Housing Policy for the 21st Century is a joint policy statement on housing adopted by the American Bankers Association, America's Community Bankers, the Mortgage Bankers Association of America, the National Association of Home Builders and the NATIONAL ASSOCIATION OF REALTORS®.

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EVERY AMERICAN should have the opportunity to live in a decent and affordable home. The housing community, working as partners with government, has made great progress in meeting America's housing needs, although much remains to be done.

The task of housing America is made more difficult today because there are fewer government resources and more complicated and burdensome regulations administered by various layers of government. In order to effectively meet the challenges of tomorrow, a coherent and focused set of policies should be adopted today. This report presents a housing policy that endeavors to fulfill the promises enunciated half a century ago in the landmark Housing Act of 1949—the goal of a decent home and suitable living environment for every American family.

This report describes the essential elements of a housing agenda for the federal government. The report is the joint statement of five organizations that represent the industries that build, finance and sell housing in America—the American Bankers Association, America’s Community Bankers, the Mortgage Bankers Association of America, the National Association of Home Builders, and the NATIONAL ASSOCIATION OF REALTORS®. These organizations, representing firms that employ 12 million people across the nation, believe that the political leadership that will guide our country into the 21st century should adopt these policies.

The report is divided into four parts. The first section describes the current housing situation in America and cites compelling reasons for development of a national housing policy. The second section describes principles that our organizations believe should guide development of that policy. The third section presents policy recommendations that deal with current and evolving housing problems. These recommendations are presented in five areas: smart growth, housing finance, tax policy, government regulations, and housing programs. The final section stresses the need for a cabinet-level voice for housing in the federal government and makes recommendations in that area as well.
The remarkable economic expansion of the 1990s provided an excellent environment for improving housing conditions for many Americans. Indeed, most of the 105 million households in America now live in decent, safe and affordable housing. Yet many challenges remain. Some households are finding it nearly impossible to find homes in communities of their choice. Some young households trying to buy their first homes are still facing serious affordability problems. Large numbers of low-income renters must pay unreasonably large portions of their income for decent housing. The homeless, of course, still represent the most obvious of America’s housing challenges.

Some of these housing challenges could become even more pressing in the years ahead. It is inevitable that the number of households in this country will be growing substantially, fueled by both natural population growth and immigration. This growth is bound to combine with continued household preferences for single-family homes with yards, which puts heavy pressure on many metropolitan areas, further raising the profile of so-called “sprawl” in suburban areas and beyond. Issues such as traffic congestion, the quality of schools and public safety will have to be faced, along with other factors affecting the quality of life for both new entrants and current residents in America’s housing markets.

While such “smart growth” issues will be a focus of attention, housing affordability could deteriorate further for many Americans seeking to become homeowners, even if the current economic expansion continues. Income growth is likely to be relatively weak for many households just starting out, holding down homeownership opportunities for younger families. Furthermore, the plight of the lowest-income renter households, many of whom are minorities located in central cities or rural pockets of poverty, could worsen rather than improve in the years ahead.

Further challenges are posed by recent trends in housing and economic policies. Governments at all levels have been more cautious in making open-ended commitments to provide housing for all their citizens. At the same time, they have enacted laws and regulations that inadvertently make decent housing less available, and less affordable, in the very areas where population and economic growth are the greatest.

Successful efforts to eliminate the federal budget deficit have been partly responsible for the favorable economic environment within which the housing sector has generally prospered. But the restraint in federal spending that has helped produce these benefits has also resulted in cutbacks in federal support of housing. Looking ahead, bipartisan efforts to contain federal spending will continue to hold down direct federal outlays on housing, even in a world of budget surpluses. Intensive searches for greater efficiencies in federal housing programs will have to be conducted, and high priorities will have to be placed on housing policies that deliver substantial benefits at the least possible cost.

Some of the basic facts that help define America’s housing challenges are as follows:

- The national homeownership rate has gained steadily since the mid-1990s. It rose to a record 66.8% by 1999, largely due to low interest rates and healthy economic
growth. However, homeownership rates of younger households remain low and have not grown with the overall national rate. Indeed, the rate for households with heads under 35 years of age has shown very little improvement from the levels of the late 1980s.

- Large geographic and racial differences in homeownership rates remain as well. Suburban and nonmetro area homeownership rates each increased by about two percentage points during the 1990s while cities added only one-half percentage point. Homeownership rates for African-American households are 27 points below white non-Hispanics, and Hispanics have homeownership rates 28 points below white non-Hispanics.

- The demand for housing units inevitably will continue to grow, driven not only by wealth and income growth in a prosperous economy, but also by population and household growth. The U.S. population will increase by 2.3 million people a year, fed by over 4 million births per year and over 800,000 new immigrants. By 2010, the U.S. population is expected to total nearly 300 million people. Much of the population growth will be concentrated—75 percent of the growth will occur in 16 states—which makes "smart planning" for housing and infrastructure needs imperative.

- The births that occurred 20 to 30 years ago, and the immigration of recent years, create the demand for additional homes, as young people form households and new immigrants establish their own households. An additional 1.5 to 1.7 million new housing units will be needed each year to cover the expected 1.2 million in annual household formations, replacement of decayed housing stock and normal vacancies. The inevitable growth in housing must be planned to meet consumer demand without sacrificing other quality-of-life factors such as reasonable commutes, decent education and a safe environment for all residents. Central city redevelopment offers one strategy for accommodating some of the growth.

- Poverty persists despite recent economic growth, and it is still concentrated in the central cities. City poverty rates are roughly double those of the suburbs, with about one-fifth of city families living in poverty. Furthermore, jobs in those locations are relatively scarce, and the unemployment rate in the largest metropolitan areas is nearly double the rate in their suburbs. Minorities remain concentrated in the cities, where they make up nearly half of the population, as opposed to about one-fifth in the suburbs.

- A substantial portion of low-income renter households cannot meet their basic housing needs without great hardship. About one in seven renter households (5.4 million) pay more than half of their income for housing and receive no assistance, and about two in three income-eligible renter households receive no housing assistance. Aggravating this situation, the number of low-income rental units has been declining by almost a half million per year.

- The number of people 65 or older is expected to rise 16 percent by 2010, and seniors' housing needs will become increasingly important as the population ages. Furthermore, about 5 million households currently have a senior citizen with disabilities, and 2.1 million of them believe their homes require structural modifications in order to function comfortably.
Guiding Principles

Given past accomplishments, as well as the challenges and opportunities of today's environment, a coherent set of principles is needed to guide the development of a national housing policy. We view the following principles as paramount:

- The private sector has been, and should continue to be, the primary mechanism for meeting the housing needs of most of our citizens.
- Governments should play an important role in housing because decent and safe housing provides positive economic, social, and political benefits that stabilize neighborhoods and communities and benefit all members of society.
- All levels of government should be involved in assuring widespread homeownership opportunities and decent, safe and affordable housing for all Americans. The federal government, in particular, should take a supportive role in providing incentive programs aimed at low- and moderate-income households, and should lead efforts to reduce burdensome and unnecessary regulations.
- Economic development and growth should be anticipated and planned in a timely, orderly and predictable manner.
- Public policy should protect the rights of all individuals to live where they choose. Discrimination against any minority class in any part of the housing transaction is unacceptable.
- Regulation of housing production and housing finance should weigh the impacts on housing affordability and availability against the expected benefits of the regulations.

Policy Recommendations

Celebrating the accomplishments, challenged by the remaining problems, and encouraged by the opportunities inherent in strong partnerships between the private and public sectors, the housing community represented by our five organizations sets forth the following policy agenda for housing as we begin the 21st century. Our policy recommendations are divided into five areas: smart growth, housing finance, tax policy, government regulations and housing programs.

Smart Growth

Growth of residential areas is the result of people choosing to live in places that fit within their budgets and satisfy their preferences for location and amenities. Economic prosperity and an increasing population mean that growth is inevitable, so planning for growth is imperative.

A large portion of recent development has been concentrated in and around the suburbs of metropolitan areas, largely because so many young and middle-aged families prefer single-family homes with a yard. “Smart Growth” should mean meeting this underlying consumer demand for housing by employing market-sensitive planning. Municipalities across America face land-use decisions, making this a national issue.

There is no single growth plan that will work for every community. Every locality has different housing, economic and environmental goals—goals that are not mutually exclusive. The challenge is for local governments to formulate long-term, comprehensive growth plans that take consumer preferences into account.

Any growth plan should naturally address the needs and preferences of all who need housing in the community, including current residents as well as new entrants.
The key elements to a realistic Smart Growth strategy are:

- Recognizing that growth is inevitable and that diverting growth does not prevent growth. For example, suburban zoning restrictions against dense development lead to more low-density development. Restrictions on all development in suburban areas push growth out to rural areas, often necessitating longer commutes and more air pollution instead of providing protection to the area.

- Each local jurisdiction should have a long-term comprehensive plan that protects environmentally sensitive areas and provides an ample supply of land for residential, commercial, recreational and industrial uses as well as appropriate open space.

- Comprehensive land use plans should permit a full range of the housing types preferred by consumers and should satisfy the needs of buyers and renters at all income levels.

- Land use planning should address barriers to higher density and mixed-use development and redevelopment of suburban and inner-city neighborhoods. Redeveloping cities and inner-ring suburbs to attract new residents will only work if schools are improved and crime is reduced.

- Planning and developing infrastructure—such as new schools, roads, water and sewer treatment facilities—should be done in a timely manner to keep pace with the current and future demand for housing. The cost of infrastructure investments should be spread fairly over all those who benefit from the growth and the improvements.

- The process for reviewing planning and zoning applications should be reasonable, predictable and fair for applicants and their neighbors. Uncertainty in this process delays building and needlessly raises costs to consumers.

- The federal government should strongly support the development and redevelopment of infill sites in cities and inner suburbs in order to balance sensibly changing demographics (including an increasing senior population), existing infrastructure, energy and environmental factors.

**Housing Finance**

The United States’ housing finance system exemplifies a healthy balance of private and public resources that provides greater housing opportunities for all. The federal government’s support of the housing finance system, in partnership with financial institutions, and via the provision of mortgage insurance and guarantees, is crucial to a stable and growing housing market. Furthermore, government-sponsored enterprises that promote secondary markets for mortgages, as well as support lenders that hold mortgages, provide important links between the national and global financial markets and the housing finance sector.
system, thereby stabilizing the supply of funds available for housing. These federal supports involve little or no direct federal outlay.

The Federal Housing Administration plays a particularly vital role in the market for low-downpayment mortgages under specific maximum dollar amounts. FHA-insured mortgages, backed by the full faith and credit of the U.S. government, are affordable and available to all credit-worthy borrowers, in all places and through all economic cycles. Beyond insuring individual mortgages, FHA’s presence represents the federal commitment to a stable, national mortgage market for all Americans.

Unfortunately, unnecessarily burdensome regulation remains within the housing finance process. Many regulations add to the cost of originating mortgages and needlessly increase the borrower’s cost of mortgage credit. Modest relief in the cost of credit can make the difference in achieving homeownership, especially for low- and moderate-income borrowers.

Federal government policies affect housing finance through control of federal mortgage insurance and guarantee programs, and through federal regulation of private financial intermediaries and government-sponsored enterprises. Federal actions that would increase housing availability and affordability include:

- Federal mortgage insurance and guarantee programs (Federal Housing Administration, Veterans Affairs, Rural Housing Service and Ginnie Mae) should continue to increase the availability and reduce the cost of credit for home buyers and owners of rental housing. Programs designed to be self-supporting should be run on an actuarially sound basis, and programs that require appropriations under the Federal Credit Reform Act of 1990 should not be unduly constrained by that process.
- FHA should maintain its public purpose to stabilize mortgage markets, increase the opportunity for homeownership and the provision of rental housing, and create innovation in the permanent financing system. In pursuit of these objectives, FHA should further streamline its processes to reduce delays and costs to consumers.
- The government-sponsored secondary mortgage market enterprises (Fannie Mae and Freddie Mac) should support the housing market for both home owners and renters, through programs that are consistent with their congressional charters. The GSEs should function as a secondary mortgage market mechanism for private lenders.
- The Federal Home Loan Bank System should continue to expand the range of products and services made available to member institutions that finance housing and community development in their market areas through programs that are consistent with the system’s congressional charter.

The federal government plays a significant role in housing finance; the number of mortgage loans guaranteed or insured by the federal government is near an all-time high.
Regulations should be relaxed and incentives should be provided to encourage secondary market participation in innovative mortgage products, such as financing for "green", or resource efficient, building and development as well as location-efficient mortgages that encourage buying homes near work locations.

Secondary market mechanisms for supplying capital to primary markets for land acquisition, land development and construction financing for housing should be developed so that lenders can package these loans and sell them to investors in the general capital markets.

Statutes and regulations affecting housing finance should be reviewed with the goal of reducing red tape and making home mortgage lending more efficient and less costly. Technology should be encouraged in order to reduce reporting requirements, save consumers money and speed the process of loan approval and origination.

The regulation of federally insured depository institutions should recognize the favorable risk characteristics of residential mortgages and housing production credit, particularly the differences in underwriting risk between residential (single-family and multifamily) and nonresidential real estate loans.

Banking laws and regulations should recognize the credit-intensive nature of the housing sector and should not restrict the freedom of depositories to specialize in housing finance by automatically deeming such a focus an improper concentration of credit.

**Tax Policy**

The U.S. tax system has been used as an effective policy tool for decades. Applying public policy through the tax system can often be highly efficient because no elaborate government bureaucracy is necessary to implement, administer and monitor the results. Tax incentives distill public policy goals into economic terms, and taxpayers react in the marketplace as they would to any other economic signal.

**Homeownership Incentives**—Homeownership provides substantial benefits both to individual home owners and their communities. Home owners have an average $74,000 in net equity which represents half of their net worth. A home owner's financial stake promotes greater involvement in community affairs and has other positive effects as well. Home owners are more likely than renters to vote in local elections and also more likely to know the names of their elected officials. Children living in owned homes show greater cognitive abilities and fewer behavioral problems.

The American Dream still involves housing: most Americans want to own their own home. By age 60, more than four in five households are owner-occupants and the owners' equity provides considerable financial security as they near retirement. Young people, however, have seen their opportunities to own their own home slip away. Among households headed by someone under 35 years old, the rate of homeownership dropped from 45 percent in 1979 to 37.3 percent in 1987 and has recovered to only 39.7 percent in 1999.

Tax incentives remain a critical economic support for homeownership as well as a fundamental signal of federal support of homeownership. We recommend that:

1. The home owner tax incentives (deductibility of mortgage interest and real estate taxes, exemption of capital gains on sale of a principal residence, and elimination of capital gains tax upon death) should be preserved as critical components of the federal government's commitment to homeownership. Elimination or reduction of these incentives would erode homeownership as well as house values, and could cause economic instability.

2. The mortgage revenue bond program, including mortgage credit certificates, should be available to assist qualifying moderate-income home buyers with the purchase of their first homes. Federal limits on states' authority to issue tax-exempt bonds or mortgage credit certificates remain at the levels set in 1986 and should be increased immediately to reflect past and future inflation.

3. Any consideration of major tax reform (i.e., switching to a flat tax, a consumption tax, or a national sales tax) should preserve the current tax treatment of housing.
should preserve the current tax treatment of housing. Dramatic changes to the current equilibrium could result in undesirable impacts on the economy and the housing sector. For example, home prices would fall and home owners’ equity would be reduced substantially if the mortgage interest deduction were reduced or eliminated.

**Rental Housing Incentives**—The principal tax incentive for the production of rental housing is contained in the low-income housing tax credit (LIHTC). The credit stands as the only significant federal support for expanding the stock of affordable rental housing for low-income families. Roughly 35,000 new and 35,000 rehabilitated rental units are created every year with this state-administered program. However, in its present form, the credit too often must be supplemented with additional layers of government and private sector assistance. Various restrictions and requirements, such as limits on the amount of credit a single taxpayer can use, unduly increase the cost of providing critically needed rental housing and reduce the number of units that could be produced with the same tax expenditure. We recommend that:

- The low-income housing tax credit should be maintained in order to support the production and rehabilitation of low-income rental housing, and the annual state allocation amounts should be increased to reflect past and future inflation.
- State housing finance agencies and other allocating authorities should be allowed to allocate low-income housing credit amounts to projects as the state deems appropriate, within the limits of the overall state cap; however, private taxpayer owners should not be disadvantaged by preferences to non-profit sponsors.

**Business Incentives**—Home builders make selections of building components because of their experience and knowledge of the suppliers and products. If more energy-efficient products at affordable prices were encouraged, builders would be more inclined to include these as standard equipment and consumers would benefit through lower fuel consumption. We recommend that the federal government should use tax credits to encourage development and use of new technology in homes. This includes finding ways to use fewer resources to make homes that last longer, are more energy efficient and cost less.

**Government Regulations**

Good regulations balance benefits with costs. Regulations that do not consider the costs as well as the benefits can create inefficiencies, raise costs and reduce housing affordability. The adverse impact of costly and unreasonable regulations on housing consumers endangers the provision of decent, safe and affordable housing to our citizens. Many well-intentioned federal regulations, primarily aimed at environmental concerns, have unintended adverse impacts.
on housing. State and local regulations can adversely affect housing affordability, primarily through controls on land use and development. Indirect land use controls are also dictated by all levels of government through controls over the use of private property by landowners.

**Federal Government**— Protection and encouragement of environmental goals should be considered alongside the protection and encouragement of decent affordable housing. Environmental protection can be simple and efficient, yet equally effective, if the economic impact of environmental regulations is evaluated against the environmental benefit. Environmental protection regulations are not currently required to address economic consequences. Furthermore, environmental regulators do not consider the requirements imposed on other government agencies in determining their own agendas. The result is uncertain jurisdiction and restrictions that exceed statutory authority. We recommend that:

- Public policy should seek to achieve a reasonable balance between the benefit of protecting the environment or the consumer, and the cost of excessive regulation, which interferes with the private market’s ability to provide housing to all consumers at an affordable cost. The cost of protecting the environment should be spread broadly across all parts of the economy that benefit from the preservation achieved.
- Government should regulate private activity for environmental reasons only when there is persuasive evidence of a specific threat to the environment. Persuasive evidence should be based on adequate data, include analysis of the data by qualified scientists, and pass through an unbiased review process.
- Environmental laws and regulations that affect housing, such as federal wetlands policy, should be unambiguous (e.g., the conditions that constitute wetlands should be clearly defined) and implemented by a single agency in a way that does not introduce unnecessary delays or other costs into the housing production process.
- The government should not infringe on the rights of private property owners. Owners should maintain the right to limit government access to private property, should have access to federal court review, and should receive fair compensation if an implementation of, or change in, government policy significantly reduces the value of their property.

**State and Local Governments**— Cost-effective land development and redevelopment requires equitable and affordable approaches to infrastructure finance as well as fair and reasonable land use and environmental regulations. We recommend that:

- The federal and state governments should provide incentives to encourage local governments to remove regulatory barriers that increase the cost of housing, such as overly restrictive zoning and unreasonable contributions for public facilities. Many current regulations have the effect, if not the intent, of excluding low- and moderate-income families and making it very difficult for first-time home buyers to afford homes.
- State and local governments should adopt more balanced approaches to regulating and controlling development, should reduce excessive regulations, should eliminate impact fees that are not directly related to building new homes, and should not allow permit-processing requirements that extend beyond simple administration.
- Governments at all levels should streamline the adop-
tion of new and cost-saving technologies that reduce the cost of producing homes and improve the opportunities for homeownership. Technology should also be used to streamline the regulatory process and increase communication between the regulators and the regulated.

- Residential and light commercial construction is inherently different from larger scale commercial developments. Separate standards are needed to account for the differences in construction techniques and risk of injury between workers in light commercial/residential construction versus heavy commercial construction.

## Housing Programs

Federal housing programs, even those financed directly through federal outlays, have never been an entitlement for eligible families. Furthermore, housing assistance programs are under consistent pressure as federal spending constraints clash with ongoing demands for federal outlays. Even continuing assistance to those who already receive help through the renewal of contracts with private providers of assisted housing will entail increased costs in the future. Eliminating such support would save money from one federal account but lead to significant market disruptions, tenant displacements, deteriorated housing, and defaults on FHA-insured mortgages.

In an effort to stretch federal dollars, programs are being designed and redesigned to include partnerships and cooperative ventures between the government and private parties. In some instances, the arrangements have extended to dedicating funds to community-based nonprofit organizations. Although nonprofit housing providers can play an important role, the for-profit, tax-paying sector generally can deliver housing more efficiently and more effectively. The for-profit housing industry can continue to accommodate the inevitable risks and uncertainties arising from housing development and construction that most nonprofit providers are unable to bear.

We recommend the following policy recommendations that deal with the future of existing federal housing programs, new approaches to federal housing programs, and the levels of state and local government participation:

- Direct federal expenditures for housing should continue to fund efficient and effective low-income housing programs that increase the supply of affordable rental housing.
- Preservation of the privately owned, federally assisted, rental stock should be a top priority. Preservation incentives and contract renewals for project-based assistance should be adequately funded and quality standards should be strictly enforced.
- Mutual cooperation between nonprofit organizations and for-profit builders, developers, real estate agents, and lenders should be encouraged, but federal set-asides and other preferences for nonprofits can be highly inefficient and should not be a required program element. The allocation of federal resources should be based on the most efficient producer of housing, not upon organizational structure.
- State and local governments should be given full flexibility in the use of federal block grant programs, such as HOME and Community Development Block Grants, to support new construction, to provide infrastructure, and to improve existing housing.
- State and local governments should commit more of their own funds, or offer other resources for housing and community development assistance, to supplement federal assistance. State and local housing finance agencies should be encouraged to work with the private sector to initiate, develop, and implement a variety of affordable housing programs.

Although general housing conditions have improved dramatically, a record number of people have problems affording decent housing. Millions of Americans still pay more than half of their income for rent and utilities or live in substandard housing.
A National Housing Voice

As set forth 50 years ago in the Housing Act of 1949, the goal of national housing policy is “A decent home and suitable living environment for every American family.” A commitment to this goal requires the combined efforts of the public and private sectors. All levels of government have an impact on housing costs and availability, and they should play a role in providing the opportunity for decent and affordable housing.

The federal government has a primary role in housing policy for two reasons. First, the national government is in the best position to establish a national housing policy that places housing on the policy agenda for all levels of government. Second, the federal government impacts housing affordability and availability through policies that are not directly related to housing. Virtually every cabinet agency conducts some program, makes some rule, or requires some action that affects housing. Moreover, much of the government support of housing involves credit guarantees and financial regulation, and the federal government has primary responsibility for the integrity of the nation’s financial system.

There is, therefore, a need for a cabinet-level voice for housing and community development in the federal government. That voice, the U.S. Department of Housing and Urban Development, should play the central role in the coordination of all housing and community development issues in the federal government. Unless proper coordination of housing policies is achieved, efficient implementation of a national housing policy and attainment of our national housing goals will be difficult, if not impossible.

This document has outlined specific ways for government to provide all Americans with the opportunity for a decent home and suitable living environment. By working together with the industries that build, sell and finance the American dream, the federal government can help accomplish the goal set forth more than 50 years ago: A decent home and suitable living environment for every American family.