A NEW GENERATION OF FEDERAL HOUSING POLICY
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I am here to celebrate the awakening of the federal government from the dead and its reemergence as a positive force for change in housing policy. Like the Great Depression, the Great Recession is forcing the national government to both respond aggressively to the current foreclosure crisis while resetting the rules of the market going forward in order to minimize the potential for abuse and maximize consumer knowledge and choice.

At the same time, energy and environmental imperatives, fiscal constraints, the aging of our population, immigration and the structural gap between worker incomes and housing prices are driving a fundamental rethink of federal policy that builds upon the innovations pursued by states and localities over the past two decade. I believe a new architecture for national housing policy is slowly, gradually being forged—led by Secretary Donovan and his team at HUD.

This emerging national policy has five central elements:

1. The restoration of sanity, transparency, and fundamentals to mortgage finance and the process of home buying and homeownership

2. A return to balance in housing policy, with attention and leadership and resources dedicated to making rental housing affordable in safe, quality communities

3. The use of housing policy to advance communities of choice—where families can live close to decent schools, quality retail and decent amenities

4. The positioning of housing as a vehicle for energy efficiency at the building scale and sustainable, transit friendly growth at the metropolitan scale

5. The renewal and transformation of HUD itself—to both lead and support the national response.

Let be me clear: this new housing policy is nascent and only partially formed. But we collectively have a rare opportunity to orchestrate a generational shift in federal housing policy—both in traditional housing legislation and action and, as importantly, through structural changes in the tax code, new regulatory institutions at the federal level, systemic reforms to energy and transportation policies, and a revitalized delivery system at the state, metropolitan and local level. The history of policy progress is simple: crisis begets innovation. So let me spend a little time discussing the context for the emerging policy, the early signs of policy reform, and a glimpse of what is possible in the next few years ahead.

The Context for Change

A confluence of events is driving housing reform in the United States. The premier force, obviously, is the housing crisis itself and what it teaches us about mortgage markets, government regulation, homeownership and wealth creation. The Great Recession was precipitated by madness in the mortgage market, a spurt of reckless lending and regulatory abdication that has wreaked colossal havoc on people, on communities, on institutions.

- We cannot just dwell on what caused this crisis—we need to distill the lessons learned for policy going forward:
- Markets are not self policing; sound and sensible regulation and oversight is part of healthy capitalism
- The financial literacy of many consumers has not kept pace with innovation in mortgage finance
- The US has underestimated the costs of homeownership and oversold the benefits
- We have tilted the policy playing field too much to homeownership, denigrating rental housing in the process.

But the excesses of the past half decade only explain part of what is driving—and must drive—housing policy going forward. Despite the decline in housing prices, the United States continues to face a stark disconnect between wages and the cost of owning and renting a home. This is not a rocket science—workers earn too little and housing still costs too much, because the supply at the low end is inadequate.

Unfortunately, affordability could get worse before it gets better—with increasing unemployment, poverty and homelessness on one hand, and a dramatic reduction in multifamily production on the other.

But our challenge is not simply about housing affordability narrowly described. The location of affordable housing is impeding opportunity, increasing costs more broadly and wasting energy. As metropolitan areas continue to sprawl outward and jobs become increasingly dispersed, fewer low-wage earners and renters are able to find housing near their work and too many live in neighborhoods that limit access to quality jobs, good schools and opportunities to create wealth.

As commutes lengthen, budgets are strained: the combination of housing and transportation costs now averages a combined 60 percent of income for working families in metropolitan areas. In addition, unbalanced growth has exacted a toll on our environment.

With sprawl and inadequate transit, the transportation sector accounts for a third of carbon emissions. Residential buildings account for another 20 percent of carbon emissions, with the vast majority coming from detached single-family houses.

If market forces and social environmental imperatives were not enough to spur action, there is also the specter of tightly constrained federal budgets in the future (given the worrisome rise in the national debt), the collapse of state and local budgets … as well as long term demographic shifts such as immigration and the aging of our population. As the UN Secretary General recently said in a different context, "[T]his is not a time for tinkering, it is a time for transformation."

Early Indications of Reform

Against this backdrop of immediate crisis and structural change, a new federal housing framework is emerging. The past six months has seen a blizzard of activity:

- The President's "Making Home Affordable" plan
- The President's call for a new Consumer Financial Protection Agency to oversee mortgage products
- The American Recovery and Reinvestment Act and its focus on promoting energy efficiency, stabilizing neighborhoods and preventing homelessness.

And Secretary Donovan has reached out to the rest of the Cabinet, recognizing that complex challenges require integrated solutions:

- Between HUD and the Department of Energy on residential energy efficiency
- Between HUD and the Department of Transportation on sustainable growth
- Between HUD and the Department of Labor on green jobs
- Between HUD and the Department of Education on housing and schools
- And between HUD and Health and Human Services on homelessness and the issues of housing for the elderly and people with disabilities.

When I worked at HUD, interagency collaboration was often described as "an unnatural act between non-consenting adults," and it is now quickly becoming the norm. The FY 2010 budget provides the best introduction to the new federal housing policy that I laid out in the beginning of my speech.

Specifics in the HUD budget

The HUD budget represents a forceful response to the mortgage meltdown and foreclosure emergency. It signals a new commitment to transparency in mortgage lending and smart regulation.

The budget dramatically increases loan commitment levels for FHA and Ginnie Mae. This reflects the reality that FHA is playing a countercyclical role during this housing crisis with its share of the single family market increasing from two percent in 2006 to 26 percent today. If FHA did not exist, we would need to invent it quickly to fill the market vacuum.

The budget increases funding for housing counseling to $100 million a year. An enormous information gap has developed between consumers and creditors, which has contributed to the housing crisis. A Federal Trade Commission study from 2008 found that 90 percent of mortgage customers examining fixed-rate loan agreements were unable to determine the up-front costs on the loan, and half could not identify the loan amount.

The FTC also found that nearly 60 percent of people sold subprime mortgages would have qualified for prime mortgages, if they were offered. In this environment, the need and demand for mortgage counseling efforts could not be greater. And this counseling cannot be done by lenders; it must be done by objective, third parties. The budget also expands funding in fair housing and FHA to enhance the Department's ability to curb mortgage abuse and lending discrimination.

The HUD budget represents a return to federal leadership on rental housing. The budget will, for the first time, capitalize an Affordable Housing Trust with $1 billion. The Affordable Housing Trust Fund represents the first major federal housing production program since the creation of the HOME program in 1990.

The budget makes major investments in the core rental programs: an additional $1.8 billion for Section 8 tenant based rental vouchers—now serving an estimated 2,165,700 low-income households, an additional $600 million for Section 8 project based rental assistance, full funding for public housing operating subsidies and increased funding for Homeless Assistance Grants. These are big swings on an annual basis and reflect a new perspective.

The HUD budget uses housing to advance communities of choice. HUD requests $250 million for a Choice Neighborhoods Initiative, which would continue the effort, started under HOPE VI, to alleviate the intense concentration of poverty in inner city neighborhoods that is caused by the over-concentration of public and assisted housing.

But Choice Neighborhoods would go further. It would expand the range of eligible activities beyond public housing transformation, since in many neighborhoods public housing is no longer the "cancer" in the community. Choice Neighborhoods resources could be used to support the transformation of assisted housing development, the acquisition and renovation (or replacement) of unsubsidized, privately-owned stock (perhaps through a land banking entity), and the construction of mixed -income housing in strategic locations.

As a result, the pool of eligible applicants would be broader than public housing agencies and include local governments, non-profit intermediaries, and private firms as well as public housing agencies.

Choice Neighborhoods would also link housing transformation to school reform and early childhood development activities—particularly aligning with the Administration's desire to replicate the successes of the Harlem Children Zone through the new Promise Neighborhoods initiative.

The FY 2010 budget advances energy efficiency at the building scale and inclusive, sustainable growth at the local and metropolitan scale. HUD requests $100 million for an Energy Innovation Fund to catalyze a residential energy retrofit and new construction market in the United States.

The Fund will work with FHA to create standardized mortgage products for both the single family and multifamily markets. And the Fund will support promising local energy funds that leverage local resources, test innovative on-bill utility financing or billing arrangements, and provide streamlined energy audit and technical services to participating home and property owners.

The budget also includes a $150 million Sustainable Communities Initiative to enable a different, balanced kind of growth in the US—walkable, transit-oriented, mixed-income and mixed-use communities. The Sustainable Communities Initiative would support the development of integrated transportation, housing, land use and energy plans at the metropolitan scale and market-shifting changes in zoning and land use rules at the local scale.

These investments are energy wise and environmentally friendly. They reflect the changing preferences of consumers in our society and substantially reduce transportation costs, create energy savings. And they substantially enhance access to employment and educational opportunities, creating a geography of opportunity that furthers fair housing goals for the country.

The HUD budget advances the transformation of the agency itself

HUD is an agency deeply in need of transformation and reform—or, in television terms, an extreme makeover. Internally, basic management systems – budgeting, human resources, technology, and procurement – are broken and need to be overhauled. Externally, the agency acts as either an enforcer or a passive investor rather than an active partner.

The fiscal year 2010 budget starts the road towards transformation. The budget calls for an agency-wide transformation Initiative that would set-aside up to 1 percent of agency funding annually to develop metrics to gauge performance, research to evaluate programs, demonstrations to foster policy innovation, technical assistance to identify and diffuse innovation and technology to track spending, inform decisions and curb fraud, waste and abuse. This transformation initiative is not just about the Department. It is about the HUD delivery system as well.

Next-stage reforms

HUD's FY 2010 budget is obviously just a first step on the road to a new federal housing framework. I have no doubt that the next few years will be long, tough slog to address the crisis at hand. The next two to three years will see major legislative and administrative action on finance, tax, energy, transportation and budget issues—all of which affect housing policy directly and indirectly. The progressive housing community needs to be at the table in each one of these discussions and apply next generation thinking and hard earned knowledge.

Specifics of needed reforms

On remaking housing finance, what do we do with Fannie Mae and Freddie Mac, now in conservatorship? How do we redefine the nature of public-private partnerships? How do we craft a new finance system that extends credit (transparently, risk-aware and fairly priced) to the low-and moderate-income workers who dominate our economy? And how do we ensure that Fannie and Freddie continue to be a ready source of mortgage capital for multifamily housing?

The conversation to date frankly has devalued and denigrated the policy role the government sponsored enterprises play. We need to bring balance back to the discussion.

On tax policy, there is every indication that 2010 will see major tax legislation with the expiration of the Bush tax cuts. Any effort to move towards a balanced housing policy must start with the federal tax code—a system intensely tilted towards homeownership and the well-off. Tax benefits to homeowners including the mortgage interest deduction, the capital gains exclusion, exclusion of imputed rent, and property tax deduction, totaled $141.7 billion in 2008.

Tax benefits to renters are minimal, in comparison—the Low Income Housing Tax Credit was $4.4 billion in 2008, or 3 percent of total federal tax housing benefits; total federal benefits to renters—including $45.4 billion in HUD direct expenditures—is only 24.3 percent of overall federal housing benefits.

Major tax bills are the right time and the only time to have this discussion. Remember, the last time we changed the mortgage interest deduction was in the 1986 tax reform bill. So let's have a debate. How do we make the distribution of homeownership tax expenditures more equitable, with the adoption of refundable credits? How do we engineer a seismic shift in the earned-income tax credit, which clearly is a major tool towards ensuring affordability?

How do we create a more sustainable low-income housing tax credit in order to broaden the investor base and gear development more towards the economically-integrated and smartly-located developments we want? How do we make sure that tax policy can help preserve hundreds of thousands of privately owned developments threatened with loss? How do we put annual HUD expenditures—for project-based rental assistance—on the mandatory side of the budget? How do we, in short, bring balance to our tax code?

On energy efficiency and sustainability, Congress is in the process of considering major climate and transportation legislation this year. Here we have an opportunity to achieve major housing aims through non-housing legislation. How do we, like Germany, catalyze a standardized market in residential energy efficiency for new and existing buildings? How do we ensure that transportation policy directly supports the building of quality, inclusive communities, rather than the extension of sprawling metropolitan areas? In other words, how do we have transportation policy for the world of 2010 rather than the world of 1950?

The political moment for formally linking transportation and housing decisions—something American consumers and businesses do every day in residential and office location decisions—has finally arrived.

And then there is transformation itself, and the specter of broader programmatic reform raised by the broader goal of deficit reduction. This raises some uncomfortable issues about the sustainability of HUD's budget. As everyone in this room knows, a rising share of HUD budget—more than 75 percent—is dedicated to renewing expiring Section 8 rental subsidies and maintaining public housing. The bottom line is that, absent additional resources, funding for preserving what has already been built is crowding out funding for serving additional families faced with crushing rent burdens.

In many respects, HUD has become a Department of Renewals and Maintenance and ceased to be an effective player in addressing the rising challenge of housing un-affordability and newer energy and environmental imperatives. Something has to give.

So we are faced with some hard questions. Do we really need thousands of local housing agencies administering HUD's largest program, the $18 billion section 8 voucher program? Why not shift the governance of the housing voucher program from the parochial to metropolitan level and open up the administration of vouchers to a wider variety of public, for profit and nonprofit entities?

We cannot stop with the voucher program. Housing markets are metropolitan and our current delivery system is geared either to the state or municipal or even neighborhood level. The foreclosure crisis has taught us that the market doesn't respect artificial political borders. We need a new set of institutions and intermediaries that naturally, seamlessly, routinely cross borders to treat market challenges, and we need a new level of city and suburban collaboration to get this done. All of this is happening already on the ground, in Chicago and elsewhere. Now it needs to be embedded, encouraged, catalyzed and rewarded in federal policy.

And, finally, how do use federal policy to leverage the power that state and local governments have over the quantity, location and quality of affordable housing production, because of their role in regulating the real estate market (e.g., zoning, land use regulations, building codes)? How do we ensure that Federal policy encourages state and local governments to be "affordable-housing-friendly" in the design and application of these market-shaping tools and rules? The bottom line is this: we cannot respond to the tight constraints of the federal budget by squeezing every program and policy; we must use it as an opportunity to invent our programs anew.

Conclusion

Let me end where I began: we are living through the economic and housing crisis of our lifetimes—a "once in every 75 years" event. Can we use this crisis to erect a new federal housing policy to reflect the changing dynamics of our country and the hard-earned experience ofour field?

- A housing policy that embraces markets as a way to spur innovation and spread benefits, but also respects and reflects the critical role of regulation and oversight.
- A housing policy that understands that national challenges like resolving global warming or catalyzing a green economy require close linkages related policies on transportation, energy, labor and the environment.
- A housing policy that is evidence-based and performance-driven.
- A housing policy that is both federal and federalist—galvanizing the network of highly skilled state and local housing agencies, nonprofit intermediaries and private sector actors that has emerged in the absence of federal direction.

We need a housing policy designed for our times, our market system and our distinctive federal republic. Most importantly, we need a housing policy that gets us closer to achieving the national goal set 60 years ago: to ensure that every American has access to a decent and affordable home in a suitable living environment. Let's do it.

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Mr. Katz regularly advises national, state, regional, and municipal leaders on policy reforms that advance the competitiveness of metropolitan areas.
He focuses particularly on reforms that promote the revitalization of central cities and older suburbs and enhance the ability of these places to attract, retain, and grow the middle class.

Recently, he served on the Obama transition team, and as a Sr. Advisor to HUD Secretary Shaun Donovan. In 2006, Bruce received the prestigious Heinz Award in Public Policy for his contributions to urban and metropolitan America.