

# INCREASING AFFORDABLE HOUSING

## Strategies to Lower the Costs of Housing for Low-Income Families

### Problem Statement

An inadequate supply of affordable housing remains a critical problem for low-income families across the United States. While the past decade's economic prosperity enabled many Americans to achieve homeownership and improve their housing conditions, a large portion of the nation's low-income households were left behind because of the growing gap between housing costs and income. Unlike previous decades, working a full-time job no longer guarantees access to decent housing. Federal rent subsidy programs are being cut while overburdened budgets threaten state programs. Consequently, many low-income families must allocate increasing percentages of their income to escalating rent charges for a shrinking supply of basic housing. More than 7.7 million renter households pay more than half of their income in rent.<sup>1</sup> To ensure the future health and economic stability of low-income families, strategies are needed to produce, preserve, and subsidize the costs of more sustainable, affordable housing.

### Strategies

#### 1. Increase the Supply of Affordable Housing

Building more apartment complexes and houses represents a key component of an affordable housing strategy. In addition to increasing the net supply and availability of affordable housing units, new construction can catalyze the revitalization of economically isolated communities. Most strategies to increase the supply of affordable housing involve government intervention, including financial assistance and monetary incentives for housing developers.

Most of today's new affordable development and renovation projects were aided by the significant private investment generated by the Low-Income Housing Tax Credit (LIHTC) Program. This program was created by the Tax Reform Act of 1986 to help offset the loss of incentive provided by the 15-year depreciation for low-income rental housing. Under the LIHTC, investors in qualified projects receive a credit against their federal income taxes. A rental property that is allocated tax credits is required to be affordable to low-income house-

holds for at least 15 years. The manner of implementation is left up to individual states. Since its inception, more than \$10 billion in private funds have been invested in LIHTC projects. More than \$2 billion has been channeled into nonprofit-developed affordable housing, resulting in nearly 800,000 rental-housing units, accounting for a substantial portion of all multi-family development in the United States.

#### A. Community Development Corporations

Community development corporations and other nonprofit housing organizations have worked to increase the supply and development of affordable housing. According to the National Congress of Community and Economic Development, community development corporations produced more than 245,000 units of affordable housing from 1994 to 1998. Utilizing creative financing and zoning land assembly strategies, these organizations attempt to produce, preserve, and manage financially viable affordable housing units efficiently.

#### • Example: New Community Corporation

Founded by a group of dedicated residents in the aftermath of the 1967 riots in Newark, New Jersey, New Community Corporation (NCC) is the nation's largest and most comprehensive community development corporation, with assets valued at more than \$500 million. As the primary force behind the revitalization of Newark's Central Ward, NCC owns and manages more than 3,000 housing units for 7,000 people. NCC's housing portfolio includes 18 properties in Newark, Englewood, and Jersey City, comprising family rental units, senior citizens' residences and homes available for ownership.

Community Hills is NCC's newest residential development and consists of 206 two- and three-bedroom town homes, providing affordable homeownership opportunities for community residents. Located on 13 acres in Newark's Central Ward, Community Hills' quality homes were financed with a \$25 million HOPE VI grant from the U.S. Department of Housing and Urban Development (HUD) and a group of private and public partners. While the average selling price of a Community Hills home is about

• Increasing Financial Opportunity

• Reducing Costs of Living

• Accessing Public Benefits

• Making Work Pay

• Increasing Affordable Housing

\$50,000, the actual sale price is based on the buyer's income. The total housing-related costs, including mortgage payments, real estate taxes, insurance, and utilities, cannot exceed 25 percent to 35 percent of a family's annual income.

**B. Public Housing Redevelopment** There are 1.3 million units of public housing in the United States, representing 5 percent of all rental units in the country. Public housing is an important source of affordable housing for low-income families, particularly in large urban areas. Much of this housing is in good repair and serves a positive role in the lives of low-income families. Despite their critically important function, over the past two decades, public housing "projects" have become a vivid symbol of the devastating long-term effects of a previous generation's failed attempts at social engineering. With support from the federal government, housing authorities across the country now are attempting to shift the public housing paradigm in the direction of safe, low-density, sustainable, mixed-income, affordable communities. While many of these new developments have been highly successful, evaluations of the HOPE VI program have found that some residents are not able to return due to loss of units and new background check rules.<sup>2</sup>

- **Example: San Francisco Housing Authority's North Beach Place** Scheduled for completion in 2004, the San Francisco Housing Authority's \$102 million North Beach Place project will replace a dilapidated 50-year-old cinder-block public housing complex and add 341 new affordable housing units. Developed by Bridge Housing Corporation, the complex will consist of several new four-story apartment buildings anchored with retailers. In contrast to the old public housing formats, this project combines low-income public housing with affordable units for low-wage workers and retail. Unlike many isolated urban housing projects that become magnets for economic and social distress, North Beach Place will be highly visible, located between Fisherman's Wharf and Ghirardelli Square.

The project relied heavily on public subsidies and tax credits. The state's \$55 million in

tax credits, \$10 million from the city, and \$23 million from the federal government provided gap financing. Bank of America and Citibank are providing permanent debt financing for the project. The tax credits are sold to major corporations and investors and will be used by the developers to help build affordable housing, including a separate, senior housing building. All of the low-income housing currently in this project will be replaced on a "one-for-one" basis. Those residents will pay rents that equate to 30 percent of their monthly salaries. The affordable apartments will rent for \$1,000 to \$1,500 a month.

- **C. Homeownership Opportunities for Low-Income Families** Although not an option for all low-income families, homeownership has become a top affordable housing strategy for many government and funding agencies. Homes constitute an important source of wealth for all Americans. Half of all homeowners with incomes under \$20,000 held nearly 72 percent of their wealth in home equity. However, homeownership rates in low-income neighborhoods are lower than the national average. Levels of homeownership are also lower overall among minority populations compared to white families. Many low-income working families face major obstacles in their efforts to secure reasonable mortgages through mainstream credit institutions because of poor credit histories and other barriers. Rejected by mainstream lenders, low-income homebuyers and home-equity loan seekers fall prey to subprime lenders who offer loans at exorbitant interest rates with numerous fees. Several organizations across the country have established advocacy programs to help low-income homebuyers navigate the financial landmines and credit obstacles associated with homeownership.
- **Example: Neighborhood Assistance Corporation of America** The Boston-based Neighborhood Assistance Corporation of America (NACA) is a nonprofit community advocacy and housing services organization that provides prime loans and mortgage services to low- and moderate-income borrowers and those considered subprime borrowers. NACA's typical borrowers have been classified as "risky" mortgage prospects by the lending industry because

they have “B, C, or D credit ratings and no substantial savings.” As a result, the lending industry charges these “risky” borrowers high rates, points, and fees. A typical low-income borrower might be forced to pay interest rates of 14 percent and points and fees greater than 5 percent in the conventional market. Through NACA, that borrower can receive a mainstream bank mortgage with rates as low as 5 percent or 6 percent. The NACA mortgage has no down payment, no closing costs, no application fees, and a below-market interest rate.

After winning predatory lending campaigns against finance companies, NACA partners with the mainstream banks that have relationships with those finance companies to provide affordable mortgages. These investments in NACA help the banks meet their Community Reinvestment Act obligations. NACA has combined an affordable mortgage product with a free housing services program that features extensive education and resources for potential homebuyers. They become NACA members after an introductory workshop and then are assigned personal housing consultants. These ongoing relationships allow NACA to address each member’s credit issues and determine an affordable housing payment. More than 95 percent of NACA’s mortgage applications are approved, compared to 70 percent to 75 percent of traditional lenders’ applications.

- **Example: Housing Assistance Council and Self-Help Housing** Established in 1971, the Housing Assistance Council (HAC) helps local organizations build affordable homes in rural areas by providing seed-money loans, small grants, technical assistance, research, training, and information. These organizations often use “sweat equity,” self-help housing. Using funds from HUD’s Self-Help Homeownership Opportunity Program (SHOP), since 1997 HAC has provided over \$40 million to a network of more than 100 local nonprofit builders to help almost 5,000 low-income families build their own homes. Up to \$10,000 can be allocated per unit for land and infrastructure costs, some of the most difficult items for local nonprofits to finance. Working under an experienced construction supervisor, families in the

local projects put an average of 1,000 hours of sweat equity into their own and their neighbors’ homes. Contributing about 65 percent of the labor in the house, and working evenings and weekends over a 1-year period, families frame, drywall, insulate, roof, paint, and landscape. Permanent mortgages for the homes come from the low-income, single-family loan program of the U.S. Department of Agriculture and other sources, such as the Federal Home Loan Banks, the Federation of Appalachian Housing Enterprises, and HUD HOME funds. Most organizations receiving loans employ “mutual self-help” methods in which families help each other build their homes. No one moves in until all of the 8 to 10 homes in a building group are completed.

#### **Policy Recommendations**

- Support federal housing policies that preserve the endangered stock of publicly subsidized housing.
- Transform public housing funding programs so that subsidies are more targeted to specific properties, improving the ability of public housing authorities to obtain private financing to rehabilitate individual properties.
- Expand the capacity of community-based nonprofits to develop, rehabilitate, and manage much of the affordable housing stock in an efficient, professional, and community-minded fashion.
- Increase the capacity of entrepreneurial nonprofit developers to reshape low-income communities.
- Regulate predatory lending practices at the state and national levels.
- Increase access to reasonably priced home mortgages from mainstream financial institutions.

#### **2. Subsidize and Maintain the Cost of Housing**

Over the past decade, the cost of housing has skyrocketed, and the supply of affordably priced rental housing has diminished. Rent control, which used to provide price protection to some low-income families, is being rolled back in several key states and cities in favor of free-market pricing. In no housing market in the country can a household earning the minimum wage reason-

ably afford a two-bedroom rental. There is a crisis in affordable multi-family rental housing. The imminent expiration of the subsidies and contracts on much of this nation's regulated housing supply only exacerbates the crisis. Strategies are needed to increase low-income families' access to a larger supply of affordable housing options.

**A. Section 8 Vouchers** The federally funded, state-administered Section 8 voucher programs have helped to maintain many low-income families' access to affordable housing. However, in cities impacted by the real estate boom and staggering rent increases of the past decade, the demand for vouchers far exceeds the supply. In many cities, tenant-based Section 8 rent subsidies also have not kept pace with rising prices, forcing many low-income families to allocate increasing percentages of their income to escalating rent charges. Many low-income families find themselves on long waiting lists for vouchers to cover a decreasing percentage of the rent on difficult-to-find affordable rental units. Some cities have created more flexible programs to increase the variety of housing options available to low-income families. On September 12, 2000, HUD allowed public housing authorities to establish a Section 8 homeownership program. Through this program, Section 8 applicants and participants can use their rental assistance payments toward homeownership expenses.

- **Example: Massachusetts Section 8 for Homeownership** In accordance with the general terms outlined by HUD, individuals and families who receive Section 8 rental assistance vouchers from participating public housing authorities and Section 8 administrators in Massachusetts can qualify for a mortgage loan based on their current earned income combined with the housing assistance subsidy. Upon purchasing a home, the homeownership option allows Section 8 recipients to apply the subsidy toward the payment of principal, interest, taxes, and insurance on a mortgage. To qualify for the Massachusetts program, Section 8 recipients must earn a minimum annual income of \$10,300, must work full time, and must have completed a 1-year lease in HUD's Section 8 Housing Assistance Payments program. Section

8 voucher recipients who are elderly or have disabilities are exempt from the employment requirement, but must receive \$10,300 in annual income. Under this initiative, Citizens Bank of Massachusetts originates the mortgage loans, and Fannie Mae purchases the eligible loans.

**B. Employer-Assisted Housing** Employers are beginning to use employer-assisted housing (EAH) programs to address the increasing affordable housing needs of entry-level workers. In the past, these programs have helped businesses recruit senior-level employees. The role of businesses in funding low-income housing has grown with the new opportunities to earn a return on their investment through the Tax Reform Act of 1986, such as the Low-Income Housing Tax Credit (LIHTC) Program. EAH programs benefit employers by creating savings in employee training and retention, labor force availability, productivity, and real estate appreciation.

- **Example: The University of Pennsylvania** For the past 20 years, the University of Pennsylvania has offered a mortgage guarantee program to its employees. The program successfully has stabilized the west Philadelphia neighborhoods in which the university is located. Because the university guarantees 100 percent of the mortgage value, no down payments are required. Moderate-income employees who are unable to accumulate a down payment gain access to homeownership through this program. For other, higher salaried employees, it provides an incentive to move into an urban neighborhood, rather than the suburbs. Since the late 1960s, more than 1,000 loans have been made.

#### **Policy Recommendations**

- Increase the number of Section 8 vouchers and make them as mobile as possible, permitting low- and moderate-income households as much choice as possible in their housing. Continue and expand the Section 8 homeownership program.
- Continue the provisions within the tax code for the LIHTC Program, a major tool for housing production. Reform the LIHTC Program by removing complexities that curb participation by developers and project owners.

## For More Information

### **American Community Survey**

ACS provides accurate and up-to-date profiles of America's communities every year. Data users gain access to timely information for planning and evaluating public programs.

[www.census.gov/acs/](http://www.census.gov/acs/)

### **ACORN (Association of Community Organizations for Reform Now)**

ACORN campaigns against redlining, works to increase access to credit for low-income and minority neighborhoods, and fights for greater community reinvestment by financial institutions.

[www.acorn.org/acorn10/predatorylending/campaign.htm](http://www.acorn.org/acorn10/predatorylending/campaign.htm)

### **Bridge Housing Corporation (BRIDGE)**

BRIDGE is the largest nonprofit affordable housing developer in California and a nationally recognized leader in cutting-edge housing development practices.

[www.bridgehousing.com](http://www.bridgehousing.com)

### **Center for Responsible Lending (CRL)**

CRL is an online resource for opponents of predatory lending.

[www.responsiblelending.org/](http://www.responsiblelending.org/)

### **Employer-Assisted Housing (EAH) Site**

This site contains important information on EAH programs.

[policy.rutgers.edu/eah/welcome.html](http://policy.rutgers.edu/eah/welcome.html)

**The Enterprise Foundation** This nonprofit works to provide low-income people with affordable housing, safer streets, and access to jobs and child care. It was the first nonprofit organization to build 100,000 homes for low-income families.

[www.enterprisefoundation.org/](http://www.enterprisefoundation.org/)

### **The Fannie Mae Foundation**

The foundation creates affordable homeownership and housing opportunities through innovative partnerships and initiatives that build healthy, vibrant communities across the United States. This site contains information on Fannie Mae's employer-assisted homeownership programs and a link to "Knowledgeplex," an interactive Web resource on affordable housing issues.

[www.fanniemaefoundation.org/](http://www.fanniemaefoundation.org/)

### **Housing Assistance Council (HAC)**

The HAC provides financing, technical assistance, training, research, and information to help community-based nonprofits and public agencies improve housing conditions for low-income rural families, with an emphasis on the poorest of the poor in the most rural places.

[www.ruralhome.org](http://www.ruralhome.org)

### **HUD Housing Choice Vouchers Program**

This federally funded state-administered program allows very-low-income families to choose and lease or purchase safe, decent, and affordable privately owned rental housing.

[www.hud.gov/offices/pih/programs/hcv/index.cfm](http://www.hud.gov/offices/pih/programs/hcv/index.cfm)

### **Joint Center for Housing Studies, Harvard University**

This site contains a research paper, "Employer-Assisted Housing: Competitiveness Through Partnership," as well as other EAH resources.

[www.jchs.harvard.edu/publications/mpill\\_W00-8.pdf](http://www.jchs.harvard.edu/publications/mpill_W00-8.pdf)

### **Local Initiative Support Coalition (LISC)**

LISC provides grants, loans, and equity investments to community development corporations (CDCs) for neighborhood redevelopment.

[www.liscnet.org/](http://www.liscnet.org/)

### **Metropolitan Planning Council**

This site contains a detailed list of EAH resources, articles, and papers.

[www.metroplanning.org/browse.asp?keywordID=35](http://www.metroplanning.org/browse.asp?keywordID=35)

### **National Congress of Community and Economic Development (NCCED)**

The NCCED is the trade association and advocate for the community-based development industry. Founded in 1970, the NCCED represents more than 3,600 CDCs across America.

[www.ncced.org/](http://www.ncced.org/)

### **National Low Income Housing Coalition**

This membership-based policy advocacy group is dedicated solely to ending America's affordable housing crisis.

[www.nlihc.org/](http://www.nlihc.org/)

### **Neighborhood Assistance Corporation of America (NACA)**

The NACA provides prime loans and mortgage services to low- and moderate-income people and those who are considered subprime borrowers.

[www.naca.com/index.jsp](http://www.naca.com/index.jsp)

### **New Community Corporation (NCC)**

Based in Newark, New Jersey, NCC is the nation's largest and most comprehensive community development corporation.

[www.newcommunity.org/main.htm](http://www.newcommunity.org/main.htm)

### **San Francisco Housing Authority (SFHA)**

The SFHA is the 17th largest housing authority in the United States. It includes 45 developments, with more than 6,575 units of public housing, serving very-low-income families, seniors, and disabled residents in San Francisco.

[www.ci.sf.ca.us/sfha/](http://www.ci.sf.ca.us/sfha/)

### **U.S. Department of Housing and Urban Development**

This site contains information on employer-assisted housing and the HOME Program.

[www.hud.gov/offices/cpd/affordablehousing/library/modelguides/2019.cfm](http://www.hud.gov/offices/cpd/affordablehousing/library/modelguides/2019.cfm)

- Support federal legislation to provide a homeownership tax credit, thereby reducing the loan amount that low- and moderate-income households would have to borrow.
- Preserve affordable housing that has been federally financed for ongoing affordable use, particularly in strong market situations.
- Enact a new, state-administered homeownership tax credit, modeled after the federal LIHTC.

### 3. Protect Low-Income Homeowners From Predatory Lenders

Growing numbers of aggressive, dishonest, or “predatory” lenders advertise their services to people in financial need—people who might have fallen behind on property taxes, or who need money for medical bills, or who face costly home repairs. Instead of offering a fair loan, these subprime lenders use smooth-talking salespersons, high interest rates, outrageous fees, and unaffordable repayment terms. Some homeowners can be tricked into taking out loans that they cannot afford to repay and may then lose their homes to foreclosure. Predatory lending is a multi-billion-dollar, largely unregulated industry. To protect homebuyers, homeowners, and other consumers from these deceptive and ultimately costly practices, legislation and strategies are needed to help communities, cities, and states combat the discriminatory and devastating effects of predatory lending.

- **Example: Center for Responsible Lending**  
With the support of a broad coalition of banks, credit unions, mortgage industry representatives, and consumer advocates, North Carolina passed the nation’s first state law to curb predatory lending in 1999. In its first year alone, the predatory lending law saved North Carolina’s homeowners an estimated \$100 million by prohibiting predatory practices and ensuring that borrowers have relevant information. Moreover, the law did not hamper access to credit in North Carolina. North Carolina was still the sixth most active state for subprime lending in 2000, with borrowers 20 percent more likely to receive a subprime loan than borrowers in the rest of

the nation. In fact, no major subprime lender exited North Carolina after the legislation was passed. However, the terms of subprime loans in North Carolina are now significantly better than the terms of subprime loans in many other states. As a result, borrowers are no longer having the equity stripped out of their homes due to predatory lending.

The Center for Responsible Lending (CRL) in North Carolina is a research and policy center formed to assist initiatives in other states and help develop effective federal regulatory and legislative solutions. The North Carolina predatory lending law is being used as a template for other state policy initiatives. New Jersey and New Mexico also have recently passed legislation to curb predatory lending.

#### Policy Recommendations

- Support state-level initiatives that restrict predatory lending practices.
- Support the formation of coalitions to lobby for anti-predatory-lending legislation.
- Support state initiatives that require financial counseling and education for consumers who seek subprime loans.
- Support efforts to develop alternative low-interest mortgage products for communities targeted by the predatory lending industry.
- Support efforts to put a ceiling on mortgage lending rates.

#### Endnotes

1. Dolbeare, Cushing N., and Sharon S. McGowan, 2003, “Affordable Rental Housing and the American Dream: The Role for Foundations,” Neighborhood Funders Group, April.

2. Abt Associates Evaluation, available at [abtassociates.com/reports/2001409176851.pdf](http://abtassociates.com/reports/2001409176851.pdf).

*The policy recommendations, programs, and resources identified in this guide are intended to contribute to policy deliberation and are not a comprehensive list.*

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