



Virginia Housing Coalition

New Directions for Federal Housing and Community Development Policy

Background:

Our national housing markets have never faced the type of turmoil that they have experienced in the past two years. The financial systems that have supported housing development and ownership are undergoing dramatic change. Emergency measures have dominated policy actions at the Federal level up to this point. Special funding allocations have been approved to jump start the LIHTC program and dramatically expand weatherization of homes. Targeted programs have been offered to assist homeowners in need as well as communities where neighborhoods have been devastated by foreclosures.

All of these efforts are short term in nature and expected to end within the next 12-24 months. The question is -- What comes next? What changes are needed in our national approach to housing and community development. The following ideas were developed out of a series of regional workshops held throughout Virginia in the Summer of 2009. The Coalition will be promoting these policy shifts with elected officials and national policy groups.

Housing Linkages:

There is an increasing recognition that affordable housing policy cannot exist in a vacuum – it **must be linked from a planning and funding perspective to transportation, infrastructure development, economic and community development**. Federal policy should mandate that state, regional and local planning recognize this fact and include housing considerations within comprehensive planning efforts.

The massive Tyson's Corner redevelopment project that will be taking place over the next decade can offer an opportunity to implement this type of thinking. Plans should ensure that workforce housing is included as we move toward a national policy that places an emphasis on the opportunity for workers to live close to their jobs. This policy makes sense from a variety of perspectives:

- Energy saving
- Infrastructure reduction
- Cost containment
- Quality of life

Federal funding programs should be linked to these important planning considerations – including new sources such as the Federal Housing Trust as well as “quasi” Federal programs such as the Federal Home Loan Bank’s Affordable Housing Program.

Housing Quality and Location:

In line with the linkages described above, Federal policy must encourage the development of housing that is more compact – both in terms of the community design as well as the house itself. Federal policy from the 1950’s on has encouraged just the opposite – sprawl with an ever increasing effort to allow and encourage households to consume larger and larger homes. This trend must now be reversed – we **need to encourage designs that maximize livability in smaller footprints – including designs that are adaptable to different stages of life. We also need to achieve communities that offer a mix of housing types.** The traditional, suburban single family neighborhoods need to give way to communities that are more concentrated and diverse in terms of housing types, tenure and cost. Neighborhoods should be more pedestrian friendly and create opportunities to walk/bike to jobs, shopping and schools.

It is generally agreed that some of **the worst housing in the nation is found in pre-1976 mobile homes.** These units were built before Federal standards were in place. They are susceptible to fire, are poorly insulated and heated, and in serious state of deterioration. Millions of the units are still occupied – primarily in rural areas of the country. A concerted effort needs to be undertaken to replace this housing stock that is largely unfit for habitation.

An aging population suggests that we should carefully **include accessibility and adaptability into the design of new housing.** Housing that can accommodate persons with disabilities (whether residents or visitors) and can adapt to the changing needs of residents as they age ought to be the standard in the future.

A Balanced Approach to Federal Housing:

Over the past decade (and indeed, before that) there has been a tilt within federal housing policy toward homeownership. Much of the focus of federal spending and policy has been to encourage an expansion on the percentage of Americans who own their own home. This has encouraged the development of new financing products that have both reduced costs and lowered standards. There has also been an expansion of support for homeownership counseling and readiness programs as well as subsidy programs for construction.

All of these efforts combined to push the homeownership rate to record levels – from 63% in 1986 to nearly 70% by 2005. Of course, these well intentioned efforts were hijacked in 2007-2009, resulting in a bursting housing bubble and massive foreclosures.

In the wake of all of this, we need a more balanced approach top federal housing policy that recognizes the important role of rental in housing. The focus on home equity as the principal mechanism to accumulate wealth needs to be eased and other paths to financial stability need to be substituted.

Rental housing is a critical resource for lower income families as well as for those who are mobile and expect to move within a short period of time. Seniors are also critical consumers of rental housing.

During the past decades, rental housing has frequently been “demonized’ as detrimental to communities and a fiscal drag on localities. These misimpressions must be changed and a new understanding must be developed of rental housing as an important element in stable and diverse communities.

None of this suggests a dramatic withdrawal of support for homeownership, but rather an elevation of rental housing to a more balanced position. This can be implemented through increased federal support for rental housing development and preservation.

Mixed Income Housing Development:

The traditional approach of building “affordable” housing in one location (usually inferior) and “market rate” housing in another (superior) location should be ended. The stigma that affordable housing has acquired over the last 50 years has been perpetuated by this separateness. Both studies and experience have shown that **housing that is “mixed” in terms of incomes provides the best outcomes for the housing, the community and the resident.**

Incentives need to be built into our current housing programs (LIHTC, HOME, Public Housing, Section 8, CDBG, Weatherization, McKinney-Homeless, FHA insurance and the like) that encourage the production of housing that serves a range of incomes. This will involve a significant shift in the design and implementation of these programs.

Federal housing policy should also expand the eligibility of households that are eligible for assistance. The traditional cap for assistance has been 80% of median – although many programs target lower caps. **We recommend moving to a higher cap of 120% of median.** This would need to be done carefully to ensure that lower income households are still targeted with assistance but with increased flexibility that can create better living environments for residents, better projects for communities and enhanced economic sustainability.

Role of the GSE's (Fannie, Freddie): The government sponsored enterprises (GSE's) Fannie Mae and Freddie Mac have historically played a major role in the nation's housing finance system. Through direct funding and guarantees, these entities touch almost half of all outstanding mortgage debt in the nation. Now in conservatorship (taken over by the Federal government), the question is what will the future be for these two fallen giants.

While some suggest that the GSE's be downsized or eliminated entirely, we see the GSE's as a critical piece of a redesigned national housing finance system. A new model with a more tightly regulated Fannie and Freddie could be key elements in carrying out national housing policy objectives, such as those outlined elsewhere in this paper. A revitalized Fannie might well be able to provide funding for the National Housing Trust Fund – as envisioned in the year before the housing bubble burst.

Examine and Update Existing Housing Programs: The administration should conduct a top to bottom review of existing housing programs with input from residents, providers and communities. Many of these programs suffer from layers of regulation added over the years that make them difficult and burdensome to administer. The length of time to comply with myriad requirements results in poor service to those in need of assistance. **The primary concern of many program administrators is the loss of flexibility which makes it difficult to respond effectively to local conditions.** A move to expanding flexibility, with appropriate accountability, will result in better outcomes. Examples of issues that need to be addressed include:

- Reduce/simplify compliance reporting
- Enhance flexibility through greater “block granting”
- Update Davis Bacon cost limits
- Level the playing field for small cities in the Lead Safe Program
- Look at “fair share” issues – rural vs. urban
- Create better incentives to transition from housing assistance
- Fix the “exit tax” problems that discourages preservation
- Increase the level of administrative cost caps

Support Expanded Application of Green Principles for Housing and Community Design: Acceptance of green design has grown dramatically in the past decade. Many communities are embracing green from residential building codes to schools to subdivision regulation. Now is the time for the Federal government to ensure that green standards are incorporated into every housing and community development program. Additional funding and adjustment of cost standards may be required in order to implement green construction and design through out the country. Incentives should be offered to encourage states and localities to follow suit.