting Fair Market Rents (FMRs) at the level of ZIP Codes rather than metro areas. Higher FMRs in high-opportunity areas would expand access for voucher holders, while lower FMRs in high-poverty or distressed neighborhoods would discourage recipients from moving there.

New approach yields evidence of success, but scale is modest. The research evidence is compelling that conditions in distressed, high-poverty neighborhoods undermine both the quality of daily life and the long-term life chances of parents and children (Ellen and Turner, 1997; Turner and Rawlings, 2009). Preschool children living in low-income neighborhoods exhibit more aggressive behavior when interacting with others. Young people from high-poverty neighborhoods are less successful in school than their counterparts from more affluent communities; they earn lower grades, are more likely to drop out, and are less likely to go to college. Neighborhood environments influence teens' sexual activity and the likelihood that girls will become pregnant as teenagers. Young people who live in high-crime areas are more likely to commit crimes themselves, other things being equal. And living in disadvantaged neighborhoods significantly increases the risk of disease and mortality among both children and adults.

Moreover, emerging evidence suggests that living in a high-poverty neighborhood undermines some outcomes across generations. For example, children whose parents grew up in poor neighborhoods score dramatically worse on reading and problem-solving tests than those whose parents grew up in nonpoor neighborhoods, other things being equal (Sharkey, 2013). In other words, neighborhood distress contributes to the persistence of poverty across generations.

When poor families are able to move from neighborhoods of distress to neighborhoods of opportunity, their well-being and life-chances improve significantly. The best-known assisted housing mobility program is the Moving to Opportunity demonstration, conducted by HUD in five metropolitan areas to evaluate the benefits of relocation for poor families and their children (Briggs, Popkin, and Goering, 2010). The evaluation concluded that, as a group, the MTO experimental families enjoyed significantly lower crime rates, improved housing, and better mental health than the control group, but not higher employment, incomes, or educational attainment (Sanbonmatsu et al., 2011). The health gains enjoyed by MTO's experimental families are extremely important. High rates of obesity, anxiety, and depression severely degrade a person's quality of life, employability, and parenting abilities.

One reason that MTO gains were limited to health outcomes, however, is that the demonstration's special mobility assistance did not enable the experimental families to gain and sustain access to high-opportunity neighborhoods. Experimental families moved to better quality housing and safer neighborhoods, but few spent more than a year or two in low-poverty neighborhoods. New analysis finds that the MTO families that lived for longer periods in neighborhoods with lower poverty did achieve better outcomes in work and school, as well as in health. More specifically, adults living in lower-poverty neighborhoods experience lower anxiety levels and are less likely to have physical health limitations. They also have higher incomes, higher household earnings, and are more likely to be employed and have earnings above the poverty line. Youth (both boys and girls) living in lower-poverty neighborhoods have higher English and math test scores (Turner, Nichols, and Comey, 2012).

Newly released research uses IRS data to track long-term trends in the incomes of both adults and children from the MTO demonstration. This analysis, which compares outcomes for "treatment" and "control" families, finds that children who were younger than 13 when their families moved earned substantially more as adults—31 percent more on average. These children are also more likely to attend college and live in better neighborhoods as adults, and less likely to become single parents (Chetty, Hendren, and Katz, 2015).

Similar evidence is also emerging from the most recent longitudinal research on outcomes for families living in subsidized developments that are located in opportunity-rich communities. Douglas Massey's indepth study of a subsidized housing project in the affluent town of Mt. Laurel, New Jersey, finds that low-income families reap huge benefits from living in a safe, opportunity-rich community, even though the housing development does not itself include a mix of income levels. More importantly, he finds that the likelihood of gains in educational achievement, employment, and income rise with the length of residency (Massey et al., 2013).

These findings argue for continued investments in programs that help low-income families find and afford housing in safe, well-resourced neighborhoods, including *both* programs that enable families to move to (and stay in) these types of neighborhoods *and* programs that improve conditions and expand opportunities in neighborhoods where poor families already live. Although HUD's current policies reflect these goals, it is by no means clear that they have yet achieved sufficient scale or impact to reverse the legacy of segregation and poverty concentration in federally assisted housing. To illustrate, in 2010, only 15 percent of the children in families that received rent subsidies through HUD's three major rental assistance programs (Housing Choice Vouchers, public housing, and Section 8 Project-Based Rental Assistance) lived in low-poverty neighborhoods, while 18 percent lived in extreme-poverty neighborhoods (Sard and Rice, 2014).

HOPE VI replaced many severely distressed public housing developments with much higher-quality housing, and in some cases appears to have contributed to significant improvements in the surrounding neighborhoods (Turner, 2009). Most of the original residents were relocated to somewhat better neighborhoods, whether in private housing (with the help of a housing voucher) or in other public housing developments. But relatively few of the original residents returned to the revitalized, mixed-income communities that replaced their previous housing, and the jury is still out on how these communities will perform for their low-income residents over the long term (Turner, Popkin, and Rawlings, 2009). The latest evidence on the geographic distribution of housing voucher recipients also suggests that despite two decades of experimentation with assisted mobility efforts, the program still has not fully realized its potential. Rental housing units that are affordable with a housing voucher are much more widely dispersed—including in low-poverty neighborhoods—than are voucher recipients.

Recommendations for the Next Generation of Policy

In the decades ahead, sweeping demographic, social, and economic trends will expand and intensify the needs among vulnerable households for decent, affordable rental housing in opportunity-rich neighborhoods and for accompanying services and supports. Widening income inequality and barriers to upward mobility are already contributing to increases in the number and share of renters paying unaffordable housing costs. And, as the demand for rental housing continues to rise, the affordability gap will grow ever greater, pushing more vulnerable families and individuals into homelessness. Growing numbers of poor people now live in suburban jurisdictions, which generally have less federally assisted rental housing and fewer institutions for meeting the housing and service needs of vulnerable households. At the same time, some central cities are experiencing renewed demand from higher-income households, and housing costs are rising rapidly in neighborhoods that have long been home to low-income renters. Finally, as the baby boom generation ages, the need for accessible, service-enriched rental housing for low-income elderly people (including the frail elderly) will expand dramatically.

Although many of HUD's programs have proven their potential to help address these challenges, their scale and capacity falls woefully short of what will inevitably be needed. Ongoing improvements in program implementation—and expanded scale—would be welcome. But we focus here on a handful of more ambitious ideas for eliminating homelessness and housing hardship and advancing the potential of assisted housing policy to improve the long-term life-chances of poor and vulnerable populations. We recognize that implementing these ideas would be both costly and politically challenging, but offer them as conversation-starters for HUD's next 50 years.

Close the affordable housing gap: entitlement housing vouchers plus shallower, time-limited emergency assistance. Over the last 50 years, HUD has been instrumental in providing affordable housing for vulnerable people. For those who are lucky enough to receive housing assistance, it clearly makes housing more affordable and stable. But only one in four households who are eligible receives housing assistance. Many refer to federally subsidized rental housing as a lottery system, one that has clear winners and losers. As a result, the problem of housing affordability is getting worse, not better, and homelessness remains a significant problem.

One way to improve the fairness of federal housing assistance is to target vouchers to households at the bottom of the income distribution and create a different strategy for other low-income renters. The Bipartisan Policy Center's (BPC) Housing Commission recommends expanding the Housing Choice Voucher Program to guarantee access to all extremely low-income households (incomes below 30 percent of area median; BPC, 2013). The BPC estimates that an additional 3.1 million rental subsidies are needed to reach this goal, 258,000 of which are projected to be made available by transitioning families in higher-income categories off the program (BPC, 2013). Extending an entitlement voucher program to households with incomes up to 50 percent of median would obviously raise the cost substantially.[13]

To complement such a proposal, we recommend testing a flat, shallow subsidy program that is either time limited or available based on emergencies for other low-income households (that would not be eligible for entitlement vouchers). Such a program could help reduce housing instability and homelessness, but it probably would not enable families to move to high-opportunity neighborhoods. Nonetheless, the combination of an entitlement voucher program and an emergency assistance program for other low-income households would represent a major improvement over today's assisted housing "lottery."

In addition, many veterans pay unaffordable housing costs and are at risk for homelessness. The evidence shows that providing housing assistance to these veterans could go a long way in preventing homelessness. HUD should work with the VA and the Department of Labor to pilot a housing assistance program that links housing subsidies with employment services for veterans. This program should be modeled on HUD-VASH, but should target younger veterans who are having trouble transitioning their military skills to civilian employment. Instead of case management, the program should provide employment training and linkages.

Ensure voucher recipients' access to safe, opportunity-rich neighborhoods: regional administration of the voucher program. Overwhelming evidence argues that concentrating assisted housing in distressed neighborhoods can do more harm than good for low-income families and their children. Looking ahead, good housing policy requires attention to both affordability and access to safe, opportunity-rich neighborhoods. Today's balkanized system of housing voucher administration seriously undermines the potential of the program to meet the evolving needs of low-income renters in metropolitan housing markets. Therefore, HUD should transfer governance of the Housing Choice Voucher Program to one organization or consortium at the metropolitan level.

Although the arguments against the current system of localized voucher administration are strong (Katz and Turner, 2013), there is no single, obvious alternative that makes sense for every metropolitan region. Ideally, a metropolitan housing agency would administer the program region-wide, but few metro areas in the United States today have regional housing agencies, and building this capacity everywhere would be costly and slow. But several other types of organizations—a single, high-performing PHA, a PHA consortium, a state housing agency, or a private-sector agency—could potentially administer vouchers effectively at a regional scale, with the best choice differing across metro areas depending on their particular circumstances. Therefore, the shift to regional governance of the housing voucher program in metro areas should be accomplished through a HUD-administered competitive process.

[13] One possible mechanism for funding such an expansion would be to scale back or reform the federal mortgage interest deduction, which effectively subsidizes the housing costs of high-income homeowners (Toder, 2013).

In addition, HUD and the Department of Education should jointly launch a school-focused housing search assistance demonstration that tests whether improved access and targeted information will encourage housing voucher recipients to choose neighborhoods served by high-performing schools and enroll their children in those schools. This demonstration could target households with elementary school-aged children who already receive federal housing assistance and live in neighborhoods served by poor-performing schools, or it could provide a new allocation of vouchers for unassisted families with children attending poor-performing schools. Participants would receive information about the performance of schools in other neighborhoods and assistance in identifying suitable rental housing in those neighborhoods. In addition, the administering agency would conduct proactive outreach to the owners of rental properties in neighborhoods served by high-performing public schools, in order to expand rental options for participating families. If a special allocation of vouchers was created for this demonstration, moving to a qualifying neighborhood and enrolling school-age children in high-performing schools should be established as a condition for voucher receipt.

Require localized strategies for meeting housing needs: leverage the new Affirmatively Furthering Fair Housing rule to require metropolitan housing strategies. HUD's new Affirmatively Furthering Fair Housing rule (discussed in Chapter 2 of this volume) requires states and localities to identify the primary factors affecting fair housing outcomes and set goals for mitigating or addressing them. Subsequent state and local plans for using federal housing and community development funding must link to this assessment and include investments and actions that affirmatively further fair housing. HUD's current guidance for these local assessments implicitly connects the goals of decent and affordable housing with the goals of free and fair location choice. Specifically, the new rules define what it means to affirmatively further fair housing to encompass: (1) overcoming historic patterns of residential segregation and promoting more integrated neighborhoods; (2) reducing concentrations of minority poverty; (3) narrowing disparities in access to community assets (education, transportation, and employment) and in exposure to environmental hazards; and (4) responding to the disproportionate housing needs of racial and ethnic minorities and other protected groups. HUD could build on this framework by requiring local (or metropolitan) strategies for meeting the needs for affordable rental housing in opportunity-rich neighborhoods. These strategies would encompass not only federal rental assistance and homeless programs, but also the deployment of Low-Income Housing Tax Credit and block grant resources, state and locally funded programs, and local regulatory powers.

*   *   *

Over 5 decades, HUD has implemented an expanding portfolio of programs for poor and vulnerable households, responding to changing conditions and emerging evidence about what works. Research indicates that this portfolio of programs yields important benefits for many of the households who participate and that the incidence of homelessness and housing hardship would be far higher in their absence. But the scale of these programs falls far short of needs. Without fundamental changes in the scale and scope of assistance, prevailing demographic, social, and economic trends will widen the gap between needs and assistance in the decades ahead.

Acknowledgments

The authors wish to thank Abby Baum of the Urban Institute for her research assistance.

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Chapter 6 Housing Policy and Demographic Change

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The U.S. Department of Housing and Urban Development (HUD) was established as the last of the baby boomers were being born and the first were transitioning to adulthood. This generation has greatly influenced patterns of housing growth and development in the United States and will continue to do so. Baby boomers are parents to the millennial generation, a group with the potential to reshape the urban form—though to what extent remains to be seen.

The pace of demographic change in the United States has accelerated, contributing to the United States becoming increasingly diverse, especially over the last 50 years. Domestic migration, particularly the Great Migration of blacks relocating from the South to the North and West between 1910 and 1970, created greater diversity within states and cities. As domestic migration slowed, the pace of international migration quickened. From 1970 to 2000, people from Latin America, the Caribbean, Asia, and Africa came to the United States in

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increasingly large numbers. These families' choices on where to live, housing preferences, and transportation patterns between home, work, and activities have played a large role in shaping the country. At the same time, housing policy has defined, and often constrained, many of the parameters in which families make these choices. The interactions between demographic change and policy—with policy more often responding to than shaping demographics—significantly influence society.

This chapter examines three important policy frames implicit in HUD's history: alleviation of poverty through housing, reliance on the private market to implement policy, and resulting changes to urban form. The interaction between these policy frames and three significant demographic changes during the next 10 to 20 years will greatly impact the nation: the aging population, the coming-of-age for the large millennial generation, and the growing diversity of people and preferences in communities throughout the United States. In the context of these shifts, this chapter examines how HUD is positioned to address the challenges posed by demographic change.

On HUD's 50th birthday, HUD could address the ensuing challenges from these demographic changes by embracing three approaches for its policy agenda. First, HUD policies must respond to regional variation. The needs of older industrial regions in the Midwest and Northeast, with stable or declining populations, are very different from those of fast-growing regions in the South and Southeast that are new gateways for many immigrants. National stories do not capture regions' experiences, and policy is most effective when it can be targeted.

Second, HUD policies need to support and enable regional coordination. Although HUD's purposes when it was established included promoting interstate, regional, and metropolitan coordination (P.L. 89–174(2)), too many programs continue to operate in ways that promote competition rather than collaboration among local government units. Recent efforts that encourage cross-boundary cooperation should be replicated and deepened if they are found effective so that regionalism becomes the norm, rather than the exception.

Third, HUD should continue to align federal programs and resources, returning to HUD's founding language: to achieve "maximum coordination of the various Federal activities which have a major effect upon urban community, suburban, or metropolitan development" (P.L. 89–174(2)). HUD has recently taken a lead role partnering with other federal agencies. For example, HUD has worked with the U.S. Department of Transportation and the Environmental Protection Agency to improve sustainability through the Partnership for Sustainable Communities, as well as with the White House Council on Strong Cities, Strong Communities to help fiscally distressed cities. These efforts are models for the federal government and need to be maintained and expanded.

This chapter begins with an overview of the demographics of the U.S. population—past, present, and future. It then examines how HUD policies have operated during these changes and how HUD is positioned to address the challenges of continued demographic change.

Overview of Demographic Change—Past and Present

The population of the United States today differs dramatically from 50 years ago. In 1965 the total had not yet surpassed 200 million, compared with about 320 million today. The composition of the population has shifted—and will continue to shift—in several key dimensions (see Table 6–1). Children have been decreasing as a portion of the population as seniors have increased; the child to senior ratio has fallen from 4 to 1.85. In terms of ethnicity, when HUD was formed more than 88 percent of the population was white, and the census had not yet begun asking about ethnicity—whereas now whites comprise just over half, and the census offers options for ethnic self-identification. Additionally, the population continues to transition from rural to urban areas as residents move to the city and development expands out. Throughout this time period, homeownership steadily increased until the Great Recession beginning in 2007. It is important to distinguish between long-term demographic changes shown in these decades-long trends and short-term "disruptions," such as those caused by the Great Recession, which are reflected in tenure change.

Table 6–1.
Demographic Change Between 1960 and 2010, Projections to 2030

Category	1960	1970	1980	1990	2000	2010	2020	2030
%≤18	35.9	34.3	28.1	25.6	25.7	24.0	22.2	21.2
% 65+	9.0	9.8	11.3	12.6	12.4	13.0	16.9	20.6
% white	89.5	83.2	79.6	75.6	75.1	72.4	59.6	55.5
% black	10.5	11.1	11.7	12.1	12.3	12.6	12.4	12.6
% Hispanic			6.0	9.0	12.5	16.3	18.4	20.8
% Asian	0.3	0.8	1.5	2.9	3.6	4.8	5.8	6.7
% foreign born	5.4	4.7	6.2	7.9	11.1	12.9	14.3	15.8
% rural	30.1	26.4	26.3	24.8	21.0	19.3		
% urban	69.9	73.6	73.7	75.2	79.0	80.7		
% own	61.9	62.9	64.4	64.2	66.2	65.1	62.3	60.3
% rent	38.1	37.1	35.6	35.8	33.8	34.9	37.7	39.7

Source: *Decennial Censuses of Population and Housing; U.S. Census Bureau Population Division, Table 10. Projections of the Population by Sex, Hispanic Origin, and Race for the United States: 2015 to 2060 (NP2014-T10). For percent own and rent, see Goodman, Zhu, and George (2015).*

In 1960, 44 percent of families were married couples with children, compared to only 20 percent in 2010 (Jacobson, Mather, and Dupuis, 2012). Meanwhile the percent of single-parent families rose from 4.1 to 9.6 over the same time period (Jacobson, Mather, and Dupuis, 2012). Reflecting an even larger change in society, 65 percent of families had a working dad and stay-at-home mom in 1950; today, 15 percent do. Nonworking families made up 10 percent of the population in 1950, compared to 25 percent today (Smith and Kalish, 2015). More than 16 million children under the age of 18 (22 percent of children) lived in poverty in 2010, a smaller number than in 1960, when more than 17.5 million (27 percent) of children lived in poverty (U.S. Census Bureau, 2013).

Older Adults

Longer life expectancy combined with the large numbers of the baby boomer generation have resulted in a growing senior population. Seniors refers to the 40.3 million people aged 65 and older, a group that represented 13 percent of the total population in 2010 (Werner, 2011). Census projections indicate seniors are the only age group experiencing a significant increase in its percentage of the population and are expected to increase from 14.9 percent in 2015 to 20.6 percent in 2030, reaching 74 million (U.S. Census Bureau, 2014b). An important component is older seniors, aged 85 and older, a group which is projected to grow from 5.5 million in 2010 to 9.1 million in 2030 (U.S. Census Bureau, 2014a). As with the rest of the population in the United States, seniors will become a more diverse group. Twenty percent of seniors in 2010 were people of color, but that number is projected to increase to 29 percent in 2030 (Pendall et al., 2012).

Eighty-one percent of seniors own their homes, and 30 percent of those households own their homes, subject to outstanding mortgage loans (U.S. Census Bureau, 2014e; CFPB, 2014). Of the approximate 20 percent of seniors who rent, 5.4 million are very low-income, having income of no more than 50 percent of the area median income (HUD, 2013b). 1.47 million of these very low-income households have a serious housing cost burden, paying more than 50 percent for rent, living in severely inadequate housing, or both (HUD, 2013b). Federally assisted housing is an important resource; nearly 1 in 3 eligible seniors (defined by HUD as aged 62 and older) benefit from rental assistance, which includes public housing, vouchers, project-based assistance, and Section 202 housing. Additionally, 31 percent of assisted units are occupied by a head of household who is aged 62 or older. In 2011, 1.4 million received federal housing assistance, but 2.5 million lacked rental assistance (JCHS, 2014). The expected growth in the senior population, many of whom have little wealth and low incomes, will result in a growing number of people without the ability to afford safe, decent housing. These difficulties also impact the 20 percent of seniors living in rural communities, many of whom are living alone in poor quality homes, often without access to vital services and resources.

Millennials

As the baby boomer generation ages, their children are coming of age. The first of the millennial generation, those born between 1981 and 1997,[1] are turning 34, and the youngest are 18. In 2015, the millennial generation was estimated at over 75 million people, surpassing the 74.9 million baby boomers to become the largest living generation (Fry, 2015).

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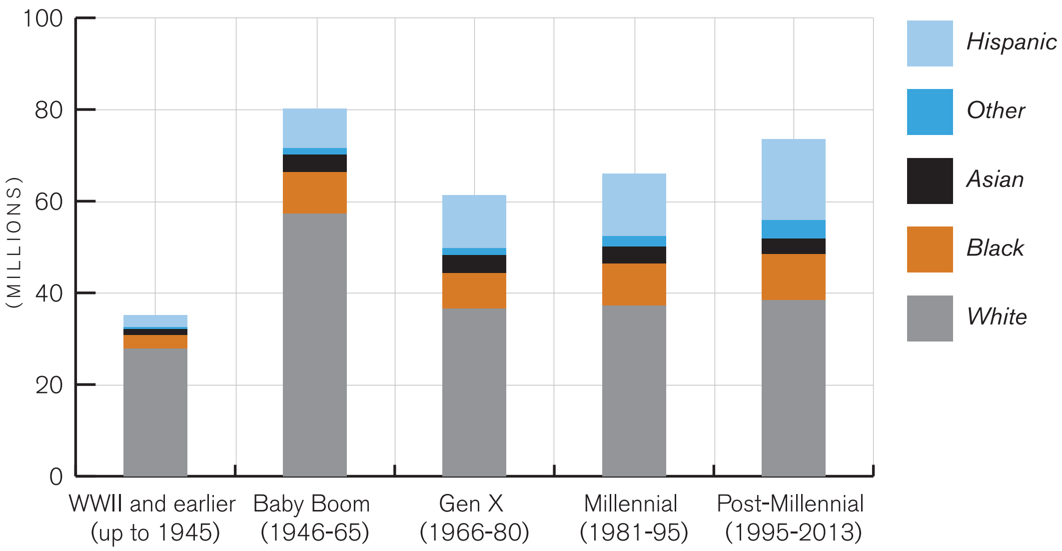
[1] The millennial generation is not defined consistently. For example, Pew uses 1981–1997 (Fry, 2015); the White House Council of Economic Advisors uses 1978–1997 (2014); a recent report by the Urban Institute defined millennials as those born between 1980–1995 (Goodman, Pendall, and Zhu, 2015); the Joint Center for Housing Studies uses 1985–2004 (2015), while the Bipartisan Policy Center's report on demographic challenges discusses "echo boomers" born between 1981–1995 (Pendall et al., 2012). Taken together the definitions include people born between 1978 and 2004. We generally use the term millennial to refer to people born between 1981 and 1997, but the exact meaning will depend on the data source being cited.

The millennial generation is a more diverse group than prior generations (see Figure 6–1). Of millennials age 18 to 28, 21 percent are married compared to 29 percent of Generation X, 42 percent of baby boomers, and 54 percent of the silent generation at the same age (Pew Research Center, 2010). Millennials' lower marriage rates may reflect the higher education rates of both males and females (54 percent have at least some college), as some delay marriage to continue their education. The economic effects of the recession have also delayed millennials forming new households because of unemployment and rising house prices (Bleemer et al., 2014).

Figure 6–1.

Diversity Has Increased Over Successive Generations



Source: *U.S. Census, 2013 American Community Survey, extracted via Steven Ruggles, J. Trent Alexander, Katie Genadek, Ronald Goeken, Matthew B. Schroeder, and Matthew Sobek. Integrated Public Use Microdata Series: Version 5.0 [Machine-readable database]. Minneapolis: University of Minnesota, 2010.*

Historically, individuals begin forming households and buying homes between the ages of 20 and 35. The Great Recession occurred when millennials were entering this life stage. As a result, many millennials moved in with their parents, delaying the typical transitions into both the workforce and becoming heads of households. As the economy slowly recovers, questions remain as to what choices millennials will make regarding both location and tenure, particularly given the greater demographic diversity in this portion of the population. Will they want to buy homes after watching family members and neighbors lose their homes? Will they follow their parents' model by moving to single-family homes in the suburbs as they marry and have children? Or will they demand a different housing option or urban form after experiencing the sharing economy for cars, lodging, and an expanding array of services?

Diversity

Baby boomers and millennials tend be the main focus of discussions of demographic change, but policies to address age-specific needs will be insufficient because people within these age groups are not homogenous. Based on current trends, the future population will have greater variation on a number of characteristics. Beginning with the most common factors, race and ethnicity, the United States will continue to have a smaller percentage of whites (falling from 62 percent in 2010 to 55 percent in 2030) and larger percentage of Hispanics (22 percent) and Asians (7 percent), with blacks increasing slightly from 12.4 to 12.6 percent (U.S. Census Bureau, 2014c). These categories obscure greater diversity. For example, the "Asian" category includes Asian Indian, Chinese, Filipino, Korean, Japanese, and Vietnamese (Hoeffel et al., 2012). "Hispanic" likewise includes numerous subgroups: Mexicans (the largest group), Puerto Ricans, Salvadorans, Cubans, Dominicans, Guatemalans, and others. This variation matters because families from different regions may have different values, education, and experiences that lead to different opportunities and housing preferences (Suro, 1999).

Changing demographics extend beyond race and ethnicity. Some household structure changes can be captured with census data, such as the increase in multigenerational households (defined by the Census as one household containing three or more generations), which increased from 3.9 million (3.7 percent of all households) in 2000 to 5.1 million (4.4 percent) in 2010 (Lofquist et al., 2012). Over 9 percent of African-American and Asian households are multigenerational and over 10 percent of Hispanic and American-Indian households are multigenerational, compared to 3.7 percent of non-Hispanic white households (Lofquist, 2012).

The percentage of children living with their grandparents without their parents present increased from 1.4 percent in 1970 to 2.2 percent in 2010 (Child Trends, 2015). Additionally, women are waiting longer to have children. In 2013, birth rates declined for women in their 20s to a record low (26.5 births per 1,000 women) while rising for women in their 30s (98 per 1,000 for women age 30 to 34 and 49.3 per 1,000 for 35 to 39). Births to unmarried women have shifted as teenage pregnancies have declined to 25.5 births per 1,000 teenagers in 2013, which is a 57 percent decrease since 1991 (Martin et al., 2015), while the percentage of nonmarital births to women age 30 or older increased from 8 percent in 1970 to 17 percent in 2007 (Ventura, 2009). Census added an "unmarried partner" response in 1990 and did not begin tracking same-sex married couples until the 2005 American Community Survey.

Changing household structure directly affects household income and the ability to afford a home, which translates into supply needs. For example, single householders need small units, but many immigrant and second-generation families require larger spaces to accommodate multiple generations under one roof. More difficult to predict are the timing of transitions, the preferences for location and community environment, and communities' future urban form. HUD's policies and programs will need to continue to adjust to changing families and their needs.

Alleviating Poverty

The federal government's early housing programs, beginning in the 1930s, focused on improving the condition of working-class neighborhoods where families were living in crowded conditions in dilapidated housing. Higher-income households began to move from the city to the suburbs in the early 20th century and were flowing steadily out by the 1920s. The resulting loss of tax revenues alarmed city officials and local business owners even then (von Hoffman, 2008). Properties in the city continued their decay. Meanwhile, poor and working-class families migrated to these cities, including a large number of blacks from the South. Overcrowding in these neighborhoods contributed to concerns about spreading blight.

Public housing, authorized in 1937, was one of the first proposed solutions. It was designed not for the deep and persistent poor, but to provide sanitary housing to families who were suffering during the Depression. The physical condition of the slum buildings was a primary concern, as many homes had leaking roofs, exposed electric wires, and broken plumbing. The goal—to provide low-income households with better quality housing—had another benefit. Housing construction would provide jobs (von Hoffman, 2008). Rents were to cover operating costs, so public housing tenants were expected to have sufficient incomes to pay the necessary rent. To prevent competition with the private market, a maximum income level was established. Additionally, because the goal was to eliminate the slums, for each new unit built, an unsanitary unit had to be removed from inventory (McCarty, 2014).

During the war years, the inflow of workers continued, while building materials were unavailable to meet the increased demand. When the United States embarked on a massive home-building spree in the 1950s, construction occurred in the suburbs, not in the poor communities in the cities. Families that could take advantage of suburban living (in part because of financing provided by the Federal Housing Administration (FHA) and the Veterans Administration (VA)) moved from the city, leaving the poorer residents and blacks (who were generally excluded from the suburbs) in decaying housing. This outflow changed the face of public housing, as it became housing for the poorest residents rather than working-class families down on their luck.

During the 1950s and 1960s, aging buildings, rising inflation, and declining tenant incomes left insufficient funds for maintaining public housing and fueled rent increases. The Brooke Amendment to the 1969 Housing Act capped public housing rents at 25 percent of income (Stoloff, 2004). This was increased to 30 percent in 1981, which has become the general standard for affordability. Current housing assistance programs, many of which leverage the private market, are targeted to specific income levels, reflecting the continued focus on affordability for lower-income households.

Affordability Challenges Continue Today

Affordability continues to be a major challenge for millions of households, as the number of people needing low-priced homes far exceeds the supply. The shortage of affordable units is particularly acute among extremely low-income (ELI) households, defined as households with earnings at or below 30 percent of the area median income (for a family of four this cut-off translates in 2015 to incomes below $21,350 to $33,850, depending on where they live). In comparison, the federal poverty level for a family of four is $24,250 in 2015. The poverty level applies nationally; it is not adjusted by geographic location. ELI families thus span from less than 90 percent to 140 percent of the federal poverty level.

Of approximately 14.7 million ELI households, one-third are homeowners and two-thirds are renters (HUD, 2014a). Among ELI renter households in 2010, 47 percent were white, 26 percent were black, and 19 percent were Hispanic (Bolton and Bravve, 2012). The number of ELI renter households has grown substantially in the last decade, swelling from 8.2 million in 2000 to 11.5 million in 2012. During the same period, however, the number of units available and affordable to ELI households largely stagnated, growing by fewer than 300,000 units (see Table 6–2). As a result, the gap in affordable housing has risen considerably across the country: in 2000, 37 affordable rental units were available for every 100 ELI renter households; by 2012, there were only 29 such units (see Figure 6–2).

Table 6–2.

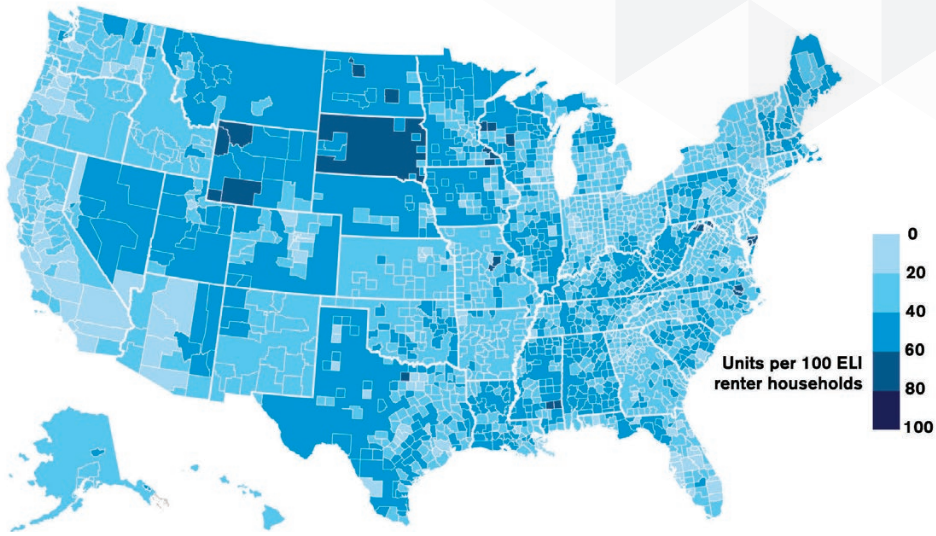
ELI Renter Households far Exceed Affordable Units Available to Them

Year	30 percent AMI range	# ELI renter households	# affordable and available units	# households without access to affordable units	# affordable and available units per 100 ELI renter households
2000	$9,150 – 30,700	8.16 million	3.00 million	5.16 million	37
2006	$10,950 – 34,900	9.64 million	3.21 million	6.44 million	33
2012	$12,650 – 38,500	11.47 million	3.29 million	8.18 million	29

Source: *Urban Institute analysis of Census, American Community Survey and Picture of Subsidized Households data.*

Figure 6–2.

Lack of Affordable Units for ELI Households Spans the United States (2011–2013)



Source: *Urban Institute analysis of Census, American Community Survey and Picture of Subsidized Households data.*

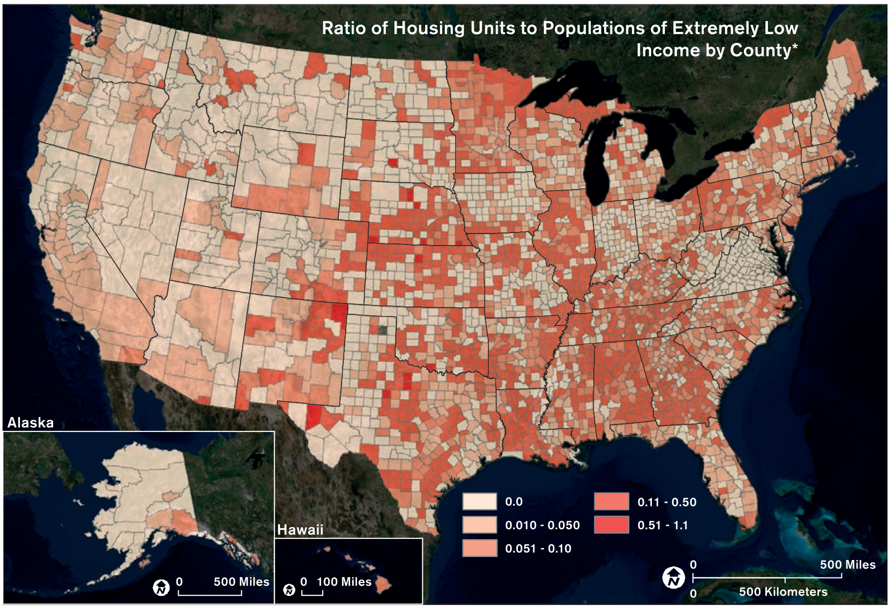
The map in Figure 6–2 tells two important stories. First is the sobering fact that not a single county in the United States has sufficient affordable housing for its poorest households. Second is regional variation: while a gap exists in every county, ELI households in some geographic areas (such as the West Coast, parts of Florida, and counties in North Carolina) experience even greater difficulty finding affordable units. What could be contributing to these regional differences?

The legacy of housing assistance plays an important role. Public housing began in 1937, and new construction began winding down in the 1970s as Congress explored alternate ways to deliver assistance. Given the population distribution during the primary construction years, public housing is more concentrated in the Northeast and Midwest. As federal rental assistance transitioned to vouchers in the 1970s, the allocation formula and process resulted in vouchers being more widely distributed, increasing assistance on the West Coast while continuing to serve the Northeast and Midwest. Figure 6–3 shows the distribution of public housing in relation to the population of extremely low-income households in each state, while Figure 6–4 shows the distribution of Housing Choice Vouchers.

Figure 6-3.

HUD Assisted Households

Ratio of Public Housing Units to Populations of Extremely Low Income



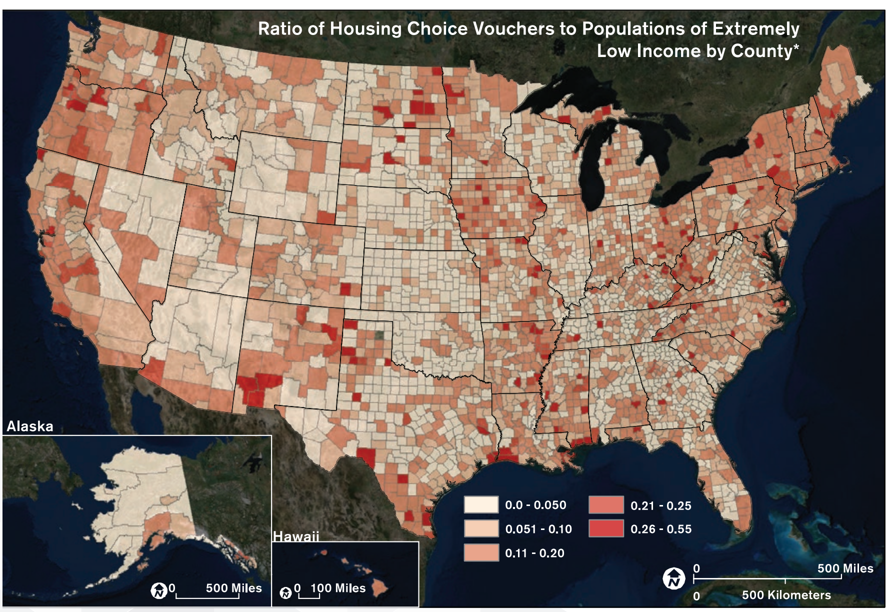
*Denotes renter occupied households where income is less than or equal to 50% of HUD Area Median Family Income (HAMFI).

Source: Comprehensive Housing Affordability Strategy (CHAS) ACS 2007-2011

Figure 6-4.

HUD Assisted Households

Ratio of Housing Choice Vouchers to Populations of Extremely Low Income



*Denotes renter occupied households where income is less than or equal to 50% of HUD Area Median Family Income (HAMFI).

Source: Comprehensive Housing Affordability Strategy (CHAS) ACS 2007-2011

Nationally, 68 percent of extremely low-income households receive federal assistance. Analysis of federal assistance by state shows that 13 states plus the District of Columbia have a greater percent of residents receiving federal housing assistance than nationally, ranging from 69 percent in New York and Utah to 81 percent in D.C., with Illinois, Ohio, Hawaii, Virginia, California, New Jersey, Connecticut, Washington, Massachusetts, Colorado, and Maryland in between (CBPP, 2015).

New rental assistance resources were last provided more than 15 years ago. Funding for vouchers has waned as wages have decreased and rents have increased, resulting in a higher cost to help each family. Cities have been forced to close their waitlists for years; thousands wait in each city for the chance to obtain federal rental assistance. The lack of resources may be particularly challenging in regions where immigrants are settling, such as Atlanta, Georgia, and Las Vegas, Nevada, which have less rental assistance than the traditional gateway cities of New York, New York; Chicago, Illinois; and Los Angeles, California. Rental assistance was distributed based on the demographics at that time and has not fully adjusted to match demographic changes at the local and national level.

Future Affordability Challenges

Today's affordability challenges are likely to worsen with the expected demographic changes. The most significant change may be the growth of seniors. The typical income of people aged 80 and older is $25,000 per year, with 24 percent having incomes of less than $15,000 (JCHS, 2014). In terms of housing affordability, 30 percent of renters and 23 percent of homeowners over the age of 50 have a severe cost burden (JCHS, 2014). Many people focus on the health costs associated with aging, not recognizing that housing remains the largest cost for seniors (Johnson, 2015). High housing costs often leave insufficient funds for food, health care, and transportation.

While much is made of seniors' desire to age in place, many low-income seniors, particularly renters, do not have safe, stable places in which to age. Owners also face challenges as property taxes, homeowners insurance, and maintenance costs tend to increase faster than adjustments to fixed incomes (Lipman, Lubell, and Salomon, 2012). For both senior renters and owners, their homes may not be safe for them, and households may not be able to afford the necessary modifications (Eriksen, Greenhalgh-Stanley, and Engelhardt, 2013). An important component of the concept of "aging in place" is an individual's ability to maintain access to social networks and local service providers. Housing serves as a key component in a network of long-term services and supports—whether older adults are living independently in single-family homes, apartment buildings, assisted living developments, or other forms of congregate care. These services go beyond medical treatment to include medical management, transportation, meals, and activities. A low-income senior living alone can easily become isolated, which can reduce quality of life and longevity (Elder and Retrum, 2012).

HUD and the U.S. Department of Health and Human Services (HHS) have partnered to design and fund research to develop models that align housing and services while leveraging congregate housing to better meet the needs of seniors. Continued collaboration to identify sustainable funding models for programs will be important. HUD's efforts to target place-based interventions enables opportunities to collaborate with state and local actors as well as encourages greater coordination of regional assets, incorporating housing and other services.

The growth of foreign-born households is also likely to result in more households struggling to afford housing. This is particularly true given that recent immigrants tend to have lower wages than native-born workers (Borjas, 2006). And if people of color continue to be disadvantaged, with lower levels of education and income, their incomes may be too low to afford safe, stable housing. Federal rental assistance will remain vital to helping many households, but it serves only a portion of those in need. To address current and future needs, HUD will need to consider regional variation in the availability of resources, need for assistance, and trajectory of population growth or decline. The growth in ELI households in the South and Southwest will require additional rental assistance in those regions.

Innovations at the federal, state, and local levels may identify ways more people can obtain affordable housing, even as housing dollars become scarcer. HUD has already begun implementing the small-area, fair-market rents to better target resources within a region. Additionally, HUD should continue exploring incentives to increase collaboration among housing assistance programs within a region, for example, improving portability of vouchers to increase residents' housing options throughout a region. Beyond regional collaboration is the potential to consolidate housing assistance programs within a region and thereby improve administrative efficiency and increase resident choice.

The growing recognition that while a stable, safe, affordable housing unit is critical to healthy development and well-being, the neighborhood context plays an important role—particularly for children (Galster and Santiago, forthcoming)—may result in a shift within the policy frame of affordability. Future federal rental housing policy may be designed to enable all families to live in neighborhoods where they have access to jobs, good schools, parks, and other community resources and are free from violence, toxins, noise, and other harmful environments. Regional cooperation will be an essential component of implementing a neighborhood-focused policy, and HUD prioritized this approach under the Obama Administration (HUD, 2014b).

Current federal programs do not meet existing needs, and population changes are expected to escalate those needs, even though specific challenges will vary by geographical region. New approaches to housing assistance are needed. Whether federal policy continues to rely on the private market or shifts to assisting households more directly through cash payments or the tax system, the private market will be crucial to ensuring sufficient housing units are available for the full range of the housing market.

Reliance on the Private Market

The history of federal housing policy cannot be disentangled from the private sector—lenders, builders, and realtors. Alexander von Hoffman's numerous writings on federal housing policy track these actors' roles in the development of housing legislation, from the National Housing Act of 1934 to the present (von Hoffman, 2013). Federal housing policy initially focused on jumpstarting the economy in the 1930s to alleviate the 25 percent unemployment and the plight of millions living in shantytowns after losing their homes. Over the decades, housing's role as an economic stimulus has been a dominant policy frame in modern housing policy. This frame has continued to influence the contour of HUD's programs even as HUD and Congress added new approaches to providing housing assistance to poor households. Many of HUD's programs, like the FHA programs in place before its existence, rely on the market to meet policy goals.

Since its creation in 1934, the FHA has provided mortgage insurance to lenders to encourage them to lend to families. The FHA was created to revitalize the housing industry and enable more families to buy homes, thereby stimulating the broader economy. The availability of credit through FHA mortgage insurance (and VA loan guarantees) as well as the FHA's creation of the 30-year, fixed-rate, fully amortizing mortgage loan, laid the foundation for coming-of-age baby boomers to become homeowners. Young, white families were able to purchase homes at younger ages, maximizing the benefits of homeownership for raising their children and building wealth (Szymanoski et al., 2012). These families were able to take advantage of suburban expansion that accompanied the development of the interstate highway system and widespread ownership of automobiles. Although suburban expansion facilitated household formation for white baby boomers, it was detrimental to poor and working-class blacks, keeping them from entering the gate to homeownership and trapping them in exceedingly resource-starved neighborhoods.

Another model for advancing policy goals through the private sector is the tax code. To create sufficient units to meet demand as baby boomers continued to transition into adulthood, Congress enacted the Economic Recovery Tax Act of 1981, which encouraged production of multifamily housing units by shortening the depreciation period from 40 years to 15 years for low-income housing. Developers financed projects by selling limited-partner equity interests to syndicators who received the excess depreciation deductions and tax benefits on any capital gains realized. The value of the tax benefits was maximized by minimizing net operating income, so projects tended to operate at rents affordable to low-income households (Usowski and Hollar, 2008). The stimulus was successful. Given the production pipeline, units continued to come on the market as demand decreased, resulting in an oversupply of multifamily housing units (Orlebeke, 2000).

The Tax Reform Act of 1986 instituted the Low-Income Housing Tax Credit (LIHTC) Program, which gave the federal government the ability to limit the budgetary impact of the tax provision and directly control maximum rent levels and tenant income limits. States are allocated tax credits, which they competitively award to private developers for affordable housing projects. The earlier program was an example of housing policy that quickly ramped up production of low-income housing in response to demographic change. Of course the most longstanding example of implementing housing policy through the tax code is the mortgage interest deduction, which was introduced in 1913 (Quakenbush, 2015).

The federal government also has relied on the private market for several of its rental assistance programs. For example, the Housing Choice Voucher program requires private landlords to meet HUD's conditions and then accept payment from HUD for a portion of the tenant's rent. Rental vouchers were suggested as early as the 1930s, but were initially rejected because they did not add to the housing supply. A policy shift around 1970 defined the problem facing poor families as a deficit of income rather than a deficit of supply, opening the door for rent certificates, which evolved into the voucher program (von Hoffman, 2012). The debate around vouchers raised two issues that remain relevant today: concerns that vouchers would inflate rents, and the ability to use vouchers to scatter families rather than concentrate them at a single site, such as a public housing development.[2]

As with mortgage insurance and tax credits, this mechanism for implementing housing policy presents opportunities and challenges. Tenants potentially have a wide range of housing opportunities and can choose the combination of unit, location, and amenities they want within the permitted price range. However, HUD has little power to force landlords to accept vouchers and comply with the program requirements. Additionally, landlords learn how to maximize their profits.

Despite the limitations of relying on the private sector, which has different incentives, HUD has been able to influence the housing market in a variety of ways to assist low-income individuals. For example, over the years FHA has introduced low downpayments, graduated payment mortgages, underwriting guidelines that accept nontraditional credit histories, and reverse mortgages to the single-family lending industry (Szymanoski et al., 2012). HUD has also led the market in securing and enforcing individuals' rights to housing without discrimination. While initially focused on race and ethnicity discrimination, in recent years HUD has addressed additional categories of discrimination, such as discrimination against families; individuals who are lesbian, gay, bisexual or transgender; and people with disabilities.

Meeting Current Needs

Households today are still experiencing distress and financial insecurity following the Great Recession, when more than 7.5 million families lost their homes (Hope Now, 2015). Homeownership, which peaked at 69 percent in 2004, fell to 64.5 percent in 2014 (U.S. Census Bureau, 2014d). The growth in renter households has averaged 770,000 annually since 2004 (JCHS, 2015). As the vacancy rate has decreased to 7.3 percent, rents have increased, making housing even more expensive across a range of incomes (U.S. Census Bureau, 2014g).

[2] von Hoffman notes that the Experimental Housing Allowance Program found that the vouchers did not inflate local rents nor change segregated settlement patterns.

The financial crisis has hit most demographic groups hard. Many older adults saw their home—their main asset—lose value. Senior homeowners in the lowest income quartile saw their median net wealth drop 30 percent between 2007 and 2010 (JCHS, 2014). With less wealth, seniors have fewer resources and constrained options for meeting their housing, health, and other needs.

Another hard hit group was homeowners in communities of color. Many black homeowners had their wealth wiped out as property values fell while monthly payments rose (Bocian et al., 2011). Homeownership rates for blacks fell from a peak of 49.1 percent in 2004 to 43 percent in 2014 (U.S. Census Bureau, 2014f). Lenders' overly tight credit restrictions disproportionately harmed black and Hispanic households. Between 2001 and 2013 loans declined 50 percent for black, 38 percent for Hispanic borrowers, and 31 percent for whites (Goodman, Zhu, and George, 2015). Much of this difference is explained by blacks' and Hispanics' lower credit scores. In general blacks and Hispanics have lower homeownership rates than whites (42 percent for blacks and 45 percent for Hispanics, compared to 72 percent for whites) (Callis and Kresin, 2015), inherit less wealth, have less access to financing, and encounter a variety of other disadvantages. Without federal policies to address these disparities, people of color will continue to face barriers to becoming homeowners and enjoying the many benefits homeownership brings.

Today HUD continues to partner with the private market to meet housing needs. Decades following its creation, the FHA's single-family insurance program continues to play a critical role in expanding homeownership. HUD's main efforts have been to ensure FHA serves its countercyclical role, providing credit as the private credit market tightened. While FHA maintained its underwriting standards, lenders imposed higher standards, continuing to restrict access to credit. This serves as another example of how the private market limits federal efforts. The current restrictions to credit access have made it more difficult for people wanting to enter or return to the housing market, making them wait for their credit to recover or to save for a larger downpayment.

One side effect of the foreclosure crisis is the greater availability of single-family units for rent. The number of occupied single-family rental properties increased from 10.5 million in 2005 to 14.2 million in 2013 (George, 2015). The additional rental stock gives renters the opportunity to move to previously inaccessible communities.

Reliance on market actors to implement housing policy resulted in a scarcity of new housing units during the Great Recession. Developers had restricted access to capital needed for production. The LIHTC Program, the largest federal program for producing new affordable units, illustrates the market disruption. For developers to benefit from allocated tax credits, they need to be able to sell the credits to an investor, which requires an entity that is seeking to offset tax liabilities. With corporate investors operating at losses, they had no need for the credits. Accordingly, the price of the tax credits fell, creating funding gaps for the thousands of projects for which the developer had received an allocation but had not yet sold the credits (JCHS, 2009).

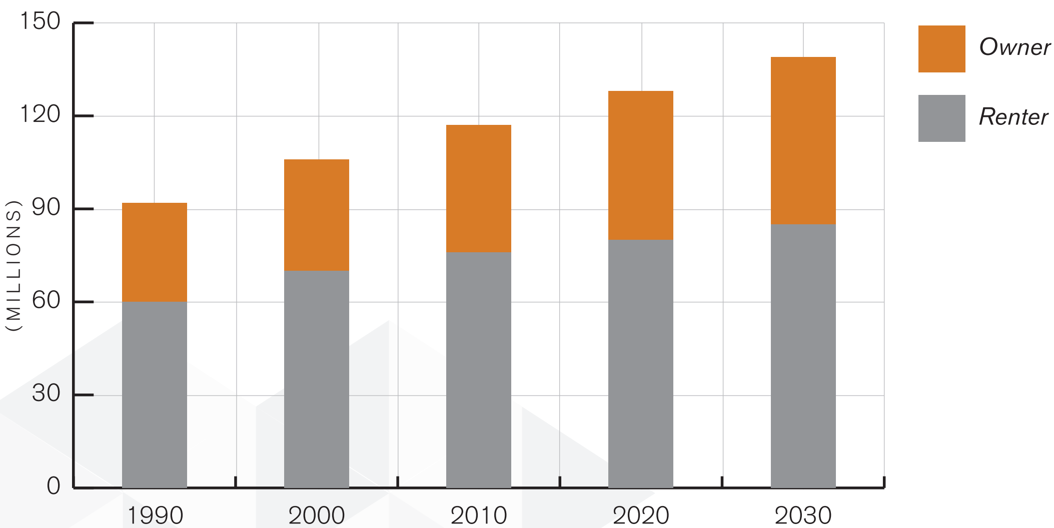
At the same time, multifamily construction significantly declined as multifamily lending origination volume fell from over $140 billion in 2007 to less than $60 billion in 2009 (Apgar and Jeunesse, 2013). The market recovered in 2011, but its composition changed. Multifamily loans under $1 million decreased significantly (by more than 38 percent) and were even less likely to be sold in the secondary market (decreasing by 91 percent) between 2006 and 2011. These small loans are typically used to preserve older, smaller apartment buildings that serve lower-income renters (Apgar and Jeunesse, 2013). FHA has continued to insure mortgages for preservation and construction of affordable multifamily housing. In fiscal year 2013, FHA insured $18 billion in loans for multifamily properties, providing significant credit liquidity to the market during the economic downturn (HUD, 2013a).

Meeting Future Needs

The housing market will experience a surge over the next 15 years as more baby boomers become seniors and millennials come of age. One projection is that the number of homeowners will rise from 75.9 million in 2010 to 80.4 million in 2020 and 84.5 million in 2030 (Figure 6–5). Underlying this net increase is a dynamic in which older households release their owner-occupied homes as younger households become homeowners. 8.7 million units are projected to be released in the 2010s as 13.9 million younger households become homeowners. In the 2020s, 9.5 million units will be released for 15.8 million new homeowners.

Figure 6–5.

Renters Will Dominate New Growth, But Owners Will Continue To Make Up a Larger Share of the Market



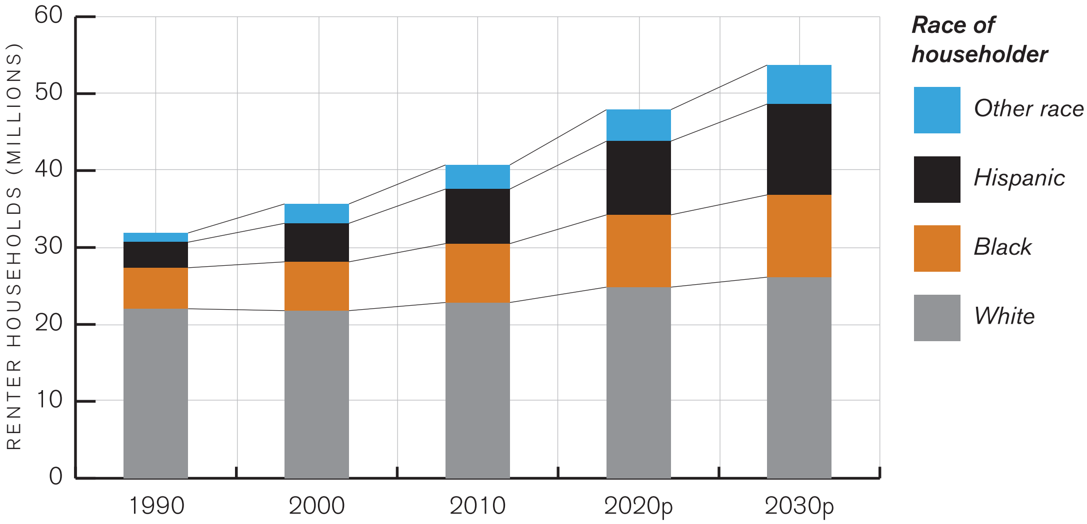
Source: *Goodman, Pendall, and Zhu, 2015.*

Rental Challenges

The number of renter households is projected to rise—from 40.7 million in 2010 to 47.9 million in 2020 and 53.7 million in 2030. Rental housing demand should exceed owner-occupied housing demand over the next 15 years. Between 1990 and 2000, only 28 percent of the new households were renters. Between 2000 and 2010, 45 percent of new households were renters. Of the 11.6 million net new households projected to form in the 2010s, 62 percent (7.2 million) will be renters. Of the 10.4 million net new households projected to form between 2020 and 2030, 56 percent (5.8 million) will be renters. The country will need to produce more than 700,000 rental housing units every year through 2020 and nearly 600,000 annually in the following decade to accommodate the anticipated household growth, compared with the 340,000 units produced annually in the early 2000s (JCHS, 2013).

The racial and ethnic composition of these new renter households will be increasingly diverse, as the number of renter households headed by Hispanics, African-Americans, whites, Asians, American Indians, and multiracial people will all increase (Figure 6–6).

Figure 6–6.
U.S. Renter Households Are Projected To Surge Between 2010 and 2030, Buoyed by Strong Growth in a Young, Diverse Population



Source: *1990–2010 from U.S. Census of Population; 2020, 2030 Urban Institute mid-range projections. p=projected.*

The surge in rental housing demand, if felt equally across the United States, will be a challenge. However, the demand is unlikely to be uniform. Over the past 40 years, young people have been moving away from the Midwest and Northeast, depleting housing demand in these areas and raising the possibility of long-term slack in housing markets. While rents could be kept in check as a result, unit quality could also suffer, especially in rental stock that is already old. Meanwhile, the Sunbelt and Mountain West regions have received the greatest share of domestic and international immigration. As the children of these immigrants come of age, these regions will likely experience outsized levels of rental-housing demand. These varied scenarios indicate the need for a range of approaches; one strategy will not serve them all.

Regional approaches will be required to ensure coordinated and efficient infrastructure investment, determine optimal densities given local infrastructure, and implement appropriate land use regulations to right-size supply. States have opportunities to link infrastructure investments to regional plans to encourage efforts that substantially increase supply and promote affordable and inclusive development. State actions can range from limiting state funding to developments in state-designated priority funding areas to providing additional education funding to a community based on the number of multifamily housing units it permits to be built to giving additional state transportation funding to jurisdictions that are creating integrated communities through comprehensive planning and zoning revisions.

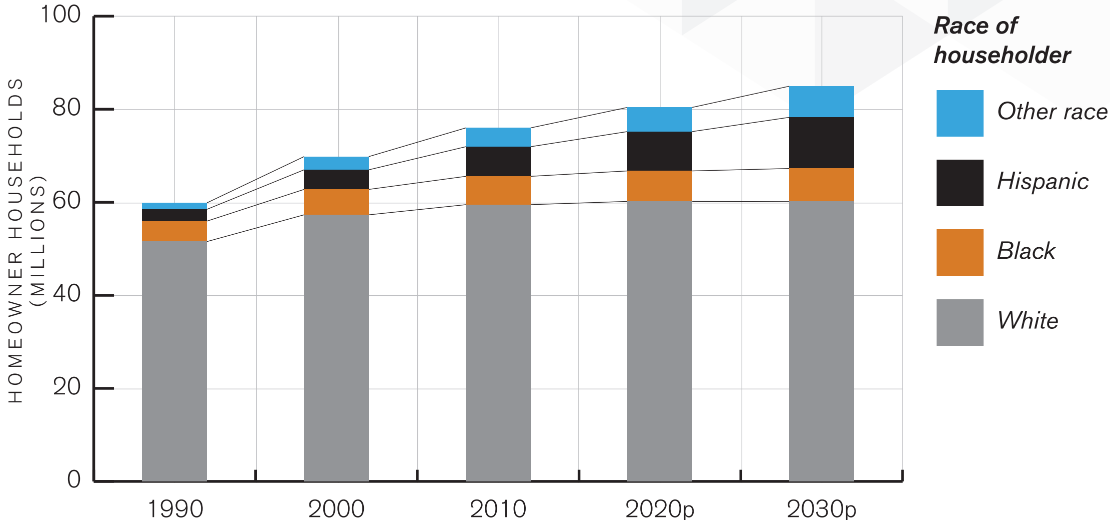
The federal government can play a role by better coordinating its funding streams for housing, roads, transit, and other infrastructure and distributing a portion of those funds in a manner that supports effective regional cooperation to produce sufficient supply. As another strategy, HUD has proposed local housing policy grants to help local and regional coalitions adopting new policies, programs, or regulatory initiatives to create a more elastic and diverse housing supply to increase economic growth, access to jobs, and housing affordability (HUD, 2015).

Homeownership Challenges

While all groups will drive the increase in rental households, Hispanics will dominate the homeownership market in the next 15 years if recent trends continue (Figure 6–7). Of the 4.4 million net new homeowners between 2010 and 2020, Hispanics are projected to account for 2.1 million, about the same as between 2000 and 2010; their numbers add up to more than 2.5 million new homeowner households in the following decade (Goodman, Pendall, and Zhu, 2015). Non-Hispanic Asians, Pacific Islanders, American Indians, and multiracial individuals also constitute a large component of growth in homeownership, with more than a million net new homeowners expected in the 2010s and almost 1.5 million in the 2020s. The age structure of the white population adds up to strong demand for rental housing and less (net) demand for owner-occupied housing. The number of black homeowners grew by more than a million households between 1990 and 2000, but the housing and economic crisis stripped many black households of their wealth, reducing the net growth in homeowners to just 620,000 from 2000 to 2010 and projected to only 450,000 from 2010 to 2020.

Figure 6-7.

Homeownership Growth, Slower Than in the 1990s, Will Increasingly Concentrate Among Hispanics, Asians, and Multiracial People as Demand From African-Americans and Whites Recedes



Source: *1990–2010 from U.S. Census of Population; 2020, 2030 Urban Institute mid-range projections. p=projected.*

A number of factors could, however, change these projections—perhaps considerably. They rely on assumptions about household formation and homeownership attainment that make inferences about the future based on the prior two decades. If the economic recovery becomes more widespread and lifts the wages of millennials, the rate of household formation could hasten. If interest rates remain low so homeownership continues to be relatively affordable and more favorable mortgage terms become available, then the transition into homeownership would likely occur sooner and perhaps in greater numbers in the long term than these projections suggest. On the other hand, increasing income and wealth inequality could mean a greater number of young people attempting to form households will possess fewer assets. Since homeownership attainment and even household formation depend in part on the resources available to young people from older generations (Hilber and Liu, 2007), the number of new households could be lower, and the trend into homeownership could be even slower and less numerous than the scenario presented. Finally, all the scenarios rely on assumptions about international immigration that, if they are too high or too low, would have a large effect on household formation, since immigrants are mainly in their 20s and 30s—the ages at which most household formation and homeownership transitions occur.

Significant changes to existing housing policy could assist first-time homebuyers, such as restructuring the mortgage interest deduction to better target low-income, first-time homebuyers. Meanwhile, FHA has been exploring ways to improve access to credit. Since the FHA mortgage insurance program needs lenders to originate the loans, FHA has to find ways to encourage lenders to reduce their credit overlays. More action may be required as the next generation reaches the age of transition to homeownership.

FHA brought innovation to the lending industry in the past, introducing new products and standardizing forms and procedures. Such innovation may be necessary now to support homeownership among low-income households and households of color, after a decade of progress supporting low-income homeownership was wiped away by subprime lending and extreme economic distress. This could include ways to insure properties owned by a community land trust or financed with a shared equity product (Lubell, 2014), or use of subsidies to help low-income households buy a home and sustain ownership (Collins, 2014). Additional exploration of how to identify credit-worthy borrowers despite their lack of an established traditional credit history or an episode of financial instability may further increase access to credit, given the importance of credit scores in the current lending environment and the disproportionate effect on black and Hispanic families (Goodman, Zhu, and George, 2015).

Whether focusing on producing additional rental supply or addressing the flow of owner-occupied units between generations, HUD should consider the effects of its programs and policies on a more diverse set of residents than in the past. This moment of growth and change gives HUD the opportunity to think more holistically and proactively beyond meeting housing needs to accomplish other agency goals, such as supporting inclusive communities, increasing resiliency, and promoting economic mobility.

Changing Urban Form

By the time HUD began developing and administering programs, federal housing policy had already significantly impacted society and the physical landscape of cities and suburbs. In response to a sociological shift that began in the early 1900s and accelerated in the 1950s, the ideal housing choice shifted from a home in the center of town to a standalone house surrounded by a yard (Jackson, 1985). Numerous policies, reaching beyond housing, supported that movement. Yet the federal government was also implementing policies to rebuild the cities that were being emptied out, creating a tension within the urban form. The federal policies converged to create communities of concentrated poverty within the city as they supported siting of public housing in cities while facilitating homeownership in the suburbs. This legacy remains 50 years later.

A similar tension occurs today. Higher-income households, including millennials and baby boomers, are drawn to the city and its amenities, including walkability and mixed-use neighborhoods. Low-income, urban households, often those of color, may be pushed out by increasing rents as their neighborhoods begin attracting new investments after decades of neglect (Levy, Comey, and Padilla, 2007). Without strong policies and programs in place to preserve affordable housing and support current residents, residents may be displaced and lose access to opportunities in neighborhoods with improved schools, retail options, and greater safety.

Continuing racial segregation and increasing economic segregation result, in part, from implementing federal housing policy through the private market and balkanized, local jurisdictions. The impact on urban form is reflected at the local level in the relationship between the city and its suburbs, as jurisdictions independently create rules for housing development and job growth, determine transportation options and pathways, and allocate resources individually or jointly. Local zoning laws can often block developers seeking to create amenities-rich housing for lower-income households. An existing community can be transformed by the addition of a transit stop, with local choices about preservation efforts, community benefits, and employment commitments determining which residents and neighborhoods win and lose.

Current policies continue to be used in ways that negatively affect the urban form. For example, the Low-Income Housing Tax Credit Program provides additional credits for developments in qualified census tracts (low-income neighborhoods). States typically implement this provision in a manner that encourages developers to continue building affordable housing in higher-poverty neighborhoods where land is cheap. If the provision were instead used to provide bonus credits only if the development is in a location with a promising neighborhood revitalization plan, it could reduce the concentration of low-income developments (Khadduri, 2013).

Von Hoffman notes that efforts to address the changing city in the 1940s, as blacks migrated in and whites moved out, focused on physical solutions to reduce blight rather than address issues of racial exclusion arising from the changing population (von Hoffman, 2008). As research increasingly supports the importance of place to individual and community opportunities and well-being, it becomes more and more evident policies have both social and physical consequences (Sharkey, 2013). This knowledge reminds us that it is critical to consider the local context in which federal policies are implemented. We may need to change housing policies to increase the chances that they are used to improve both the physical and social conditions of residents.

Current Challenges

Urban form has been affected by cities' fiscal and social challenges over the last decade. While the Great Recession was the most notable shock, other economic forces, demographic change, and federal, state, and local policies have contributed. Cities experienced different levels and types of distress. Consequences also differed depending on region. The Washington, D.C., housing market has bounced back more quickly than Las Vegas, Nevada; Detroit, Michigan continues to have a long path ahead.

Among the various regions, different demographic stories are playing out as older adults move to warmer climes, young adults seek better job opportunities, blacks leave Midwestern cities to return to family in the South, and new immigrants join fellow country members (Pendall et al., 2015). Neighborhoods, cities, and regions—whether they are experiencing growth or decline—are challenged in how to best respond to these changes.

In the last few years, the federal government has been developing new tools to assist cities. These new resources are noteworthy in that they are not solely in the form of federal funds. HUD's Choice Neighborhoods program was designed to catalyze critical improvements in neighborhood assets, including housing, services, and schools. It operates through two stages: a planning grant and an implementation grant. This structure requires jurisdictions to gain experience working together to develop a plan before receiving additional funds. Additionally, HUD's Sustainable Communities Initiative provided planning grants to support regional and local planning efforts that integrate housing and transportation decisions and increase capacity to improve land use and zoning to support sustainable communities. Choice Neighborhoods and Sustainable Communities are examples of the growing emphasis in federal programs on braiding funding across agencies; leveraging interagency investments in housing, transportation, human services, and education; and improving local and regional planning processes. Such approaches will be critical to meeting the challenges various demographic changes bring to cities. Individual efforts, such as a new apartment building or community center, are insufficient in changing the urban form to meet jurisdictions' needs, regardless of a growing, declining, or changing population.

Another initiative to help cities confront economic challenges is the White House Council on Strong Cities, Strong Communities (SC2). SC2 does not bring additional funds to a distressed city, but provides a variety of resources and tools to increase local capacity. The initiative's Community Solutions Teams deploy federal employees to work directly with a city to determine how to best use existing federal resources to solve problems and realize local goals. Solutions range from having two agencies agree on how to combine funds more simply to learning how to implement an innovative idea from another jurisdiction. By improving coordination among federal agencies to solve local challenges, the effort has unleashed creativity at the local and federal level to address future challenges and reform programs. Another goal of the initiative is to learn from cities' experiences with federal funding and regulations to improve the implementation of current federal programs and to design new programs with greater flexibility and local relevance. For example, if two agencies learn of a conflict between their regulations, the goal is that not only would the agencies resolve the issue for the city, but would share the solution and work to eliminate the problem for all cities.

No matter the source of an initiative, a single effort that lasts a few years or through an administration is not sufficient to effect the changes needed as the nation experiences large demographic shifts. Meeting the housing and community needs of those living in the United States will require sustained alignment of federal funding with coordinated investments over a significant period of time.

Reforming the Urban Form

As the country prepares for the demographic changes of the next 15 years, housing will have to reform to meet changing needs. Some policies and programs—many of which HUD initiated—are responding to these changes and anticipating future needs. However, cities and suburbs must keep adapting and be supported by sustainable national and regional policies.

Changes to the urban form occur at all geographical levels. At the smallest level are individuals' preferences on the types of housing units and communities in which they want to live. The changing demographic makeup of the nation presents the possibility for major shifts in preferences. Older adults might transition out of their homes and seek housing solutions that provide a wider range of services. Although many millennials currently prefer living in cities, time will tell whether or not they will follow in the footsteps of previous generations and move to the suburbs as they marry and have children. Additionally, multigenerational households are becoming more common, especially as new immigrants live with their relatives and housing shortages or high costs constrain household formation (Lofquist et al., 2012).

Reforming the urban form begins with physical structures themselves. Significant investment is going to be required to meet the housing needs of the growing population. These housing investments should capitalize on the lessons from the past to make housing units healthy and energy efficient. Units must be designed to meet the varied needs of residents. This includes safety for older adults as well as variation in design and size to accommodate a range of household compositions.

As demographic shifts continue, society will contain a greater variety of individuals, and thus a greater assortment of households with varying preferences. This may lead to different conceptions of the role of community and the appropriate built form. For example, intergenerational communities may provide opportunities for a range of households to live in a culturally rich and supportive environment.

Two types of communities that may evolve to accommodate multiple generations are intergenerational communities and age-friendly communities. An intergenerational community is "a place that provides adequately for the safety, health, education and basic necessities of life for people of all ages; promotes programs, policies, and practices that increase cooperation, interaction, and exchange between people of different generations; and enables all ages to share their talents and resources, and support each other in relationships that benefit both individuals and their community" (Generations United, 2015). In contrast, age-friendly communities strive to be environments that are well-designed for people of all ages. They feature safe, walkable streets; a range of housing and transportation options; and access to key services. They may also include opportunities for residents to be involved in community activities (AARP, 2014). The difference is that age-friendly communities are designed to be accessible and offer resources to residents of all ages, while intergenerational communities are created to build relationships among people of different ages.

Societal changes, most evident in the millennial generation, may promote different urban forms. As technology continues to play an ever-increasing role in our interactions and as people with a wider variety of backgrounds and experiences come together, uses for and expectations of community space may change. The potential for different urban forms requires jurisdictions to be more creative and flexible. This includes providing developers with the necessary support to take on the financial risk of designing projects to meet emerging market needs. It means being willing to experiment with the built environment.

Physical structures must operate cohesively within the context of the larger community structure. Choice Neighborhoods is a good example of a program designed to link investments and address more than bricks and mortar. It shows how housing must be integrated with transportation networks. This cohesion between infrastructure and housing requires coordination with employment and education policy to ensure individuals have opportunities to learn, build and use skills, and contribute to their communities.

Another important component is greater coordination among federal agencies to ensure that policies and programs support core objectives rather than creating conflicts. Experiences from SC2 may help the government identify ways to partner, synchronize, and find resolutions. This coordination and collaboration will lead to more efficient use of federal resources, which will be important as a growing and aging population further strains current budgets.

Although many programs are designed at the federal level, they are implemented at the state and local level. Regional and local differences require greater flexibility when designing or refining programs. One size does not fit all, as SC2 has confirmed. As Miami, Florida, struggles to address inequality and economic segregation, its options look different than those of Cleveland, Ohio.

One of the challenges HUD faces today is developing a strong policy with enough clarity to accomplish its goals but sufficient flexibility to address local differences. HUD needs to consider how to encourage—or require—regional coordination. The planning grant process for the Sustainable Communities and Choice Neighborhood initiatives shows how HUD can promote regional coordination and support shared goals. Both initiatives recognize the urgent need for city and suburban jurisdictions to coordinate their planning and investments more systematically. This takes on additional significance when trying to promote upward economic mobility for low-income households. At the core of upward mobility is providing individuals with choices about where they live. This requires that these households have access to opportunity-rich communities, which may be spread throughout the region. It also requires investing in previously resource-starved neighborhoods, which may be disproportionately located in one jurisdiction in the region. Federal housing policies need to support both sets of strategies to offer the decent home and suitable living environment promised in the Housing Act of 1949.

HUD's recent regulation to affirmatively further fair housing aids in making good on that promise. The regulation requires jurisdictions that receive HUD funds to conduct an analysis of community conditions and impediments to fair housing. The analysis should focus on four goals: (1) improving integrated living patterns and overcoming historic patterns of segregation; (2) reducing racial and ethnic concentrations of poverty; (3) reducing disparities in access to community assets such as education, transit access, and employment, as well as exposure to environmental health hazards and other harmful stressors; and (4) responding to disproportionate housing needs by protected class.

Community actions to affirmatively further fair housing must be complemented by other government actions. All levels of government need to be more attentive to how resources are distributed and work in concert to provide individuals and families with housing—and ultimately access to opportunities. Infrastructure investments are critical, particularly transportation and schools, but efforts must go beyond the physical environment. As the importance of access to health care, recreation, healthy foods, and numerous other resources becomes evident, housing units must be considered in the context of their surrounding neighborhood. HUD acknowledges that housing is a platform for improving quality of life. Furthermore, given the millions of households HUD touches through rental assistance, housing offers a portal through which to engage individuals to foster greater mobility and well-being.

Conclusion

Although housing quality and affordability has improved over the last 50 years, alongside an increasingly diverse population, the nation must ensure housing assistance and credit function as a platform for opportunity for all Americans. With the many changes occurring in society, particularly the increasing diversity of the population and growing economic segregation and inequality, it is time to step forward and consider how housing and urban policy can better facilitate economic mobility. To fully embrace this goal, HUD and its partners will need to make significant changes to existing policies and develop a wider program portfolio and new policy approaches.

To leverage housing investments to create greater economic mobility, HUD policies will need to better align with other federal agency resources and vice versa. This will require greater flexibility and authority to braid funding streams and align programming at both the federal and local levels. For instance, as millennials form households and have children, a larger share of housing assistance should be dedicated to enabling these families to access better schools and amenity-rich neighborhoods, as well as foster enriching environments on the site of assisted housing. All generations need places to live that offer access to health care, food, and safety. HUD policies will need to design housing assistance, leverage the private markets and facilitate new urban forms to expand opportunity rather than limit it for certain groups, especially people of color who will soon be the majority of Americans. And as baby boomers age in communities, housing assistance systems must link better to health care service delivery to improve health outcomes and free up the next generation to pursue economic opportunities that contribute to the larger society.

As discussed throughout this chapter, America is in the midst of major demographic shifts that could have profound effects. These changes also open the door to reshaping housing policy to enable new generations of Americans to realize the opportunities past generations have experienced. To achieve that goal, HUD and its partners will need to reform existing policies and develop new approaches that enable future generations to achieve upward mobility.

Acknowledgments

The authors wish to thank John McGinty for his valuable research assistance.

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Conclusion Places as Platforms for Opportunity: Where We Are and Where We Should Go

Katherine M. O'Regan

This volume follows the arc of HUD's 50-year history and of five issues central to HUD's past and future. Each chapter documents how policy developments have been shaped by the context of the time period and often as a reaction to history. Jill Khadduri ends her excellent tour of HUD's history with this observation: "The urban agenda is less compelling in 2015 than it was in 1965—or perhaps there is more humility about what federal programs can do to alter the fortunes of American cities."

Today, amidst civil unrest in several urban communities and a national conversation on inequality of opportunities across space and race, urban issues are certainly no less compelling than in 1965. As Secretary Castro noted in his reference to this Century of Cities, today's urban areas are the source of most economic activity and growth. Central to HUD's agenda is the need to ensure these areas are equipped to accommodate the large predicted demographic and population changes they will experience in ways that support strong and inclusive growth. However, the humility Khadduri references is real. Fifty years of experience has changed HUD's perspective on *how* to be effective, recognizing limits on the role for the federal government, the need for broader partnerships, and a much greater deference for local priorities.

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I will start by highlighting and putting into today's context a few key aspects of events and policies that are shaping HUD's agenda about *places*—urban and rural alike—noting both the persistence of several issues and some changes, with a focus on some recent research. I then will highlight a few features of recent HUD initiatives that hold promise going forward.

Context: Persistence

As noted throughout this volume, HUD's creation in 1965 was integrally connected to the urban issues of those times. Many of the same issues have risen to the forefront today—growing concerns over income inequality and equality of opportunity—connected to the highly segregated nature of urban areas and resulting incidents of urban civil unrest.

Income Inequality

Income inequality in the United States has been increasing steadily since the 1970s, and now has reached levels not seen since 1928 (DeSilver, 2013). In 2013, the top 20 percent of the population received more than half of U.S. earnings, while the bottom 20 percent received 3.2 percent (DeNava and Proctor, 2014). Wealth inequality has also been increasing, with nearly two-thirds of all wealth held by the top 5 percent of the population (Fry and Kochkar, 2014). Expressing concern with this trend, Federal Reserve Chair Janet Yellen asked whether this trend is compatible with values rooted in our nation's history, among them the high value Americans have traditionally placed on equality of opportunity (Yellen, 2014).

The connection between inequality and equality of opportunity has broadened the policy conversation beyond those who have historically cared about upward mobility for the least advantaged. Presidential candidates from both parties have made speeches on the topic (Orden and Nicholas, 2015). Political posturing aside, the larger conversation questions whether economic opportunity is available to all in the United States.

Equality of Opportunity and Intergenerational Mobility in the United States

One commonly used indicator of equality of opportunity is *intergenerational mobility*: the extent to which the economic and social outcomes for a child are *not* determined by that of their parents. There is considerable literature on the various measures of intergenerational mobility, and by most commonly used measures intergenerational mobility is lower in the United States than most similarly wealthy countries (Corak, 2013; Jäntti, 2006; Corak, 2006). Michael Corak's recent compilation of 50 studies placed the United States last among nine countries for intergenerational mobility, tied with the United Kingdom (Corak, 2013).

Low overall mobility in the U.S. is driven by immobility at the bottom of the income distribution. In the United States, children born in the bottom quartile (25 percent) of family incomes have a 46.6 percent chance of being in the bottom as an adult (Hertz, 2006). By way of comparison, this number is about 14 percentage points lower in Canada, at 32.7 percent (Corak and Heisz, 1998). Within the United States, racial disparities in mobility are strikingly large. White children born in the bottom quartile have a 32.3 percent chance of remaining there as adults; for black children, the chances are essentially doubled, with a 62.9 percent of remaining in the bottom quartile as adults (Hertz, 2006). Notably, these racial disparities in economic mobility occur in the context of persistently high levels of residential segregation.

Residential Segregation

Although black-white segregation continues to decline from its peak in 1970, it remains very high (Logan and Stults, 2011). As of 2010, 59 percent of African-Americans would need to change neighborhoods to achieve a residential distribution similar to whites. Segregation from whites is lower for other minorities, but has shown little improvement over the past 4 decades. Meanwhile, economic segregation has *increased* over the past 40 years, particularly among minorities (Bischoff and Reardon, 2013). A recent examination of what this segregation means for racial differences in neighborhood environments confirms greater exposure to poverty and crime, and less exposure to good schools and employed neighbors, for blacks and Hispanics (De la Roca, Ellen, and O'Regan, 2013). The black-white gaps are particularly large, such that the average *poor* white person lives in a neighborhood with less violent crime and better schools than the average *non poor* black person (De la Roca, Ellen, and O'Regan, 2013). There are similarly large black-white differences in neighborhood quality for families further up the income scale. The typical middle-income black family lives in a neighborhood with lower incomes and fewer advantages than the typical low-income white family (Sharkey, 2014).

Research also shows that racial gaps in neighborhood environments are larger in more segregated, metropolitan areas (Bischoff and Reardon, 2013). This means that where segregation is high, so too are the racial disparities in neighborhood environments. If neighborhood environments matter for outcomes of residents, then residential segregation may be its own source of disadvantage.

Context: Change

All of this suggests the persistence of numerous issues underlying urban decline and associated conflicts in 1965. Given that, what might be different now to suggest a different future? First, some changes in the current and future urban context may increase the perceived need for action. Second, recent research connecting the role of space to the broader conversation on inequality may provide an important policy window, with added urgency from recent urban civil unrest. Third, given recent policy innovations, HUD may be better oriented than in the past to support more productive policy approaches.

The Changing Urban and Demographic Context

Fifty years ago, urban issues played out primarily between city and suburb divides. Poverty was highly concentrated in central cities, as were minorities. Indeed, until recently, poverty was perceived as a city or rural issue. Today, more poor live in the suburbs than in the cities that make up urban cores (Kneebone and Berube, 2014). While central city poor are more likely to live in neighborhoods of concentrated poverty, that too is changing. Over the past decade, growth in the share of poor living in high-poverty neighborhoods (at least 20 percent poverty) or extremely high-poverty neighborhoods (at least 40 percent poverty) was considerably higher in the suburbs, which now contain almost as many high-poverty tracts as do large central cities (Kneebone, 2014). And while minority households are still more likely to live in the city of large urban areas, they are increasingly moving to the suburbs. Over the past decade, the population growth in suburbs of the largest 100 metropolitan areas was almost all due to minority households (Frey, 2014).

These trends and spatial patterns may change the political dynamics, motivating a broader set of jurisdictions and policy actors to engage in policy responses. Poverty, particularly concentrated poverty, is now clearly a city, suburb, and rural issue. Any recognition that such concentration needs to be addressed could resonate much more broadly today than 50 years ago. Recent research may have bolstered such recognition.

The Role of Place in Upward Mobility: Recent Research Evidence

The same social conditions that led to the creation of HUD also sparked considerable research on the role of space, and specifically segregated space, in the economic and social outcomes of minorities.[1] A critical question in this work is to what extent do poor neighborhoods and segregated places actually cause negative outcomes for those who live there, or do people who fare poorly in labor markets and elsewhere end up in poor neighborhoods and more segregated areas? If it is the latter, then policies attempting to improve neighborhoods and decrease segregation are not a good use of resources.

There has been considerable research on these topics over the past 5 decades, summarized well elsewhere, without a strong consensus on the causal role of place (Jenks and Mayer, 1990; Ellen and Turner, 1997; Galster, 2010). The centrality of this question to HUD's work motivated the Department, and PD&R specifically, to create the Moving to Opportunity (MTO) demonstration in the mid-1990s. Essentially, this randomized demonstration permitted researchers to assess whether the outcomes of assisted households who moved to lower-poverty neighborhoods would improve. The demonstration has spurred decades of research on the effects of neighborhoods, and there were many surprises. First, the largest impacts were the positive effects of access to low-poverty neighborhoods on physical and mental health (Sanbonmatsu, 2011). These findings have fundamentally changed housing research. Second, there were large differences by gender, including negative effects on mental health outcomes

[1] Most trace the start of this research to John Kain's seminal pieces on the spatial mismatch (1964, 1968).

for boys (Sanbonmatsu, 2011). This raises questions about better tailoring interventions for subgroups, and is a sobering reminder that some interventions could do harm. Finally, there were no effects on employment outcomes for adults or on school test scores for children (Sanbonmatsu, 2011). Some have interpreted these results to mean that neighborhoods don't matter, or at least that changing the neighborhood environment of very low-income households will not, in and of itself, promote upward mobility.[2]

It is in this context that the recent research by several Harvard economists was released (Chetty, Hendren, and Katz, 2015). Linking data from the MTO demonstration to IRS records, this research was able to examine outcomes for the children that are now young adults (Chetty, Hendren, and Katz, 2015). With this much longer view, more than a decade later, the authors found that upward mobility was greater among young children in very low-income families that were raised in lower-poverty neighborhoods. Specifically, children who were 13 years old or younger in families whose vouchers were designed to get them to low-poverty neighborhoods experienced significantly improved neighborhood environments over their childhood. These children were also more likely to go to college, attend higher-quality colleges, and earn significantly more as adults than assisted children in families whose vouchers did not specifically target them to low-poverty neighborhoods.

Along with a companion piece on a broader spectrum of children and larger geographies than neighborhoods, this study makes a very compelling research case for the importance of place for a child's life outcomes, independent of family income (Chetty and Hendren, 2015). Given the large disparities in the places families live, by income and particularly by race, this research sheds light on one mechanism that may impede intergenerational mobility in the United States.

The study's findings should be viewed in the context of a country whose largest population and labor market growth is among minorities. By 2020, the census predicts that the majority of U.S. children will be minority (Chappell, 2015). The importance of these children for our collective future may provide the needed sense of urgency to take meaningful action to leverage place to improve upward mobility. Clearly HUD's work is central to those efforts.

Promising Developments in HUD's Role Moving Forward

I argue that a decidedly selective set of features of recent HUD initiatives collectively encompass the most promising approach for a federal role in improving the ability of place to support upward mobility. While not all of the lessons they reflect have been fully learned, these recent innovations provide a promising start.

Moving to locally driven and comprehensive community development across silos and sectors. Building from lessons of earlier community development efforts, including HOPE VI, HUD's

[2] There is also debate on how much light the MTO demonstration and its specific policy intervention sheds on the broader neighborhood effects literature.

recent community development initiatives expand well beyond housing. For example, Choice Neighborhoods requires applicants to take a comprehensive approach to neighborhood transformation, setting the conditions for broader neighborhood reinvestment with an explicit focus on a critical component of a high-opportunity neighborhood: good schools. Promise Zones include an even broader set of potential neighborhood strategies. Both programs require localities to set their own priorities through a planning process and partner across silos and sectors. While early experiences are promising, such efforts take time, and it is too soon to assess impacts. Grantees have noted the process of planning itself, particularly through broad partnerships, has had positive effects, regardless of follow-on funding from HUD. This is a theme in several recent innovations, which intend to broaden public engagement as a way of ultimately improving decisionmaking and policies. The experiences also reveal how difficult such cross-agency, cross-sector work is. What is needed is for a set of actors, who make funding and other decisions in silos, to align and engage in multifaceted efforts. However, in general, an existing coordinating mechanism to facilitate such work does not exist.

The primacy of jobs and economic health. Thriving places provide economic opportunity; any effort to improve the ability of places to support economic mobility needs to address the issue of jobs. While linking to the broader economic system is an option for isolated neighborhoods, there are many cities that have struggled economically for years. The Strong Cities, Strong Communities (SC2) initiative was created to provide the same comprehensive, cross-silo, locally driven approach to transformation as community-based efforts, but at the right scale and explicitly addressing economic challenges. A unique partnership between federal government actors and mayors, SC2 sends federal interagency expert teams to work alongside city leadership, community organizations, local businesses, and philanthropic foundations to support the cities' visions for economic growth and development. The result is federal-city partnerships that align federal program investments with existing resources to more effectively advance local priorities and facilitate both partnerships and peer learning. HUD has played a lead role in designing and implementing this initiative.

Such work is intensive, and one challenge is getting to scale. To that end, SC2 launched a National Resource Network (NRN) in 2014, which uses a network model of national experts to provide lighter touch engagements and access to expertise to bring aspects of the SC2 model to scale. A second challenge is changing the way federal agencies do business: finding ways to more broadly embed this and other more flexible and solution oriented initiatives into the way federal agencies engage in place-based work.

Getting the geographic scale right. For investments, programs and decisions to support thriving places, the right actors must be involved at the right scale. The siloed nature of agencies and fragmentation of government make it exceedingly difficult to operate at the geographic scale that matches the issue. This has been one challenge in HUD's voucher program, which is meant to support geographic mobility but is implemented through 3,400 distinct public housing authorities. Regional collaboration efforts in such places as Chicago and Baltimore are promising attempts to coordinate the activities of the collection of actors needed to support geographic mobility. Chicago's Regional Housing Initiative (RHI), for example, is a collaboration of nine public housing agencies, as well as "quarterback" planning and housing organizations. Public housing authorities pool vouchers at the regional scale to support place-based voucher units in both revitalizing and high-opportunity neighborhoods and rely on a regional waiting list for tenants. Their efforts are promising—as just one example, Chicago's regional waiting list matches households to project-based units at twice the rate of the Chicago PHA alone, exceeding leasing standards (Metropolitan Planning Council, 2015).

The Sustainable Communities Initiative (SCI)—a partnership between HUD, the U.S. Department of Transportation (DOT), and the U.S. Environmental Protection Agency (EPA)—took on the "right actors, right geographic scale" issue for improved and forward-looking community planning to support the creation of resilient economies. Through community and regional planning grants, SCI funded collaborations at the local level to collectively determine shared priorities; set strategies to target housing, economic, and workforce development; and target investments in infrastructure that create jobs and economic activity (HUD, 2015). Community engagement was a critical component of the process, as was the creation of "communities of practice" among both federal agencies with shared stake in the health of communities and participating communities and regions. This initiative also set a new and higher bar for assessing fair housing issues, a precursor to HUD's new Affirmatively Furthering Fair Housing (AFFH) rule.

Helping communities change the landscape of opportunity. For cities of the future to look different from those of the past, they must make a different set of decisions on the investments and policies that shape space. The ambitious goals of HUD's new AFFH rule and its associated assessment tool are designed to provide communities with the data and support to do just that.

Although the obligation to further fair housing has existed for federal agencies and their grantees since the Fair Housing Act of 1968, there has been inadequate guidance from HUD on what is needed to meet that obligation. HUD's final rule lays out the analysis grantees must undertake, including providing a rich set of data within a mapping tool to support analysis. SCI grantee experiences with a similar type of assessment suggest that having transparent information on the current state of neighborhoods, demographics, and assets within an open planning process can affect the nature of the conversations, and ultimately, community decisions (Tregoning, 2015).

Of course, this describes the *potential* of the rule; its ultimate effect has yet to be seen. Being issued amidst national attention to existing spatial disparities and what those mean for economic mobility may increase the likelihood that the potential of this rule is realized. As we look forward to the changing composition of the U.S. population and the need for our communities to achieve economic competitiveness, at least some communities will likely use this tool to achieve meaningful change, even if out of enlightened self-interest.

Conclusion

As of 2010, 80 percent of the U.S. population resided in the cities and surrounding suburbs of urban areas, and this percentage continues to grow (United Nations, 2014). How well these urban areas function socially and economically will be at the core of U.S. productivity and most Americans' lives. Given the longevity of physical investments, and the spatial legacy of housing and urban policies of the past, how urban areas function *in the future* depends greatly on the housing and urban policy decisions we make today. Those decisions should be greatly influenced by the impending population changes expected in urban and rural areas, with explicit recognition that without inclusive growth, these areas will not thrive. Fifty years ago the Douglas Commission focused on those neighborhoods and citizens left behind, and the national risk posed by such uneven opportunity across place. Today, research and experience continue to reinforce the role of place in economic mobility and the risks of limits on opportunity—for both a cohesive society and economic competitiveness. Getting there, creating urban and rural areas that provide opportunity for all, requires a different approach for federal government. Our role is as a partner, fostering more forward-looking and holistic planning, at the right geographic scale, and with significant consideration of broad and inclusive engagement.

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U.S. Department of Housing and Urban Development
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October 2015