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Overview of Federal Housing Assistance Programs and Policy

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Summary

The federal government has been involved in providing housing assistance to lower-income households since the 1930s. In the beginning, the federal government was involved in supporting the mortgage market (through establishment of the Federal Housing Administration (FHA) and the government-sponsored enterprises) and in promoting construction of low-rent public housing for lower-income families through local public housing authorities (PHAs). Over time, the role of the federal government has shifted away from providing construction-based subsidies to providing rental subsidies; private developers and property owners now play a larger role; and more federal funding has been provided to states and localities.

Today's federal housing assistance programs fall into three main categories: rental housing assistance, assistance to state and local governments, and assistance for homeowners. Most of these programs are administered by the Department of Housing and Urban Development (HUD). Current housing assistance programs include: Section 8 vouchers and project-based rental assistance, public housing, housing for the elderly (Section 202), housing for the disabled (Section 811), rural rental assistance (Section 515 and 521), Community Development Block Grants (CDBG), HOME Investment Partnerships Block Grants, Low-Income Housing Tax Credits (LIHTC), homeless assistance programs, FHA and Veterans' Administration mortgage insurance, and the mortgage interest deduction in the tax code.

Most of the federal housing assistance programs are aimed at making housing affordable for low-income families. Housing affordability—housing that costs no more than 30% of family income—is considered the largest housing problem today. Rental assistance programs, which are the largest source of direct housing assistance for low-income families, all allow families to pay affordable, income-based rents; however, different forms of assistance target different types of households, including the elderly, persons with disabilities, and families with children. Several trends in federal housing policy have emerged in recent decades. As the focus of federal housing assistance has shifted away from construction-based subsidies to rental assistance, block grants, and LIHTC, state and local governments have had greater access to federal resources to fund local housing and community development priorities. This shift in federal funding has also led affordable housing developers to pursue mixed financing: the use of multiple streams of federal funding, state, and local funding, or private financing. Lagging homeownership rates among low-income and minority households have prompted the past several Presidents to promote homeownership-based housing policies.

This report provides an overview of the history and evolution of federal housing assistance programs and policy, information about the main programs, and a discussion of recent issues and trends. It is an expanded version of the Federal Housing Assistance section originally prepared for the 2008 edition of the Committee on Ways and Means publication, "Background Material and Data on the Programs within the Jurisdiction of the Committee on Ways and Means" (informally known as the Green Book). This report will be updated periodically.

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Introduction

The federal government has played a role in subsidizing housing construction and providing homeownership and rental assistance for lower-income households since the 1930s. Today, Congress funds a number of programs to help meet the housing needs of poor and vulnerable populations. The programs are primarily administered by the Department of Housing and Urban Development (HUD), with some assistance provided to rural communities through the Department of Agriculture. The modern housing assistance programs include both relatively flexible grants to state and local governments to serve homeless people, build affordable housing, provide assistance to first-time homebuyers, and promote community development and more structured, direct assistance programs that provide low-cost apartments and rental vouchers to poor families, administered through local public, quasi-public, and private intermediaries. The federal government also makes tax credits available to states to distribute to developers of low-cost housing and provides insurance to lenders that make mortgages to eligible homebuyers. The federal government's largest housing program, however, is arguably the mortgage interest deduction, which is not targeted to lower-income households, but is available to all homeowners who pay mortgage interest and itemize their deductions.

This report begins with an overview of the history and evolution of federal housing assistance policy, followed by a description of today's major federal housing assistance programs, and concludes with a discussion of issues and trends in federal housing assistance policy. This report, which will be updated periodically, does not track current legislation.

History and Evolution of Federal Housing Assistance Policy

The Beginning of Federal Housing Assistance: FHA and Public Housing

The federal government's first major housing policy was formulated in response to trouble in the mortgage market resulting from the Great Depression. Until the early 1930s, most mortgages were written for terms of three to five years and required borrowers to make payments only on an annual basis. At the end of the three- or five-year terms, the remaining loan balance had to be repaid or the mortgage had to be renegotiated. Another feature of the mortgage market was that lenders would only lend 40% to 50% of the value of the property, so borrowers had to have the cash to complete the transaction or find someone willing to finance the balance (or part of the balance) in a second mortgage. During the Great Depression, however, lenders were unable or unwilling to refinance many of the loans that became due. When borrowers could not pay the loan balances, lenders foreclosed on the loans and took possession of the properties.

It was against this background that the Housing Act of 1934 (P.L. 73-479) was enacted. The broad objectives of the act were to (1) encourage lenders to invest in housing construction, and (2) to stimulate employment in the building industry. The act created the Federal Housing Administration (FHA). FHA insured lenders against losses on home modernization and home improvement loans, created the Mutual Mortgage Insurance Fund to fund the operation of the newly-created mortgage insurance programs, and established national mortgage associations to buy and sell mortgages.

The creation of FHA also institutionalized a revolutionary idea: 20-year mortgages on which a loan would be completely repaid at the end of its term. If borrowers defaulted, FHA insured that the lender would be fully repaid. Eventually, lenders began to make long-term mortgages without FHA insurance as long as borrowers made significant downpayments. Over time, 25- and 30-year mortgages have become standard mortgage products.

As in the case of the mortgage finance market, the federal government initially became involved in the provision of rental housing assistance in response to the Great Depression. In the early 1930s, a housing division was added to President Franklin D. Roosevelt's Works Progress Administration (WPA) as a part of the effort to create jobs and spur economic growth.[1] The Housing Division acquired land and built multifamily housing projects for occupancy by lower-income families across the country. However, the Housing Division's activities proved controversial with local government officials who thought that they were not consulted in the process.

Against this backdrop, the U.S. Housing Act of 1937 (P.L. 75-412) was enacted. It replaced the WPA's Housing Division and its projects by establishing a new, federal United States Housing Agency (a precursor agency to today's Department of Housing and Urban Development) and a new Low-Rent Public Housing program. The new program required partnerships between the federal government, states, and localities. States that wished to receive assistance in building low-rent public housing were required to pass enabling legislation creating new, quasi-governmental, local public housing authorities (PHAs). These PHAs could then apply to the federal government for funding to aid in the construction and maintenance of low-rent housing developments targeted to low-income families. The act declared that it was the policy of the United States:

> ...to promote the general welfare of the nation by employing its funds and credit, as provided in this Act, to assist the several states and their political subdivisions to alleviate present and recurring unemployment and to remedy the unsafe and unsanitary housing conditions and the acute shortage of decent, safe, and sanitary dwellings for families of low-income, in rural or urban communities, that are injurious to the health, safety, and morals of the citizens of the nation.

Housing was a major issue in the presidential and congressional races during 1948. President Harry S. Truman's pledge to address the postwar housing shortage and the problem of urban slums played a key role in his margin of victory.[2] In his State of the Union Address in 1949 unveiling the "Fair Deal," President Truman observed that "Five million families are still living in slums and firetraps. Three million families share their homes with others."[3]

He further stated

[1] For more information on the history of public housing, see Fisher, Robert Moore, 20 Years of Public Housing, Harper and Brothers, 1959 and Wood, Elizabeth *The Beautiful Beginnings, the Failure to Learn: Fifty Years of Public Housing in America*, The National Center for Housing Management, October 1982.

[2] Peter Dreir, Labor's Love Lost? Rebuilding Unions' Involvement in Federal Housing Policy, Housing Policy Debate, vol. 2, issue 2, p. 327.

[3] President Harry S. Truman, State of the Union Address, January 5, 1949.

> The housing shortage continues to be acute. As an immediate step, the Congress should enact the provisions for low-rent public housing, slum clearance, farm housing, and housing research which I have repeatedly recommended. The number of low-rent public housing units provided for in the legislation should be increased to 1 million units in the next 7 years. Even this number of units will not begin to meet our need for new housing.

The Housing Act of 1949 (P.L. 81-171) declared the goal of "a decent home and a suitable living environment for every American family." The act: (1) established a federal urban redevelopment and slum clearance program, authorizing federal loans of $1 billion over a five-year period to help local redevelopment agencies acquire slum properties and assemble sites for redevelopment; (2) reactivated the public housing program for low-income families (which had been on hold during World War II), authorizing subsidies to local housing authorities sufficient to build 810,000 units over six years; (3) expanded the FHA's mortgage insurance program to promote home building and homeownership; (4) created within the U.S. Department of Agriculture a program of financial assistance and subsidies to improve housing conditions on farms and in rural areas; and (5) authorized federal grants for research, primarily to improve the productivity of the housing industry.

Government Subsidization of Private Development

Through the 1950s, the federal government's role in housing assistance focused largely on public housing, which served a mostly poor population. Congress recognized that a gap existed in the market—few options existed for moderate income families whose incomes were too high to qualify for public housing, but too low to afford adequate market rate housing.[4] Proposals in Congress had been made to address the shortage of housing for moderate income households during the 1950s; however, no legislation had been enacted, in part due to the cost to the government of creating and funding a new program.[5] In order to avoid creating another large housing program with high expenditures, while at the same time finding a way to serve this segment of the population, Congress approved legislation at the end of the 1950s and throughout the 1960s that engaged the private sector in the development of affordable housing.

The Housing Act of 1959 (P.L. 86-372) was the first significant instance where government incentives were used to persuade private developers to build housing that would be affordable to low- and moderate-income households. As part of P.L. 86-372, Congress created the Section 202 Housing for the Elderly program. Through the Section 202 program, the federal government extended low-interest loans to private non-profit organizations for the development of affordable housing for moderate-income residents age 62 and older. The low interest rates were meant to ensure that units would be affordable, with non-profit developers able to charge lower rents and still have adequate revenue to pay back the government loans.

The Housing Act of 1961 (P.L. 87-70) further expanded the role of the private sector in providing housing to low- and moderate-income households. The act created the Section 221(d)(3) Below Market Interest Rate (BMIR) housing program, which both insured mortgages to private

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[4] See, for example, Committee on Banking and Currency, report to accompany S. 1922, the Housing Act of 1961, 87th Cong., 1st sess., S.Rept. 281, May 19, 1961 ("The largest unfilled demand in the housing market is that of moderate-income families.").

[5] S.Rept. 281. "Perhaps the most significant reason that previous proposals to establish a moderate-income housing program have not been favorably received by the Congress is that the majority of those proposals would have placed sole responsibility for such a program on the Federal Government."

developers of multifamily housing and provided loans at low interest rates. The BMIR program expanded the pool of eligible borrowers to private for-profit developers and government entities, as well as non-profit developers. Eligible developers included cooperatives, limited dividend corporations, and state or local government agencies. Like the Section 202 program, the low interest rates in the BMIR program were meant to ensure that building owners could offer affordable rents to tenants.

In 1965, the Housing and Urban Development Act (P.L. 89-117) added rental assistance to the list of incentives for private multifamily housing developers that participated in the Section 221(d)(3) BMIR program. P.L. 89-117 created the Rent Supplement program, which capped the rents charged to tenants at 20% of their incomes and paid building owners the difference between 20% of a tenant's income and fair market rent.

The Housing and Urban Development Act of 1965 also created the Section 23 leased housing program, the first program to provide rent subsidies for use in existing private rental market units. The same PHAs that administered the public housing program were authorized to enter into contracts with landlords in the private market. These contracts authorized payments to landlords who rented units to low-income tenants. Tenants paid one quarter of their income toward rent in these private units, and the federal subsidies made up the difference between the tenant payments and rent for the units.

In 1968, the Housing and Urban Development Act (P.L. 90-448) created the Section 236 and Section 235 programs. In the Section 236 program, the government subsidized private developers' mortgage interest payments so that they would not pay more than 1% toward interest. Like the low interest rate loans provided through the Section 221(d)(3) BMIR program, the Section 236 interest subsidies were meant to ensure that units would be affordable to low- and moderate-income tenants, although some units also received rent subsidies (referred to as Rental Assistance Payments (RAP)) to make them affordable to the lowest-income tenants. The Section 235 program instituted similar mortgage interest reduction payments for individual homeowners rather than multifamily housing developers.

Under the public housing program, tenants generally paid rent in an amount equal to the costs of operating the assisted housing in which they lived. Over time, as operating costs rose, there was a concern that the below-market rents being charged to families were too high to be affordable to the poorest families. The Brooke Amendment, which was included as part of the Housing and Urban Development Act of 1969 (P.L. 91-152), limited tenant contributions toward rent in all rent assisted units (including public housing and all project-based rental assistance units) to an amount equal to 25% of tenant income (this was later raised to 30%). The Brooke Amendment is considered responsible for codifying an income-based rent structure in federal housing programs.

By the end of the 1960s, subsidies to private developers had resulted in the creation of hundreds of thousands of housing units. Approximately 700,000 units of housing had been built through the Section 236 and Section 221(d)(3) programs alone.[6] The Section 202 program had created more than 45,000 units for elderly households.[7] The Section 235 and Section 23 leased-housing

[6] U.S. Department of Housing and Urban Development, *Multifamily Properties: Opting In, Opting Out and Remaining Affordable*, January 2006, p. 1, available at http://www.huduser.org/Publications/pdf/opting_in.pdf.

[7] U.S. Department of Housing and Urban Development, *Housing for the Elderly and Handicapped: The Experience of the Section 202 Program from 1959 to 1977*, January 1979, p. 17.

programs provided ownership and rental subsidies for thousands more. Through 1972, the Section 235 program subsidized nearly 400,000 homeowners,[8] while the Section 23 leased-housing program provided rent subsidies for more than 38,000 private market rental units.[9] Despite the growth in the role of private developers, public housing was still the largest housing subsidy program, with roughly a million units built and subsidized by the early 1970s.[10]

Rethinking the Strategy: From Construction Subsidies to Rent Subsidies

By the early 1970s, concern was growing about the cost, efficacy, and equity of the construction-based housing subsidy programs, such as the Section 236 and public housing programs. Then-President Richard M. Nixon criticized the existing programs as not equitably serving families in the same circumstances, providing poor quality housing, being too costly, and placing some families in homes they could not afford.[11] Out of these concerns, President Nixon declared a moratorium on all new activity under the major housing subsidy programs—except for the Section 23 leased-housing program—beginning in January 1973. Assisted housing activity slowly restarted in response to lawsuits and new legislation.

The Housing Act of 1974 (P.L. 93-383) was the first omnibus housing legislation since 1968 and the first such legislation following the Nixon moratorium. The act created a new low-income rental assistance program, referred to as Section 8. Although the 1960s had seen rental assistance programs like Rent Supplement and Section 23, the scale of the Section 8 program made it the first comprehensive rental assistance program. The Section 8 program combined features of the Section 236 program, which was popular with advocates of construction-based subsidies, and the Section 23 leased housing program, which used the existing housing stock and was popular with the Nixon Administration. Through Section 8, the federal government provided private property owners monthly assistance payments for new or substantially rehabilitated rental units. In exchange for monthly rental payments, property owners would agree to rent to eligible low-income families (defined as families with incomes at or below 80% of local area median income) who would pay an income-based rent. It also provided PHAs with the authority to enter into rental assistance contracts for existing, private market units.

Over time, the use of Section 8 in new construction and substantial rehabilitation projects was found to be more expensive than its use in existing housing. The Housing and Urban-Rural Recovery Act of 1983 (P.L. 98-181) repealed HUD's authority to enter into new Section 8 contracts tied to new construction and substantial rehabilitation, but retained HUD's authority to issue new contracts for existing properties. The act also created a new demonstration program to test a modified use of Section 8, referred to as vouchers. Vouchers were similar to the use of Section 8 rent subsidies in existing housing, but provided more flexibility to PHAs, particularly

[8] U.S. Congress, Senate Committee on Banking, Housing and Urban Affairs, Subcommittee on Housing and Urban Affairs, *An Analysis of the Section 235 and 236 Programs*, committee print, 93rd Cong., 1st sess., May 24, 1973, p. 9, available at http://www.congress.gov/crsx/products-nd/73.1142.doc.pdf.

[9] U.S. Department of Housing and Urban Development FY1974 Budget Summary, Housing Production and Mortgage Credit, p. 7.

[10] HUD, "Annotated Tables for 2001 Budget," p. 86.

[11] President Richard Nixon, Presidential Message to Congress on Housing Policy, September 19, 1973.

by permitting families to pay more than 30% of their incomes in rent. The demonstration was made permanent in 1985.

Increasing Role of State and Local Governments

By the mid-1980s, federal housing programs had gone through a number of iterations. Some programs had been scrapped as inefficient, subject to fraud and abuse, or too expensive. Shifting federal priorities—toward reducing taxes and increasing military spending in response to the Cold War—reduced funding available for social programs, including housing assistance. Creation of assisted housing with federal funds was on the decline, with production between 1982 and 1988 slowing significantly.[12] In addition, existing affordable rental units were being lost as use restrictions between private owners and HUD expired or owners chose to prepay their low-interest mortgages and begin charging market-rate rent.[13]

As a result of reduced federal support for housing, state and local governments and private for- or non-profit organizations began to take the initiative in developing innovative ways of providing housing in their communities.[14] Policymakers acknowledged that, in some cases, local communities had better knowledge about how to provide housing than the federal government, and might be able to provide housing more efficiently than HUD.[15] From the late 1980s through the 1990s, Congress acknowledged the value of local control and gave more decision-making authority over housing policy to state and local governments through the creation of block grants and tax credits.

In 1986, the Low Income Housing Tax Credit (LIHTC) program was created as part of the Tax Reform Act of 1986 (P.L. 99-514). The LIHTC was not initially part of the bill that became the Tax Reform Act (H.R. 3838). However, because portions of H.R. 3838 eliminated the favorable treatment of real estate investment income, Members added the LIHTC program to the bill in order to ensure that developers would have an incentive to continue to construct low- and moderate-income housing.[16]

The LIHTC program, intentionally or not, was one of the first major programs to give a good deal of control over housing policy to states and localities. Tax credits are allocated to states based on population. States then have discretion in setting priorities as to how the credits will be used. While states must prioritize projects that serve the lowest income tenants for the longest period of time, they may choose to allocate credits based on criteria such as the tenant populations served—those with special needs, families with children, or those on public housing waiting lists.

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[12] The National Housing Task Force, *A Decent Place to Live*, March 1988, available from S.Hrg. 100-689. See p. 142.

[13] See *A Decent Place to Live*, available at S.Hrg. 100-689, p. 142.

[14] Ibid., pp. 154-155. See also Michael A. Stegman and J. David Holden, *Non-federal Housing Programs: How States and Localities Are Responding to Federal Cutbacks in Low-Income Housing* (Washington, DC: The Urban Land Institute, 1987).

[15] Ibid. See also Charles J. Orlebeke, "The Evolution of Low-Income Housing Policy, 1949 to 1999," *Housing Policy Debate*, vol. 11, no. 2 (2000), pp. 509-510, available at http://www.mi.vt.edu/data/files/hpd%2011(2)/hpd%2011(2)_orlebeke.pdf.

[16] Karl E. Case, "Investors, Developers, and Supply-Side Subsidies: How Much is Enough?" *Housing Policy Debate*, vol. 2, no. 2 (April 1990), pp. 349-351, available at http://www.mi.vt.edu/data/files/hpd%202(2)/hpd%202(2)%20case.pdf.

In 1990, Congress created another large, flexible block grant to states and localities. The National Affordable Housing Act of 1990 (NAHA, P.L. 101-625) authorized the HOME Investment Partnerships program. HOME was modeled after an earlier block grant, the Community Development Block Grant (CDBG), which was created as part of the Housing Act of 1974 to consolidate several special purpose grants funding many activities other than housing, such as neighborhood revitalization, open space, and water and sewer grants. NAHA directed that HOME funds be allocated to states and localities based on a formula and that funds be targeted to assist families with incomes at or below 60% of area median income. Recipient jurisdictions were permitted to use funds to assist homeowners, construct rental housing, or provide rental assistance, and they were required to establish plans for spending their funds, meet match requirements, and partner with local non-profits.

The Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA, P.L. 104-330), reorganized the system of federal housing assistance to Native Americans by eliminating several separate programs of assistance and replacing them with a single block grant program. In addition to simplifying the process of providing housing assistance, the purpose of NAHASDA was to provide federal assistance for Indian tribes in a manner that recognizes the right of Indian self-determination and tribal self-governance.

Reforming Rental Assistance

Throughout the 1990s, concern about the state of public housing grew. The public perceived public housing as mismanaged, of poor quality, and dangerous.[17] At the same time, interest was growing in reforming social programs by devolving control to the states and increasing their focus on promoting work and self sufficiency. Concern over the state of public housing—and the influence of the 1996 welfare reform debate and legislation—led to proposals for major public and assisted housing reforms. Several years of debate in Congress culminated with the enactment of the Quality Housing and Work Opportunity Reconciliation Act of 1998 (P.L. 105-276).

The purposes of QHWRA, as defined in the act, were to deregulate PHAs; provide more flexible use of federal assistance to PHAs; facilitate mixed income communities; decrease concentrations of poverty in public housing; increase accountability and reward effective management of PHAs; create incentives and economic opportunities for residents assisted by PHAs to work and become self-sufficient; consolidate the Section 8 voucher and certificate programs into a single market-driven program; remedy the problems of troubled PHAs; and replace or revitalize severely distressed public housing projects.

Specific reforms in QHWRA included increased income targeting in the voucher program, removal of federal preference categories for housing assistance, enactment of a limited community service requirement in public housing, creation of the Section 8 Housing Choice Voucher program (a hybrid of the Section 8 vouchers and certificate programs), authorization of the HOPE VI program (which had been in place, but unauthorized since the early 1990s), consolidation and reform of funding for public housing, and modifications to the assessment systems for PHAs.

[17] For more information, see the final report of the National Commission on Severely Distressed Public Housing, 1992.

Today's Housing Assistance Programs

Today's system for providing housing assistance to low-income families is comprised of programs that fall into three main categories: rental housing assistance, federal assistance to state and local governments, and homeownership assistance. Rental assistance is provided primarily through rent vouchers that families can use in the private market, below-market rental units owned by PHAs or private landlords under contract with the federal government, and, to a limited extent, construction of new below-market rental units. Assistance to state and local governments comes in a number of forms, including broad flexible block grants that can be used for rental, homeownership, or community development purposes, special purpose block grants, and programs based in the tax system. Homeownership assistance includes direct assistance to defray homebuying costs, as well as mortgage insurance programs to help provide incentives for the private market to meet the needs of underserved segments of the population.

The following section provides a description of the major housing assistance programs that fall into these three categories.

Rental Housing Assistance

Section 8 Vouchers

Section 8 vouchers are a form of tenant-based rental assistance funded by the federal government, administered locally by quasi-governmental public housing authorities (PHAs) and provided to private landlords on behalf of low-income families. (The program is codified at 42 USC §1437f(o)). Generally, eligible families with vouchers live in the housing of their choice in the private market and the voucher pays the difference between the family's contribution toward rent and the actual rent for the unit. Specifically, a family pays 30% of its adjusted income toward rent (although they can choose to pay more) and the PHA, which receives funding from HUD, makes payments to the landlord based on a maximum subsidy set by the PHA (based on the local fair market rent established by HUD), less the tenant's contribution. Families are eligible to receive a voucher if they are very low-income (earning 50% or less of the local area median income) or low-income (earning 80% or less of the local area median income) but meet other special criteria (for example, are elderly or have disabilities). However, PHAs must provide 75% of all vouchers available in a year to extremely low-income families (earning 30% or less of the area median income). Vouchers are nationally portable; once a family receives a voucher, it can take that voucher and move to any part of the country where a voucher program is being administered.

There are several special forms of Section 8 vouchers. Tenant protection vouchers are provided to families who would otherwise be displaced from other HUD programs. Some tenant protection vouchers, called enhanced vouchers, can have higher values than regular vouchers. PHAs also have the discretion to "project-base" some of their vouchers. Project-based vouchers are attached to specific housing units rather than given to families to use in the homes of their choosing. Another special form of voucher is the homeownership voucher; PHAs have the discretion to allow eligible first-time homebuyers to use their vouchers to make monthly mortgage payments. (For more information, see CRS Report RL32284, *An Overview of the Section 8 Housing Programs*, by Maggie McCarty.)

The voucher program is not an entitlement program. Families that wish to receive a voucher must generally apply to their local PHA and are placed on a waiting list, the length of which varies by community and can range from several months to many years. Congress has authorized and funded roughly two million vouchers. The funding for those vouchers is provided annually by Congress in the appropriations for HUD. The Section 8 voucher program is the largest of HUD's rental assistance programs, serving the largest number of households and accounting, in recent years, for over one-third of the Department's budget. Congress has generally renewed all existing vouchers each year; in some years, Congress also creates new vouchers to serve additional families, referred to as incremental vouchers. The current distribution of vouchers across PHAs results from a variety of allocation methods used in the past: formula-based, competitive, and other. While the distribution of funding to PHAs is generally based on the number of vouchers that they have and the cost of those vouchers, the exact distribution formula has often been modified by Congress in the appropriations process. (For more information, see CRS Report RL33929, *Recent Changes to the Section 8 Voucher Renewal Funding Formula,* by Maggie McCarty.)

Other Tenant-Based Rental Assistance

While Section 8 vouchers are the main form of tenant-based rental assistance, HUD also funds several other types of tenant-based rental assistance. HUD funds special vouchers for persons with disabilities (through the Section 811 program, discussed later) and for homeless persons (through the Shelter Plus Care program, discussed later), and states and localities can use their HOME Investment Partnerships Block Grant (discussed later) funds to provide vouchers.

Public Housing

Low-rent public housing developments are owned and operated by local public housing authorities (PHAs) and subsidized and regulated by the federal government. (The program is codified at 42 USC §1437.) Generally, families are eligible to live in public housing if they are low-income (those with income at or below 80% of area median income), but 40% of public housing units that become available in a year must be given to extremely low-income families (those with income at or below 30% of area median income). As in the Section 8 voucher program, families living in public housing pay 30% of their adjusted income toward rent.

PHAs receive several streams of funding from HUD to help make up the difference between what tenants pay in rent and what it costs to maintain public housing. PHAs receive operating funds and capital funds through a formula allocation process; operating funds are used for management, administration, and the day-to-day costs of running a housing development and capital funds are used for modernization needs (such as replacing a roof or heating and cooling system, or reconfiguring units). PHAs can also apply for competitive HOPE VI revitalization grants, which are used to demolish and rebuild, or substantially rehabilitate, severely distressed public housing, replacing it with mixed-income housing. (For more information, see CRS Report RL32236, *HOPE VI Public Housing Revitalization Program: Background, Funding, and Issues*, by Maggie McCarty.)

There are roughly 1.2 million public housing units under contract with the federal government, making public housing the second largest direct housing assistance program. The 1998 Public Housing Reform Act (P.L. 105-276) prohibited public housing authorities from increasing the total number of public housing units in their inventory; however, the number of public housing units had begun to steadily decline before then for a number of reasons. PHAs are authorized to demolish or sell their public housing developments with HUD's permission, and since the mid-1990s, they have not been required to replace those units with new units (although they must provide displaced families with Section 8 vouchers). The 1998 Act also provided authority to allow, and in some cases require, PHAs to convert their public housing units to vouchers. Also, the HOPE VI program has contributed to the demolition of more units than it has replaced.

Table 1. Appropriations for Section 8, FY1999-FY2008

($ in millions)

FY	Tenant-Based Section 8 Vouchers	Project-Based Section 8 Rental Assistance	Total Section 8
1999	-	-	**10,327**
2000	-	-	**11,377**
2001	-	-	**13,941**
2002	-	-	**15,640**
2003	-	-	**17,116**
2004	-	-	**19,257**
2005	14,766	5,298	**20,064**
2006	15,418	5,037	**20,455**
2007	15,920	5,976	**21,896**
2008	15,703	6,382	**22,085**

Source: Figures based on congressional appropriations documents and HUD Congressional Budget Justifications.

Note: Figures are not adjusted for rescissions of unobligated budget authority. Prior to FY2005, Congress funded the Section 8 voucher and project-based rental assistance programs jointly. FY2006 figures for tenant-based rental assistance do not include $390 million in emergency appropriations for hurricane relief. Figure for FY2008 tenant-based rental assistance is adjusted for $723 million rescission of current year budget authority enacted in FY2008. Figures shown represent budget authority available in the FY, not budget authority provided (which accounts for differences in advance appropriations from year to year).

Table 2. Appropriations for Public Housing, FY1999-FY2008

($ in millions)

FY	Operating Fund	Capital Fund	Drug Elimination Grants[a]	HOPE VI	Total Public Housing
1999	2,818	3,000	310	625	**6,753**
2000	3,138	2,900	310	575	**6,923**
2001	3,242	3,000	310	575	**7,127**
2002	3,495	2,843	0	574	**6,912**
2003	3,577	2,712	0	570	**6,859**
2004	3,579	2,696	0	149	**6,424**
2005	2,438	2,579	0	143	**5,160**
2006	3,564	2,439	0	99	**6,102**

FY	Operating Fund	Capital Fund	Drug Elimination Grants[a]	HOPE VI	Total Public Housing
2007	3,864	2,439	0	99	**6,402**
2008	4,200	2,439	0	100	**6,739**

Source: HUD Congressional Budget Justifications, FY2001-FY2009. Enacted funding figures taken from subsequent years' justifications.

Note: An accounting change enacted by Congress led to a one-time savings in the public housing operating fund in FY2005. For more information, see discussion on page 13 of CRS Report RL32443, *The Department of Housing and Urban Development (HUD): FY2005 Budget*.

a. Drug elimination grants were available to PHAs, initially competitively, then later via formula allocation, to pay for safety and security activities in public housing. They were funded from FY1991-FY2001.

Project-Based Section 8 Rental Assistance

Under the Section 8 project-based rental assistance program, HUD entered into contracts with private property owners under which owners agreed to rent their housing units to eligible low-income tenants for an income-based rent, and HUD agreed to pay the difference between tenants' contributions and a rent set by HUD. Families are eligible to live in project-based Section 8 units if they are low-income (having income at or below 80% of the area median income), but 40% of units made available each year must be reserved for extremely low-income families (those with income at or below 30% of the area median income).

No new project-based Section 8 contracts have been awarded since the mid-1980s, although existing contracts can be renewed upon their expiration. Roughly one million project-based units are still under contract and receive assistance. The original contracts were for 10-40 year periods and were provided with multi-year funding from Congress for the length of their contract. Therefore, each year, Congress only has to provide new funding for those contracts that have expired and require annual renewal (although, eventually, all of those long-term contracts will expire so all contracts will require annual funding). (See **Table 1** for appropriations information.) Not all contracts are renewed, so there has been a loss of project-based Section 8 units over time. When owners do not renew, tenants are provided with Section 8 tenant protection vouchers. (For more information, see CRS Report RL32284, *An Overview of the Section 8 Housing Programs*, by Maggie McCarty.)

Section 202 Supportive Housing for the Elderly Program and the Section 811 Housing for Persons with Disabilities Program

Through the Section 202 Supportive Housing for the Elderly program, HUD provides funds to nonprofit organizations which in turn build rental properties for low-income elderly households (those with a head of household or spouse age 62 or older). The program was created as part of the Housing Act of 1959 (P.L. 86-372). (The program is codified at 12 U.S.C. §1701q.) Section 202 is the only federal housing program that funds housing exclusively for elderly persons, although from approximately 1964 to 1990, non-elderly disabled households were eligible for residency in Section 202 properties.[18] Although the Section 202 program initially provided low-

[18] "Handicapped" families were added to the definition of "elderly" families in P.L. 88-560, the Housing Act of 1964. In 1990, the Cranston-Gonzalez National Affordable Housing Act (P.L. 101-625) separated housing for disabled (continued...)

interest loans to nonprofit developers, since the early 1990s, the program has provided nonprofit developers with capital grants, together with project rental assistance contracts (rental assistance that is similar to project-based Section 8). The capital grants are awarded through a competitive process. The current version of the Section 202 program serves very low-income elderly households (those with incomes at or below 50% of poverty). (For more information about the Section 202 program, see CRS Report RL33508, *Section 202 and Other HUD Rental Housing Programs for Low-Income Elderly Residents*, by Libby Perl.)

The Section 811 Supportive Housing for Persons with Disabilities Program was created in 1990 as part of the Cranston-Gonzalez Affordable Housing Act (P.L. 101-625). (The program is codified at 42 U.S.C. §8013.) Until the enactment of Section 811, the Section 202 program provided housing for persons with disabilities. Through Section 811, HUD provides capital grants to non-profit organizations to create rental housing that is affordable to very low-income households with an adult who has a disability.[19] The program also funds project rental assistance contracts to subsidize the rent paid by tenants. In addition, Section 811 makes available "mainstream vouchers" which are similar to Section 8 vouchers and allow eligible recipients to find housing in the private market. Housing built with capital grants may include group homes, independent living facilities, multifamily rental units, condominium units, and cooperative housing. Section 811 developers must provide supportive services to those residing in the units. (For more information about the Section 811 program, see CRS Report RL34728, *Section 811 and Other HUD Housing Programs for Persons with Disabilities*, by Libby Perl.)

Table 3. Appropriations for Section 202 and Section 811, FY1999-FY2008

($ in millions)

FY	Section 202[a]	Section 811
1999	660	194
2000	610	201
2001	677	216
2002	683	240
2003	678	249
2004	698	249
2005	648	238
2006	635	231
2007	639	236
2008	629	237

Source: HUD Budget Justifications from FY2001 through FY2009.

(...continued)

persons from housing for elderly persons with the creation of the Section 811 Housing for Persons with Disabilities program.

[19] A disability is defined as (1) having a physical, mental, or emotional impairment that is expected to be of long-continued or indefinite duration, substantially impedes the ability to live independently, and could improved by suitable housing, (2) a developmental disability. 42 U.S.C. §8013(k)(2).

a. The amounts appropriated for Section 202 include funds for new capital grants, new project rental assistance, and renewals of or amendments to project rental assistance contracts. These figures do not include funds for Service Coordinators or the Assisted Living Conversion Program.

Other Rent-Restricted Units

The Section 236 program was a HUD initiative to encourage private developers to create housing affordable to low- and moderate-income households. The program, created as part of the Housing and Urban Development Act of 1968 (P.L. 90-448) was active in promoting new development from approximately 1969 to 1973. (The program is codified at 12 U.S.C. §1715z-1.) The Section 236 program provided mortgage insurance to housing developers for the construction and rehabilitation of rental housing and continues to provide mortgage subsidies to building owners through a mechanism called Interest Reduction Payments (IRPs). IRPs are subsidies to owners that ensure that the owners will only pay 1% interest on their mortgages. Approximately 240,000 developments continue to receive IRPs today.[20] Given the reduced financing costs, owners can charge below-market rents for Section 236 units. Many units also receive rental assistance payments through the Section 8 project-based voucher program, Rent Supplement program, or the Rental Assistance Payments (RAP) program, making the units affordable to very low-income and extremely low-income families.

The Section 221(d)(3) Below Market Interest Rate (BMIR) program was another HUD program that encouraged private developers to create affordable housing by offering FHA-insured loans with interest rates of 3%. The program was enacted as part of the Housing Act of 1961 (P.L. 87-70) and actively insured new loans until 1968, when the Section 236 program replaced it as a vehicle for affordable housing development. (The Section 221(d)(3) program is codified at 12 U.S.C. §1715*l*.) Like Section 236, units created under this program are offered for below-market rents and units may also receive rental assistance.

Rural Rental Housing (Section 515) and Rental Assistance (Section 521)

Title V of the Housing Act of 1949 authorized the U.S. Department of Agriculture (USDA) to make loans to farmers to enable them to construct, improve, repair, or replace dwellings and other farm buildings to provide decent, safe, and sanitary living conditions for themselves, their tenants, lessees, sharecroppers, and laborers. USDA was authorized to make grants, or combinations of loans and grants to those farmers who could not qualify to repay the full amount of a loan, but who needed the funds to make their dwellings sanitary or to remove health hazards to the occupants or the community. Although the act was initially targeted to farmers, over time the act has been amended to enable USDA to make housing loans and grants to rural residents in general.

The USDA housing programs are generally referred to by the section number under which they are authorized in the Housing Act of 1949, as amended. Under the Section 515 program, the Rural Housing Service of the USDA is authorized to make direct loans for the construction of rural rental and cooperative housing. (The program is codified at 42 U.S.C. §1485.) The loans are made at a 1% interest rate and are repayable in 50 years. Except for public agencies, all borrowers must demonstrate that financial assistance from other sources is not enough to enable the borrower to provide the housing at terms that are affordable to the target population. Under the

[20] HUD, Congressional Justifications for FY2009, p. K-1.

Section 521 program, rental assistance payments, which are made directly to owners of rental properties, make up the difference between the tenants' rent payments and the USDA-approved rent for the Section 515 units. (The program is codified at 42 U.S.C. §1490a.) Owners must agree to operate the property on a limited profit or nonprofit basis. For more information, see CRS Report RL33421, *USDA Rural Housing Programs: An Overview*, by Bruce E. Foote.

Table 4. Appropriations for the USDA Section 515 and Section 521 Programs, FY1999 - FY2008

($ in millions)

FY	Section 515	Section 521 Rental Assistance
1999	114	583
2000	114	640
2001	114	686
2002	118	701
2003	115	724
2004	116	581
2005	99	592
2006	98	647
2007	90	329
2008	70	482

Source: U.S. Department of Agriculture Budget Justifications and Appropriations Acts.

Funding for States and Localities

Low Income Housing Tax Credit

The LIHTC was enacted as part of the Tax Reform Act of 1986 (P.L. 99-514) and provides incentives for the development of affordable rental housing through federal tax credits administered through the Internal Revenue Service. (The program is codified at 26 U.S.C. §42.) The tax credits are disbursed to state housing finance agencies (HFAs) based on population. HFAs, in turn, award the credits to housing developers that agree to build or rehabilitate housing where a certain percentage of units will be affordable to low income households. Housing developers then sell the credits to investors and use the proceeds from sale of the credits to help finance the housing developments. The benefit of the tax credits to the purchasing investors is that they reduce the investor's federal income tax liability annually over a ten year period.

Because tax credits reduce the amount of private financing required to build or rehabilitate housing, the owners of developments financed through tax credits are able to charge lower rents. In order to qualify for the tax credits, at least 20% of units in a development must be occupied by households with incomes at or below 50% of area median income, or at least 40% of units must be occupied by households with incomes at or below 60% of area median income. Rent charged for the rent restricted units in a development may not exceed 30% of an imputed income limitation—calculated based on area median incomes. Units financed with tax credits must remain affordable for at least 15 years. As of 2005, over 1.5 million units had been created using

LIHTCs.[21] In 2007, the Joint Committee on Taxation estimated that the LIHTC would result in a $5.1 billion tax expenditure.[22] For more information, see CRS Report RS22389, *An Introduction to the Design of the Low-Income Housing Tax Credit*, by Mark P. Keightley.

Mortgage Revenue Bonds

The federal government authorizes state and local governments to issue private activity bonds, up to a certain limit, which are exempt from federal taxes. One form of a private activity bond is a mortgage revenue bond (MRB). State or local governments—or their authorized agencies, such as housing finance agencies—sell MRBs to investors. Because the interest earned by bondholders is exempt from federal (and sometimes state) taxation, the bonds can be marketed at lower interest rates than would be required for similar taxable instruments. The proceeds of the bond sale, less issuance costs and reserves, are used to finance home mortgages to eligible (generally first-time) homebuyers. In effect, the tax exemption on the bonds provides an interest rate subsidy to homebuyers.

In order to qualify for the benefit, a borrower must not have been a homeowner in the past three years, the mortgage must be for the principal residence of the borrower, the purchase price may not exceed 90% (110% in targeted areas) of the average purchase price in the area, and the income of the borrower may not exceed 110% (140% in targeted areas) of the median income for the area. In 2007, the Joint Committee on Taxation estimated that MRBs would result in a $1.4 billion tax expenditure.[23]

Community Development Block Grants

The Community Development Block Grant (CDBG) program was enacted as part of the Housing and Community Development Act of 1974 (P.L. 93-383), and is administered by HUD. (The program is codified at 42 U.S.C. §§5301-5321.)

The purpose of the CDBG program is to develop viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities primarily for low- and moderate-income persons. The CDBG program distributes 70% of total funds through formula grants to entitlement communities—central cities of metropolitan areas, cities with populations of 50,000 or more, and urban counties—and the remaining 30% goes to states for use in small, non-entitlement communities.

Recipient communities may use CDBG funds for a variety of activities, although at least 70% of funds must be used to benefit low- and moderate-income persons. Eligible activities include the

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[21] Data taken from U.S. Department of Housing and Urban Development's LIHTC Database.

[22] Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2007-2011*, committee print, 110th Cong., September 27, 2007. The Joint Committee on Taxation (JCT) measures a tax expenditure as the difference between tax liability under present law and tax liability computed without the tax expenditure provision. The JCT assumes all other tax expenditures remain in the tax code and that taxpayer behavior is unchanged. The tax expenditure estimate for the LIHTC includes tax credits taken by individuals and corporations.

[23] Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2007-2011*, committee print, 110th Cong., September 27, 2007. The Joint Committee on Taxation (JCT) measures a tax expenditure as the difference between tax liability under present law and tax liability computed without the tax expenditure provision. The JCT assumes all other tax expenditures remain in the tax code and that taxpayer behavior is unchanged. The tax expenditure estimate for MRBs includes tax credits taken by individuals and corporations.

acquisition and rehabilitation of property for purposes such as public works, urban beautification, historic preservation; the demolition of blighted properties; services such as crime prevention, child care, drug abuse counseling, education, or recreation; neighborhood economic development projects; and the rehabilitation or development of housing as well as housing counseling services.

Table 5. Appropriations for the Community Development Fund and CDBG, FY1999-FY2008

($ in millions)

FY	CDBG Formula Grants	Set-Asides	Community Development Fund Account Total
1999	4,218	532	**4,750**
2000	4,236	545	**4,781**
2001	4,399	647	**5,046**
2002	4,341	659	**5,000**
2003	4,340	565	**4,905**
2004	4,331	603	**4,934**
2005	4,117	585	**4,702**
2006	3,711	467	**4,178**
2007	3,711	61	**3,772**
2008	3,593	273	**3,866**

Source: HUD Congressional Budget Justifications; for FY2004-FY2007, HUD's website http://www.hud.gov/offices/cpd/about/budget/ HUD Budget Justifications, FY2000-FY2008 (enacted funding levels FY1998-FY2006), P.L. 110-5 (enacted funding levels for FY2007), P.L. 110-161 (enacted funding levels for FY2008), and FY2009 President's budget.

Note: The CDBG program is funded in an account called the Community Development Fund. That account also funds set-asides including funding for Economic Development Initiatives and Neighborhood Initiatives. This table excludes emergency funding provided to CDBG in response to disasters.

HOME Block Grants

The HOME Investment Partnerships program is a housing block grant program administered by HUD designed to expand the supply of decent, safe, sanitary, and affordable housing. (The program is codified at 42 USC §§12741 et seq.) HOME funds are provided via formula allocation; 60% of funds are awarded to participating jurisdictions (which have populations above a certain threshold) and 40% are awarded to states to use in areas not served by participating jurisdictions. HOME grantees must match 25% of their HOME grants (with some exceptions) and submit a plan to HUD detailing their community needs and priorities.

HOME funds can be used for four main purposes: homeowner rehabilitation, homebuyer assistance, rental construction and rehabilitation, and the provision of tenant-based rental assistance. In 2003, Congress added a special set-aside of funding, called the American Dream Downpayment Initiative (ADDI) program, which can be used only for downpayment and closing cost assistance for eligible first time homebuyers. All HOME funds must be used to benefit low-income families (those with incomes at or below 80% of the area median income) and at least 90% of funds must be used to benefit families with incomes at or below 60% of area median income. (For more information about HOME, see CRS Report R40118, *An Overview of the HOME Investment Partnerships Program*, by Katie Jones.)

Table 6. Appropriations for HOME, FY1999-FY2007

($ in millions)

FY	HOME Formula Grants	Set-Asides	HOME Account Total
1999	1,550	50	**1,600**
2000	1,553	47	**1,600**
2001	1,734	62	**1,796**
2002	1,743	53	**1,796**
2003	1,850	137	**1,987**
2004	1,855	150	**2,006**
2005	1,785	115	**1,900**
2006	1,677	81	**1,757**
2007	1,677	81	**1,757**
2008	1,625	79	**1,704**

Source: FY1999-FY2005 data provided by HUD to CRS; FY2006-FY2007 data available from HUD's website http://www.hud.gov/offices/cpd/about/budget/; FY2008 data taken from HUD FY2009 Congressional Budget Justifications.

Note: In addition to funding HOME block grants, the HOME account is also used to fund the American Dream Downpayment Initiative and other set-asides, including housing counseling assistance and funding for insular areas.

Homeless Assistance Grants

HUD administers four homeless assistance grants, three of which were enacted in 1987 as part of the McKinney-Vento Homeless Assistance Act (P.L. 100-77). (The Homeless Assistance Grants are codified at Title 42, Chapter 119, Subchapter IV of the United States Code.) The four homeless assistance grants are (1) the Emergency Shelter Grants (ESG) program,[24] (2) the Supportive Housing Program (SHP), (3) the Single Room Occupancy (SRO) program, and (4) the Shelter Plus Care (S+C) program.[25] The four grants are distributed to local communities through both formula allocations and a competitive grant process. Depending on the program under which funds are awarded, grantees may use their awards to provide permanent supportive housing, transitional housing, and supportive services for homeless individuals.

The ESG program funds are distributed by formula to both local communities and states, and may be used by grantees to address the emergency requirements of persons experiencing homelessness. The other three homeless assistance grants—SHP, SRO, and S+C—focus on the longer term needs of persons experiencing homelessness—transitional and permanent housing together with supportive services. Funds for each of the three grants are distributed through a

[24] ESG was enacted one year prior to McKinney-Vento as part of the Continuing Appropriations Act for FY1987 (P.L. 99-591). However, it was made part of McKinney-Vento.

[25] The S+C program was authorized in 1990 by the Stewart B. McKinney Homeless Act Amendments (P.L. 101-645).

competition in which local communities (usually cities, counties, or combinations of both) collaborate and apply for funds through HUD's "Continuum of Care" process. SHP funds may be used for transitional housing for homeless individuals and families for up to 24 months, permanent housing for disabled homeless individuals, and supportive services. The SRO program provides permanent housing to homeless individuals in efficiency units where bathroom and kitchen facilities are shared. The S+C program provides permanent supportive housing for disabled homeless individuals and their families. (For more information about the Homeless Assistance Grants, see CRS Report RL33764, *The HUD Homeless Assistance Grants: Distribution of Funds*, by Libby Perl.)

Table 7. Appropriations for the Homeless Assistance Grants and HOPWA, FY1999-FY2008

($ in millions)

FY	Homeless Assistance Grants	HOPWA
1999	975	225
2000	1,020	232
2001	1,123	257
2002	1,123	277
2003	1,217	290
2004	1,260	295
2005	1,229	282
2006	1,327	286
2007	1,442	286
2008	1,586	300

Source: HUD Budget Justifications, FY2001 through FY2009.

Housing Opportunities for Persons With AIDS

The Housing Opportunities for Persons with AIDS (HOPWA) program is the only federal program that provides funding specifically for housing for persons with acquired immunodeficiency syndrome (AIDS) and related illnesses. Congress established the HOPWA program as part of the National Affordable Housing Act (P.L. 101-625) in 1990. (The program is codified at 42 U.S.C. §§12901-12912.) HOPWA program funding is distributed both by formula allocations and competitive grants. HUD awards 90% of appropriated funds by formula to states and eligible metropolitan statistical areas (MSAs) that meet thresholds regarding population, AIDS cases, and AIDS incidence. Recipient states and MSAs may allocate grants to nonprofit organizations or administer the funds through government agencies. HOPWA grantees may use funds for a wide range of housing, social services, program planning, and development costs. (For more information about HOPWA, see CRS Report RL34318, *Housing for Persons Living with HIV/AIDS*, by Libby Perl.)

NAHASDA

The Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA, P.L. 104-330), reorganized the system of federal housing assistance to Native Americans by separating

Native American programs from the public housing program, and by eliminating several separate programs of assistance and replacing them with a single block grant program. In addition to simplifying the process of providing housing assistance, the purpose of NAHASDA was to provide federal assistance for Indian tribes in a manner that recognizes the right of Indian self-determination and tribal self-governance.

The act provides block grants to Indian tribes or their tribally designated housing entities (TDHE) for affordable housing activities. The tribe must submit an Indian housing plan (IHP), with long- and short-term goals and proposed activities, which is reviewed by HUD for compliance with statutory and regulatory requirements. Funding is provided under a needs-based formula, which was developed pursuant to negotiated rule-making. Tribes and TDHEs can leverage funds, within certain limits, by using future grants as collateral to issue obligations under a guaranteed loan program.

Table 8. Appropriations for NAHASDA, FY1999 - FY2008

($ in millions)

FY	NAHASDA
1999	620
2000	620
2001	650
2002	649
2003	645
2004	650
2005	622
2006	624
2007	624
2008	630

Source: HUD Budget Justifications, FY2001-FY2009, and Appropriations Acts.

Homeownership Assistance

Federal Housing Administration

The Federal Housing Administration (FHA) is an agency within HUD that insures mortgages made by private lenders. Since lenders are insured against loss if borrowers default, they are willing to make loans to borrowers who might not otherwise be served by the private market, particularly those with low downpayments or little credit history. FHA-insured borrowers pay an insurance premium to FHA and are subject to limits on the size of loan that they can obtain.

The FHA administers a variety of mortgage insurance products, including insurance for home purchase and home improvement loans, reverse mortgages to allow the elderly to remain in their homes, as well as loans for the purchase, repair, or construction of apartments, hospitals, and nursing homes. The programs are administered through two program accounts—the Mutual Mortgage Insurance/Cooperative Management Housing Insurance fund account (MMI) and the

General Insurance/Special Risk Insurance fund account (GI/SRI). The MMI fund provides insurance for home mortgages. The GI/SRI fund provides insurance for more risky home mortgages, for multifamily rental housing, and for an assortment of special purpose loans such as hospitals and nursing homes.

Table 10 presents the FHA share of the home mortgage market for FY1998 - FY2007. The share of home purchases financed with an FHA-insured mortgage each year was about 14% for FY1999 through FY2001 and then it began to decline to a low of 4% in FY2006. The FHA share of loans doubled between FY2006 and FY2007, as FHA obtained a higher share of a smaller mortgage market. For more information on FHA, see CRS Report RS20530, *FHA-Insured Home Loans: An Overview*, by Bruce E. Foote and Katie Jones.

Table 9. FHA Share of Mortgage Market, FY1998 - FY2007

FY	Number of FHA-Insured Mortgages Originated (000)	FHA-Insured Mortgages as a % of All Home Sales
1998	790	13
1999	911	14
2000	858	14
2001	872	14
2002	808	12
2003	657	9
2004	506	6
2005	346	4
2006	302	4
2007	289	8

Source: HUD, http://www.hud.gov/offices/hsg/comp/rpts/fhamktsh/fhamktcurrent.pdf.

Department of Veterans Affairs Loan Guarantees

The Servicemen's Readjustment Act of 1944 (P.L. 78-346) established the home loan guaranty program, which is now administered by the Department of Veterans Affairs (VA). The VA loan guaranty program was an alternative to cash bonuses for the millions of men and women who served in the Armed Forces during World War II.

Under this program, an eligible veteran may purchase a home through a private lender and the VA guarantees to pay the lender a portion of the losses if the veteran defaults on the loan, similar to FHA. While initially established to benefit veterans who had served during war times, the program has been amended to extend eligibility to all parties who are on active duty or honorably discharged from the services. The main objective of the current VA home loan guaranty program is to help veterans finance the purchase of homes on favorable loan terms.

Table 11 presents the VA-insured share of the home mortgage market for FY1998 to FY2007. The total number of VA-insured loans originated per year as a share of all home sales declined from 8% in FY1999 to 2% in FY2005 through FY2007. For more information on VA home loans, see CRS Report RS20533, *VA-Home Loan Guaranty Program: An Overview*, by Bruce E. Foote.

Table 10. VA Share of Mortgage Market, FY1998 - FY2007

FY	Number of VA-Insured Mortgages Originated (000)	VA-Insured Mortgages as a % of All Home Sales
1998	344	6
1999	486	8
2000	199	3
2001	250	4
2002	317	5
2003	489	7
2004	336	4
2005	166	2
2006	143	2
2007	133	2

Source: VA loan data provided to CRS by U.S. Department of Veterans Affairs. Total market data taken from HUD's website at http://www.hud.gov/offices/hsg/comp/rpts/fhamktsh/fhamktcurrent.pdf. Percentages calculated by CRS.

Federal Home Loan Banks

The Federal Home Loan Banks (FHLB; the Banks) were created in 1932 by the Federal Home Loan Bank Act (P.L. 72-304) to serve as lenders to savings and loan associations, which at the time made the majority of home mortgage loans. The Banks were established to ensure the liquidity of these lenders, and today lend money to commercial banks, credit unions, and insurance companies in addition to savings and loans. The FHLB System includes twelve regional wholesale Banks and an Office of Finance. Each Bank is a separate legal entity, cooperatively owned by its member financial institutions, and has its own management, employees, and board of directors. Each Bank is assigned a distinct geographic area.

Although the Federal Home Loan Banks are not subject to federal income tax, they do pay 20% of their net earnings to fund a portion of the interest on the Resolution Funding Corporation (REFCorp) debt, which was issued for the resolution of insolvent savings and loans association during the 1980s. In addition, the Federal Home Loan Banks contribute the greater of 10% of their net income or $100 million toward an Affordable Housing Program, the purpose of which is to extend grants and subsidized housing loans to very low- to moderate-income families and individuals. The Affordable Housing Program includes a First-time Homebuyer Program which enables up to $10,000 to be awarded to eligible homebuyers for downpayment and closing cost assistance. For more information, see CRS Report RL32815, *Federal Home Loan Bank System: Policy Issues*, by Edward V. Murphy.

Department of Agriculture Rural Housing Loans

Through the Section 502 Guaranteed Rural Housing Loan program, USDA is authorized to make both direct loans and to guarantee private loans to very low- to moderate-income rural residents for the purchase or repair of new or existing single-family homes. (The program is codified at 42 U.S.C. §1472.) The direct loans have a 33-year term and interest rates may be as low as 1%. Borrowers with incomes at or below 80% of area median income qualify for the direct loans. The guaranteed loans have 30-year terms, and borrowers with incomes at or below 115% of the area median qualify. Priority for both direct and guaranteed loans is given to first-time homebuyers, and USDA may require that borrowers complete a homeownership counseling program.

Through the Section 504 program, the USDA makes loans and grants to very low-income homeowners (those with incomes at or below 50% of area median income) for home repairs or improvements, or to remove health and safety hazards. (The program is codified at 42 U.S.C. §1474.) The Section 504 grants may be available to homeowners who are age 62 or older. To qualify for the grants, the elderly homeowners must lack the ability to repay the full cost of the repairs. Depending on the cost of the repairs and the income of the elderly homeowner, the owner may be eligible either for a grant that will cover the full cost of the repairs, or for some combination of loan and grant. For more information, see CRS Report RL33421, *USDA Rural Housing Programs: An Overview*, by Bruce E. Foote.

Section 235

The Section 235 program, enacted as part of the Housing and Urban Development Act of 1968 (P.L. 90-448), helped to subsidize the home purchases of individual borrowers. Through the program, FHA provided a monthly subsidy payment to lenders in order to reduce the interest liability of loans made to eligible borrowers. As originally enacted and administered, homebuyers were required to pay at least 20% of their income toward debt service on their mortgages, and FHA paid the lenders the lesser of (1) balance of the monthly payment due after the borrowers paid 20% of their income or (2) the difference between the required payments at the FHA interest rate and the payments that would be due on a loan with a 1% interest rate. As a result, the subsidy to homeowners varied depending upon their income, the amount of the mortgage, and the market interest rate.

The Section 235 program had a two-tiered eligibility component. At least 80% of program funds were made available for homebuyers with incomes that did not exceed 135% of the maximum income for admission to public housing. Applicants in this group could purchase homes with downpayments as low as $200. The remaining 20% of program funds were available for a higher income group. Applicants in this group had to make downpayments of at least 3% of the sales price. New commitments under the Section 235 program were halted by the 1973 Nixon moratorium; a revised version of the program was reactivated in 1976. The Section 235 program was terminated as of October 1, 1989 by the Housing and Community Development Act of 1987 (P.L. 100-242); however, roughly 4,000 families continue to be assisted by the program.[26]

Mortgage Interest Deduction

Homeownership promotion has generally taken two forms: government assistance in the financing of home purchases, and tax preferences favoring homeowners. One of the tax incentives that promotes homeownership is the mortgage interest deduction. The mortgage interest deduction allows homeowners to deduct any interest paid on their mortgage from their taxable income, thus reducing their tax liability. The deduction benefits those households that own homes, that have a mortgage on which they pay interest, that have federal income tax

[26] HUD, Congressional Justifications for FY2009, p. K-1.

liability, and for whom itemized deductions exceed the standard deduction (approximately 75% of taxpayers take the standard deduction). It is not targeted to lower-income households.

Although the mortgage interest deduction was not initially created to promote homeownership,[27] today, the mortgage interest deduction could be considered the federal government's largest housing program. According to the Joint Committee on Taxation (JCT), in FY2007, the mortgage interest deduction resulted in a $73.7 billion tax expenditure.[28]

Issues and Trends in Housing Assistance Programs

Incidence of Housing Problems

When the federal housing assistance programs began in the 1930s, the nation was considered to be ill-housed. The Housing Act of 1937 identified an "acute shortage of decent, safe, and sanitary dwellings." Thanks in part to stricter building codes and standards, most housing in the United States today is decent, safe, and sanitary. Although some units are still considered substandard, today the greatest perceived housing problem is affordabililty. Housing is considered "affordable" if it costs no more than 30% of a household's income. Households that pay half or more of their income toward their housing costs are considered severely cost burdened; households that pay between 30% and 50% of their income toward their housing costs are considered moderately cost burdened. According to data from the Census Bureau's American Community Survey, 20 million households were moderately cost burdened and 17 million households were severely cost burdened in 2005.[29]

HUD is directed to report to Congress periodically on the incidence of "worst case" housing needs. Worst case housing needs are defined as unassisted renters with very low incomes (at or below 50% of area median income) who pay more than half of their income for housing costs or live in severely substandard housing. In a report to Congress on worst case housing needs, HUD found that roughly 6 million households had worst case housing needs in 2005, accounting for 5.5% of all households.[30] This was a statistically significant increase from 2003, when 5.2 million households had worst case housing needs (4.9% of all households). Prior to the increase in 2005, the percentage of households having worst case housing needs had remained relatively steady—roughly 5%—since HUD began reporting on worst case housing needs in 1991. The vast majority of households with worst case housing needs (91%) were severely cost burdened, but lived in standard housing; only about 4% of households had worst case housing needs solely because they

[27] As described in CRS Report RL33025, *Fundamental Tax Reform: Options for the Mortgage Interest Deduction*, by Pamela J. Jackson, when the federal income tax was instituted in 1913, all interest payments were deductible. Over time, mortgage interest became distinguishable from other interest, and the deductibility of mortgage interest was separated and maintained (although changes have been made over time), while the deductibility of personal interest payments was eliminated.

[28] Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2007-2011*, committee print, 110th Cong., September 27, 2007. The Joint Committee on Taxation (JCT) measures a tax expenditure as the difference between tax liability under present law and tax liability computed without the tax expenditure provision. The JCT assumes all other tax expenditures remain in the tax code and that taxpayer behavior is unchanged.

[29] Harvard Joint Center for Housing Studies, "State of the Nation's Housing, 2007," Table A-6.

[30] Department of Housing and Urban Development, "Affordable Housing Needs 2005: Report to Congress," May 2007.

lived in substandard housing. In other words, their worst case housing needs were a function of the cost of their housing to a much greater extent than the condition of their housing.

Characteristics of Families Receiving Assistance

Public housing, Section 8 vouchers, and the project-based rental assistance programs (including project-based Section 8, Section 202 and Section 811) combined serve roughly 4 million households and can be considered the primary housing assistance programs for low-income families. These three forms of assistance are similar in many ways. They all target assistance to extremely low-income families, require families to pay 30% of their incomes toward rent, and generally have long waiting lists for assistance. However, the three vary significantly in terms of their evolution, the structure of their benefit (a portable voucher versus a housing unit), and their administration (PHA versus private owner).

The similarities and differences in the programs themselves result in similarities and differences in the characteristics of the households they serve. **Table 11** provides household characteristics data for participants in the Section 8 tenant-based voucher program, the public housing program, and the project-based rental assistance programs (including project-based Section 8, housing for the elderly and disabled, and the rental assistance payment programs).

Table 11. Characteristics of Households Served in Selected Housing Assistance Programs

	Tenant-Based	Public Housing	Project-Based
Household Characteristics			
Elderly Head of Household	16%	32%	48%
Disabled Head of Household	25%	20%	15%
All Households with Children	59%	42%	29%
Non-Married Female Head of Household With Children	54%	38%	26%
Race and Ethnicity (Head of Household)			
White	54%	50%	63%
Black	43%	47%	32%
Hispanic (any race)	16%	21%	11%
Household Income (2004)			
Median Annual Income	$9,500	$8,400	$9,300
Zero Income	4%	5%	5%
Source of Income (All Households)			
Any Wages	37%	31%	22%
Any Welfare	24%	17%	9%
Any Social Security, Pension, or Disability Income	28%	39%	65%

	Tenant-Based	Public Housing	Project-Based
Source of Income (Non-elderly, Non-disabled)			
Any Wages	55%	54%	49%
Any Welfare	29%	25%	17%
Any Social Security, Pension, or Disability Income	6%	6%	10%
Tenure (in years)			
25th Percentile	1.8	1.9	1.7
Median	3.4	5.3	3.8
75th Percentile	6.6	12.1	8.6
Location			
Suburb	32%	17%	28%
Central City	47%	54%	50%
Non-Metro Area	21%	29%	21%

Source: Calculated by CRS, based on data provided by HUD.

Note: Data reflect participating households in December 2004.

The Section 8 (tenant-based) voucher program serves more single, female-headed households with children than do the public housing program or project-based programs. In 2004, over half of voucher households were households with children headed by unmarried females, compared to less than 40% of public housing households and less than 30% of project-based households. The project-based programs primarily serve elderly and disabled households, who account for nearly two-thirds of all households served in those programs. This is not surprising given that owners of project-based housing may designate entire properties for elderly or disabled households. Public housing is more evenly divided, with about half of all households being elderly or disabled.

In all three programs, the majority of households served have heads of household who identify their race as white, although all three serve a substantial number of households whose heads identify their race as black. Public housing serves the highest proportion of black households, 47% compared to 43% in the voucher program and 32% in the project-based programs. Between 10% and 20% of households served across the three programs have heads of household who identify their ethnicity as Hispanic, with public housing again having the largest share. Public housing is also more concentrated in central cities than are vouchers or project-based units.

The rules governing the three main housing assistance programs require that they serve low-income households. In 2004, the median household income across the three programs ranged from $8,400 in the public housing program to $9,500 in the voucher program. The median income of the households served in the HUD programs was less than one-fifth of national median income. (In FY2004, national median income for a family of four was $57,500.[31]) Across all three programs, roughly 5% of households reported having zero income.

Given the differences in characteristics of households served by each program, it is not surprising that the source of tenant income varies significantly by program. Among households receiving

[31] See http://www.huduser.org/Datasets/IL/IL04/BRIEFING-MATERIALs.pdf.

project-based rental assistance, nearly two-thirds reported receiving pension income, Social Security income, or disability-related fixed income. In the voucher program, which serves fewer elderly and disabled households than the project-based programs, nearly as many households reported receiving some income from welfare as receiving income from pension, Social Security, or disability-related payments. In the public housing program, a little over a third of households reported receiving income from Social Security, pension, or disability payments and a little under a third reported income from work.

Unlike the Temporary Assistance for Needy Families (TANF) program, the housing assistance programs do not contain a requirement that recipients obtain employment, with the exception of an 8-hour per month community service requirement for non-working, non-elderly, non-disabled public housing residents. There have been proposals offered in Congress to institute a work requirement for recipients of assisted housing, and some public housing authorities have experimented with instituting such requirements. Looking at non-elderly, non-disabled households across the three programs, half or more of all households have at least some income from work.

Concern has been raised that perhaps the income-based rent structure in the assisted housing programs acts as a disincentive for households to increase their earnings; for every new dollar a family earns, thirty-cents must go toward rent.[32] There have been some efforts to mitigate this perceived work disincentive, including the adoption of an earned income disregard in the public housing program and an earned income disregard for disabled families in the voucher program. Congress also developed the Family Self Sufficiency (FSS) program in an effort to promote work. Families in the FSS program enter into contracts with their PHAs in which they agree to take steps toward becoming self sufficient within five years. The PHA, in turn, agrees to deposit any increased rent collected as a result of the family's increased earnings into an escrow account that the family will receive at the end of the five years, or from which they can make interim withdrawals for approved purposes. FSS is voluntary for PHAs to administer and voluntary for families to join.

Also unlike TANF, the housing assistance programs do not have time limits. Once a household begins receiving housing assistance, that household can continue to receive assistance for as long as they wish to participate in the program and continue to comply with program rules. Families whose incomes increase above the initial eligibility thresholds can continue to receive assistance until 30% of their income is equal to their rent. At that point, they no longer qualify for rental assistance under the voucher program, and in the case of the public housing program, they can continue to live in their apartments and pay market rate rent. Among the households receiving assistance in December 2004, the median length of time that households had lived in assisted housing (tenure) was greatest in the public housing program, at just over five years, and shortest in the voucher program, at just under three and a half years.[33]

[32] Olsen, Edgar, et al., Effects of Different Types of Housing Assistance on Earnings and Employment Cityscape: A Journal of Policy Development and Research, vol. 8, no. 2, 2005.

[33] Median length of stays taken from point-in-time data cannot predict how long a household entering a housing program is likely to stay.

The Federal Government's Role in Housing

Beginning in the 1980s, the federal government took on a lesser role in the creation of assisted housing. This occurred in several ways. Congress ceased funding new construction under the Section 8 project-based program, which from its enactment in 1974, had subsidized hundreds of thousands of units of assisted housing. This left very few active programs in which HUD supported the development of physical housing units. Between 1976 and 1982, the federal housing programs produced more than one million units of subsidized housing.[34] In the following years, however, annual production was around 25,000 new subsidized units.[35] Around the time that housing production was declining, Congress created two programs that gave a good deal of control over decisions regarding housing policy and development to state and local governments—these included the Low Income Housing Tax Credit (LIHTC) program and the HOME Investment Partnerships program. These programs, particularly the LIHTC, have been used by states and localities to create hundreds of thousands of units of affordable housing.

The federal government's decision to take a lesser role in the development of housing has had several consequences. First, state and local governments have taken on an increased role in providing affordable housing and establishing priorities in their communities.[36] Second, due to a reduction in the number of new affordable housing units that are created each year, the need to preserve existing affordable housing units has taken on a new importance. A third consequence is the need for multiple streams of funding other than federal grants in order both to support the creation of new affordable housing units and to preserve existing units. Those three consequences are discussed more fully below.

First, with the advent of both the LIHTC program and the HOME program, states and localities were able to exercise discretion in determining how to prioritize and develop housing using a larger pool of federal funds. Until that point, even though states, through their Housing Finance Agencies, helped finance mortgage loans and affordable rental housing, their role was limited by the amount of funds available.

In the Low Income Housing Tax Credit program, states develop plans in which they may set aside a certain percentage of tax credits for populations such as homeless individuals or persons with disabilities. They may also decide to use tax credits to preserve existing housing as well as to build new housing. Funds that states receive from the HOME program may be used for the construction of new rental housing and rental assistance for low-income households. A potential drawback of these programs is their inability, on their own, to reach the neediest households.[37] For example, in a LIHTC development, at least 20% of units must be affordable to households at or below 50% of area median income, or 40% of units must be affordable to households at or below 60% of area median income. Many of the older HUD programs constructed housing that was affordable to households at or below 30% of area median income—those considered

[34] The National Housing Task Force, *A Decent Place to Live,* March 1988. See S.Hrg. 100-689, p. 142.

[35] Ibid.

[36] Michael A. Stegman, *State and Local Affordable Housing Programs: A Rich Tapestry* (Washington, DC: Urban Land Institute, 1999).

[37] See, for example, Recapitalization Advisors, Inc., *The Low Income Housing Tax Credit Effectiveness and Efficiency: A Presentation of the Issues,* March 4, 2002, p. 11, available at http://www.affordablehousinginstitute.org/resources/library/MHC_LIHT.pdf.

extremely low-income. Often these households cannot afford units in LIHTC properties without rental subsidies, such as Section 8 vouchers.[38]

Another way some states and local governments support affordable housing is outside of the assistance of the federal government, through establishment of their own housing trust funds. These trust funds use dedicated funding sources such as document recording fees or real estate transfer taxes to create a pool of funds for affordable housing. By using a dedicated source of financing, trust funds may not be as subject to the vicissitudes of state budgets as are other means of funding housing development. States and local communities also support affordable housing through inclusionary zoning. Through this method, housing developers are expected to dedicate a percentage of units they build as affordable housing. In exchange, states or local communities give developers incentives that allow them to expand or speed up the pace of development. Some of the incentives include density bonuses or zoning variances that allow developers to build larger facilities than they would be able to under existing zoning regulations, as well as expedited approval of building permits.

A second consequence of the decreased role of the federal government in the creation of affordable housing units is the increased pressure to maintain the affordability of existing units. Many HUD subsidized units that were developed in the 1960s and 1970s through programs such as Section 236 and Section 221(d)(3), as well as those units that received Section 8 project-based rental assistance, are no longer available to low-income households. At the time the properties were developed, building owners entered into contracts with HUD in which they agreed to maintain affordability for a certain number of years. The duration of these contracts varied; depending on the federal program, these contracts, or "use restrictions" may last between 15 years (the Low Income Housing Tax Credit program) and 50 years (early Section 202 developments). In recent years, these contracts have begun to expire or, in some cases, property owners have chosen to pay off their mortgages early and end the use restrictions. Contracts for rental assistance, including project-based Section 8 rental assistance, have also begun to expire. When any of these events occur, owners may charge market-rate rents for the units, and the affordable units are lost. The term used to refer to efforts to maintain the affordability of these housing units is "affordable housing preservation." In coming years, more and more property owners will be in a position to opt out of affordability restrictions and thousands of units could be lost.[39]

Congress has attempted to enact laws that would preserve affordable housing units; however, due to the temporary nature of some of the measures, preservation remains a concern. Congress first enacted legislation to help preserve affordable rental housing in 1987. The Emergency Low-Income Housing Preservation Act (ELIHPA), enacted as part of the Housing and Community Development Act of 1987 (P.L. 100-242), was a temporary measure that prevented owners of Section 236 and Section 221(d)(3) properties from prepaying their mortgages. In 1990, the Low-Income Housing Preservation and Resident Homeownership Act (LIHPRHA), enacted as part of the Cranston-Gonzalez National Affordable Housing Act (P.L. 101-625), offered incentives to owners to keep them from prepaying their mortgages. However, six years after LIHPRHA was enacted, Congress reinstated the right of owners to prepay their mortgages. (See P.L. 104-134.) Another effort to preserve affordable housing was enacted as part of the Multifamily Assisted

[38] Ethan Handelman, Jeffrey Oakman, and David A. Smith, *The Interaction of LIHTC and Section 8 Rents*, Recapitalization Advisors, Inc., January 30, 2007, p. 4, available at http://www.recapadvisors.com/pdf/Wu%2061.pdf.

[39] For example, according to HUD's database of Section 236 properties with active loans, at least 1,200 loans representing 137,000 units will have mortgages that mature over a five-year period between 2008 and 2013.

Housing Reform and Accountability Act (MAHRA, P.L. 105-65). Through this effort, called Mark-to-Market, HUD restructures the debt of building owners while at the same time renegotiating their rental assistance contracts. Unlike ELIHPA and LIHPRHA, the Mark-to-Market program is still in effect.

A third consequence of decreased federal funding for the construction of affordable housing is the need for low-income housing developers to bring together multiple funding streams in order to build a development. When the federal government first began to subsidize the production of affordable housing, in many cases the funds appropriated for housing programs were sufficient to construct or rehabilitate the affordable units without the need for funds from the private financial markets. Over the years, however, federal programs that provide grants for the construction of multifamily housing for low-income households have become a smaller portion of the government's housing portfolio. At the same time, the grants themselves have become a smaller portion of the total amount needed to support the development of affordable housing. As a result, it has become necessary for developers to turn to multiple sources of financing, including Low Income Housing Tax Credits, tax exempt bonds, and state or local housing trust funds. In addition, it is often necessary for building owners to seek rent subsidies through programs like Section 8, HOME, and Shelter Plus Care to make renting to very low- or extremely low-income households feasible.

The interactions among these various financing streams can be complex, and putting together a development plan may require the expertise of housing finance professionals.

Shift to Tenant-Based Assistance

Over time, the number of Section 8 vouchers provided and funded by the federal government has grown, while the number of federally-subsidized housing units—through project-based Section 8 rental assistance and public housing—has declined. From 1998 to 2007, the number of vouchers has increased by more than half a million;[40] over the same time period, the number of public housing units declined by over 140,000 units[41] and the number of project-based Section 8 units declined by about 120,000 units.[42]

This change from project-based assistance to tenant-based assistance is due, in part, to Congress' decision to increase the voucher program by creating new vouchers after new construction in the project-based Section 8 program and public housing program had been halted.[43] Between FY1998

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[40] From roughly 1.6 million vouchers in FY1998 to 2.1 million vouchers in FY2007. The 1998 estimate of Section 8 vouchers is taken from the Government Accountability Office Report, GAO-06-405, *Rental Housing Assistance: Policy Decisions and Market Factors Explain Changes in the Costs of the Section 8 Programs*, April 28, 2006; the 2007 estimate was taken from the FY2009 HUD Congressional Budget Justifications. Note that the methodology for counting Section 8 vouchers has changed over time, therefore, the 2007 count may underestimate the number of vouchers.

[41] From just under 1.3 million units in FY1998 to just under 1.16 million units in FY2007. Data on public housing units are taken from HUD Congressional Budget Justifications.

[42] From just under 1.4 million units in CY1998 to just under 1.29 million units in FY2007. Data on project-based Section 8 units are taken from Econometrica, et al., *Multifamily Properties: Opting In, Opting Out and Remaining Affordable*, January 2006 (CY1998 data, Table 2.2) and HUD Congressional Budget Justifications (FY2007 data). Note that for project-based figures, a calendar year figure is compared to a fiscal year figure.

[43] The authority to enter into new project-based Section 8 contracts was repealed in 1983 and the 1998 public housing reform law prohibited PHAs from increasing the number of public housing units under contract.

and FY2007, Congress authorized and funded 276,981 new vouchers—referred to as incremental vouchers.[44] Some of these vouchers were general purpose vouchers, available to any eligible family, and some were special purpose vouchers, targeted to special populations, such as families transitioning from welfare to work.

This shift is also due, in part, to declines in the number of project-based assistance and public housing units. As previously noted in this report, the project-based rental assistance contracts between private landlords and HUD began expiring in the 1980s. When these contracts expire, private property owners can either renew their contracts with HUD (typically on an annual or five-year basis) or leave the program. When property owners leave the program, their tenants typically receive Section 8 vouchers—referred to as tenant protection vouchers. As also noted earlier in this report, since the mid-1990s, when public housing units are demolished or sold, PHAs are not required to replace each lost unit with a new public housing unit. Instead, displaced families who are not relocated to other public housing units are provided with tenant-protection vouchers. From FY1998 to FY2007, HUD awarded 280,784 tenant protection vouchers.[45] [46]

The shift from project-based assistance to tenant-based assistance has several implications for families. Vouchers offer portability, which, for some residents of public or other assisted housing, may mean the ability to move out of a troubled community to a community with new opportunities. However, there is debate over whether vouchers' portability leads to economic or social mobility. Early research on mobility showed promise that families—particularly, low-income black families—that moved from heavily poverty- and minority-concentrated public housing neighborhoods to more economically- and racially-integrated neighborhoods using vouchers could see improved employment and child outcomes.[47] However, more recent mobility research has shown mixed results.[48] There is also some evidence that, for families accustomed to living in public housing, the transition to the private market rental market with a voucher can be difficult without counseling and other supports, which may not be consistently provided.[49]

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[44] Estimates of incremental vouchers from FY1998-FY2004 are taken from Government Accountability Office Report, GAO-06-405, *Rental Housing Assistance: Policy Decisions and Market Factors Explain Changes in the Costs of the Section 8 Programs*, April 28, 2006. Between FY2004 and FY2007, no new incremental vouchers were funded or awarded.

[45] Estimates of tenant protection vouchers from FY1998-FY2004 are taken from Government Accountability Office Report, GAO-06-405, *Rental Housing Assistance: Policy Decisions and Market Factors Explain Changes in the Costs of the Section 8 Programs*, April 28, 2006. Estimates of tenant protection vouchers from FY2005-FY2007 are taken from Notices published by HUD in the *Federal Register*.

[46] Note that the number of tenant protection vouchers awarded exceeds the decline in the number of public housing and project-based Section 8 units. This may be partly due to the awarding of tenant-protection vouchers to other project-based rental assisted units and partly due to differences in timing between the award of the vouchers and the units leaving the inventory.

[47] J.E. Rosenbaum, *Changing the Geography of Opportunity by Expanding Residential Choice: Lessons from the Gautreaux,* Housing Policy Debate, vol. 6 no. 1, Fannie Mae Foundation, 1995.

[48] Larry Orr, et al., *Moving to Opportunity for Fair Housing Demonstration : Interim Impacts Evaluation,* Abt Associates, September 2003.

[49] Popkin, Susan, et al., *A Decade of HOPE VI: Research Findings and Policy Challenges*, Urban Institute, May 18, 2004.

Promoting Homeownership

Historian James Truslow Adams is generally credited with coining the term "the American Dream" when he wrote a book titled "The Epic of America." Adams defined the American Dream as "That dream of a land in which life should be better and richer and fuller for every man, with opportunity for each according to his ability or achievement."[50] Over time, the meaning of the American Dream has often been truncated and associated with becoming a homeowner.

For the First Quarter of 2008, the Census Bureau reported a U.S. homeownership rate of 67.8%.[51] The distribution of homeownership is not even, however. The rate is highest in the Midwest (72%) and lowest in the West (62.8%). It is highest for those age 65 years or more (79.9%), and lowest for those under 35 years old (41.3%). It is higher for whites (75%) than it is for blacks (47.1%). Hispanics, who can be of any race, had a homeownership rate of 48.9%. The homeownership rate is higher for those with income greater than the median (82.8%) and lower for those with incomes less than the median (51.2%).

Homeownership has been promoted by favorable treatment in the tax code (mortgage interest and property tax deductions); by the creation and favorable treatment of lending institutions that make home loans (federal home loan banks); by the establishment of federal programs that insure lenders against losses on home loans (FHA, VA, and USDA); by establishing institutions that create a secondary market for mortgages and enable funds for mortgages to be available throughout the U.S. (Fannie Mae, Freddie Mac, and Ginnie Mae); by establishing counseling programs, within HUD and USDA, that fund agencies that counsel prospective homebuyers on obtaining and maintaining homeownership; and by funding grant programs that provide downpayment and closing cost assistance to some homebuyers.

Since the 1940s nearly every U.S. president has expressed support for the concept of increased homeownership. For example, there has been the "Blueprint for the American Dream" by the George H.W. Bush Administration, the "National Homeownership Strategy" of the Clinton Administration, and the "Homeownership Initiative" of George W. Bush Administration. Generally, the proposals have involved little new federal funding, but have sought to rally the private sector to use existing programs to reach some specified target.

The primary focus of recent proposals has been to increase homeownership among those who have been traditionally left out of the homeownership dream, such as low-income families and minorities. The success of these proposals will likely depend on the success of such families in maintaining homeownership once obtained.

Data

The following tables present data on federal spending (outlays) on selected housing assistance programs as well as data on the number of assisted units, since 1980.

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[50] Youngro Lee, "To Dream or Not to Dream: A Cost-Benefit Analysis of the Development, Relief, and Education for Alien Minors (DREAM) Act," *Cornell Journal of Law and Public Policy*, Fall 2006.

[51] Department of Commerce, U.S. Census Bureau News, Census Bureau Reports on Residential Vacancies and Homeownership, April 28, 2008, p. 4, available at http://www.census.gov/hhes/www/housing/hvs/qtr108/q108press.pdf.

Table 12 presents outlays for selected programs, in both real and nominal dollars. It is important to note that this table does not include any spending information related to loan commitments or obligations.

As can be seen in **Table 12**, outlays for the selected programs have increased, in both real and nominal dollars, over the nearly three decades presented (a 363% increase in nominal dollars, a 105% increase in real dollars). The growth in outlays was greatest from the late-1980s to mid-1990s (from 1988 to 1995 outlays grew by over 98% in nominal terms, over 62% in real terms), but has slowed in recent years (from 2000 to 2007, outlays grew by 29% in nominal terms, 8% in real terms).

Another trend that can be seen in **Table 12** is the increase in outlays for the rental assistance programs in recent years, while outlays in the public housing and other housing assistance programs are declining. This is consistent with the shift from project-based assistance to tenant-based assistance (or vouchers) discussed earlier in this report.

Table 12. Outlays, Selected Housing Programs, FY1980-FY2007

(nominal dollars in millions, unless otherwise noted)

Fiscal Year	Rental Assistance[a]	Public Housing[b]	Other Housing Assistance[c]	Block Grants[d]	Homeless and HOPWA[e]	Total Nominal Dollars	Total 2007 Dollars
1980	2104	2,185	924	3910		9,123	20,539
1981	3115	2,401	1,011	4048		10,575	21,685
1982	4085	2,574	1,074	3795		11,528	22,126
1983	4995	3,206	1,003	3557		12,761	23,456
1984	6030	2,821	910	3823		13,585	24,081
1985	6818	3,408	861	3820		14,907	25,595
1986	7430	2,882	785	3329		14,426	24,205
1987	8125	2,161	758	2970	2	14,016	22,918
1988	9133	2,526	752	3054	37	15,501	24,574
1989	9918	3,043	690	2,951	70	16,673	25,444
1990	10581	3,918	679	2,821	82	18,081	26,605
1991	11400	4,544	687	2981	120	19,732	27,983
1992	12307	5,045	610	3,099	145	21,205	29,335
1993	13289	6,296	627	3,416	172	23,799	32,192
1994	14576	6,771	607	4,439	189	26,583	35,201
1995	16948	7,414	603	5519	270	30,754	39,886
1996	15779	7,605	600	5761	453	30,199	38,427
1997	16393	7,687	629	5,731	718	31,158	38,968
1998[f]	16114	7,534	576	6,360	916	31,499	38,922
1999	15652	6,560	547	6,748	1,032	30,539	37,247
2000	16692	7,193	667	7,077	1,100	32,729	39,128

Fiscal Year	Rental Assistance[a]	Public Housing[b]	Other Housing Assistance[c]	Block Grants[d]	Homeless and HOPWA[e]	Total Nominal Dollars	Total 2007 Dollars
2001	17494	7,483	659	7,047	1,208	33,892	39,584
2002[g]	19394	8,193	644	7,349	1,358	36,937	42,330
2003	21941	7,837	630	7,229	1,376	39,013	43,822
2004	23498	7,490	620	7,113	1,492	40,213	44,024
2005	24495	7,426	603	7225	1,562	41,312	43,823
2006	24756	7,560	569	7,086	1,655	41,626	42,742
2007	25674	7,295	559	7,011	1,664	42,202	42,202

Source: Table prepared by CRS based on data from the Department of Housing and Urban Development Annotated Tables for the 2001 Budget, Congressional Budget Justifications, and the Office of Management and Budget's Public Budget Database.

Note: Earlier versions of this table contained an error; the total columns added some figures more than once.

a. Rental Assistance includes Section 8, Section 202 and Section 811.

b. Public Housing includes Public Housing Capital Fund, Public Housing Operating Fund, Public Housing Drug Elimination Program, and HOPE VI.

c. Other Housing Assistance includes Section 235, Section 236, and Rent Supplement.

d. Block Grants includes Community Development Fund (CDBG), HOME Investment Partnerships, Native American Housing Block Grants and Housing Counseling Assistance.

e. Homeless includes HOPWA, Homeless Assistance Grants, Emergency Shelter Grants, Shelter Plus Care (including renewals), Section 8 SRO, Supportive Housing, Innovative Homeless Demonstration Program, Supplemental Assistance for Facilities to Assist the Homeless.

f. Prior to FY1998, funding for the Native American housing programs that were consolidated by NAHASDA was included in other accounts.

g. Congress periodically provides emergency funding through the CDBG program following disasters, generally in amounts less than $1 billion per year. However, Congress provided substantially more funding following the September 11, 2001 terrorist attacks ($3 billion) and following the 2005 hurricanes (over $16 billion). The amounts shown in **Table 12** include spending of emergency funds, except for FY2002-FY2007, when spending of emergency CDBG funding was excluded.

Table 13 presents the number of units eligible for payment across several programs. Units eligible for payment is a measure of the number of housing units under rental assistance contracts with HUD (project-based Section 8, Section 202 and Section 811 units, and rental assistance payment and rent supplement units) as well as the number of Section 8 vouchers. Generally, over the course of a year, each unit will be available for one household, although given turnover, properties are rarely at 100% occupancy and vouchers are rarely 100% utilized. As a result, fewer households receive assistance in a year than there are units eligible for payment in a year.

As shown in **Table 13**, the total number of units eligible for payment under the selected housing programs has grown by over 50% over the nearly three decades presented. However, most of that growth happened in the 1980s. Since the early 1990s, the number of units eligible for payment has gone up and down from year to year, with an overall decline in units from FY2001 to FY2007.

Table 13 also helps to illustrate the trend away from public housing and other housing assistance to rental assistance (Section 8 vouchers) discussed earlier in this report. The number of units assisted under the other housing assistance programs has been on the decline since the Nixon Moratorium in the 1970s. For many of those units, once the family leaves the program, they receive a voucher. In the case of public housing, the number of units continued to increase until the mid-1990s, as contracted units became available. Since the mid-1990s, through the HOPE VI program and other authority, PHAs have been demolishing and disposing of many of their public housing developments. In their place, some replacement public housing units have been built, but many of the units were replaced with Section 8 vouchers.

Table 13. Units Eligible for Payment, Selected Housing Programs, FY1980-FY2007

Fiscal Year	Rental Assistance[a]	Public Housing	Other Housing Assistance[b,c]	Annual Total
1980	1153311	1,192,000	761,759	3,107,070
1981	1318927	1,204,000	774524	3,297,451
1982	1526683	1,224,000	757,213	3,507,896
1983	1749904	1,250,000	663,424	3,663,328
1984	1909812	1,331,908	617,956	3,859,676
1985	2010306	1,355,152	577,780	3,943,238
1986	2143339	1,379,679	553,765	4,076,783
1987[d]	2239503	1390098	521,651	4,151,252
1988[d]	2332462	1,397,907	496,961	4,227,330
1989[d]	2419866	1,403,816	491,635	4,315,317
1990	2500462	1,404,870	481,033	4,386,365
1991	2547995	1410137	473,945	4,432,077
1992	2796613	1,409,191	428,986	4,634,790
1993	2812008	1,407,923	434,498	4,654,429
1994	2925959	1,409,455	413,999	4,749,413
1995	2911692	1,397,205	415,165	4,724,062
1996	2958162	1,388,746	404,498	4,751,406
1997	2943634	1,372,260	385,651	4,701,545
1998[e]	3000935	1,295,437	359,884	4,656,256
1999[f]	2985339	1,273,500	337856	4,596,695
2000	3196225	1,266,980	302,898	4,766,103
2001	3396289	1219238	262,343	4,877,870
2002	3420669	1,208,730	233,736	4,863,135
2003	3476451	1,206,721	179,952	4,863,124
2004	3508091	1,188,649	155,289	4,852,029
2005	3483511	1162808	128,771	4,775,090
2006[g]	3498363	1172204	123,503	4,794,070
2007	3532079	1155377	100,595	4,788,051

Source: Table prepared by CRS based on data from the Department of Housing and Urban Development Annotated Tables for the 2001 Budget and Congressional Budget Justifications.

Note: Earlier versions of this table contained an error; the totals in some years were incorrect.

a. Rental Assistance includes Section 8, Section 202, Section 811.

b. Other Housing Assistance includes Section 235, Section 236, Rent Supplement.

c. Total is adjusted for units receiving multiple subsidies.

d. Voucher counts for FY1987-FY1989 reflect vouchers leased, rather than reserved (contracted) vouchers.

e. Prior to FY1998, Native American public housing units were included in the count of public housing units. Beginning in 1998, those units are not included in the public housing unit count.

f. The voucher count in FY1999 reflects obligated vouchers, rather than reserved (contracted) vouchers.

g. Beginning in FY2006, HUD reported the total number of "funded" vouchers, which is HUD's estimate of how many vouchers the amount of funding provided by Congress would sustain, given the distribution of that funding.

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