



An Investment in Opportunity

**A Bold New Vision for
Housing Policy in the U.S.**

Enterprise Community Partners, Inc.
February 2016



“I would encourage you to keep in mind all those people around us who are trapped in a cycle of poverty. They too need to be given hope. The fight against poverty and hunger must be fought constantly and on many fronts, especially in its causes.”

–Pope Francis in remarks to Congress, September 2015

An Investment in Opportunity is a product of Enterprise Community Partners, Inc. The report was authored by:

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ABOUT ENTERPRISE

Enterprise works with partners nationwide to build opportunity. We create and advocate for affordable homes in thriving communities linked to good schools, jobs, transit and health care. We lend funds, finance development and manage and build affordable housing, while shaping new strategies, solutions and policy. Over more than 30 years, Enterprise has created nearly 340,000 homes, invested \$18.6 billion and touched millions of lives.

Join us at www.EnterpriseCommunity.com or www.EnterpriseCommunity.org.

Cover photo by Harry Connolly

FOREWORD FROM ENTERPRISE'S LEADERSHIP

When Jim Rouse started Enterprise more than 30 years ago, his goal was to create an organization that helped families living in poverty climb up the income ladder. Jim believed that opportunity began with having a safe and affordable place to call home, but in his own words, “housing is only the beginning.” Families also needed access to jobs, safe streets, high-performing schools, reliable transit, health care and other resources that gave them a fair shot at success.

Over the past three decades, Enterprise and our partners have worked to transform some of America's most distressed neighborhoods into communities of opportunity – places where families and children can thrive. We've facilitated crucial public and private investments in low-income communities, helping to build or preserve more than 340,000 affordable homes, creating hundreds of thousands of jobs and improving millions of lives. We are proud of our impact so far, but our work is far from finished.

On this very night, more than 19 million families are “housing insecure,” meaning they're either experiencing homelessness or paying more than half of their monthly income on housing. That number has grown significantly over the past decade, especially for people who rent, as a growing number of low-income people have competed for an increasingly scarce supply of affordable homes.



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At the same time, millions more families live in communities that are disconnected from opportunity. According to recent estimates from the Century Foundation, nearly 14 million Americans live in neighborhoods with concentrated poverty – places that are economically and often racially segregated – with profound negative impacts on their long-term health and economic prospects. The number of people living in high-poverty neighborhoods has nearly doubled since 2000.

Enterprise is committed to tackling these problems by creating quality and affordable homes in communities that are inclusive, healthy and resilient, with access to good jobs, high-performing schools, reliable transit and other essential resources. But we cannot accomplish this on our own. To address systemic problems like concentrated poverty, racial and economic segregation, and housing insecurity, we need systemic policy solutions at all levels of government.



Photo by Lloyd Wolf

The following chapters lay out the long-term policies needed to create communities of opportunity throughout the country. This policy platform lays out specific recommendations for federal, state and local policymakers, organized around four broad strategies for reform:

1. Ensure broad access to high-opportunity neighborhoods
2. Promote comprehensive public and private investments in low-income neighborhoods
3. Recalibrate our priorities in housing policy to target scarce subsidy dollars where they're needed most
4. Improve the overall financial stability of low-income households

In the late 1980s, Jim Rouse challenged us all to “think together about an enormously compelling, potentially devastating condition in America – people living in bad housing, paying rent they cannot afford, in miserable neighborhoods they can scarcely endure.” This policy platform is an important step toward fulfilling Jim Rouse’s vision for the future – a country where all people have an affordable place to call home in a community of opportunity.

In the months and years to come, we look forward to a rigorous and thoughtful debate about the role of public policy – at all levels of government – in ending America’s housing insecurity crisis, dismantling decades of racial and economic segregation and ensuring that all people in this country have a fair shot at success. Are we willing to make the long-term investments necessary to make every community one of opportunity? Because we can, with the will to make it so.

J. Ronald Terwilliger
Chairman of the Board of Trustees
Enterprise Community Partners, Inc.

Terri Ludwig
President and CEO
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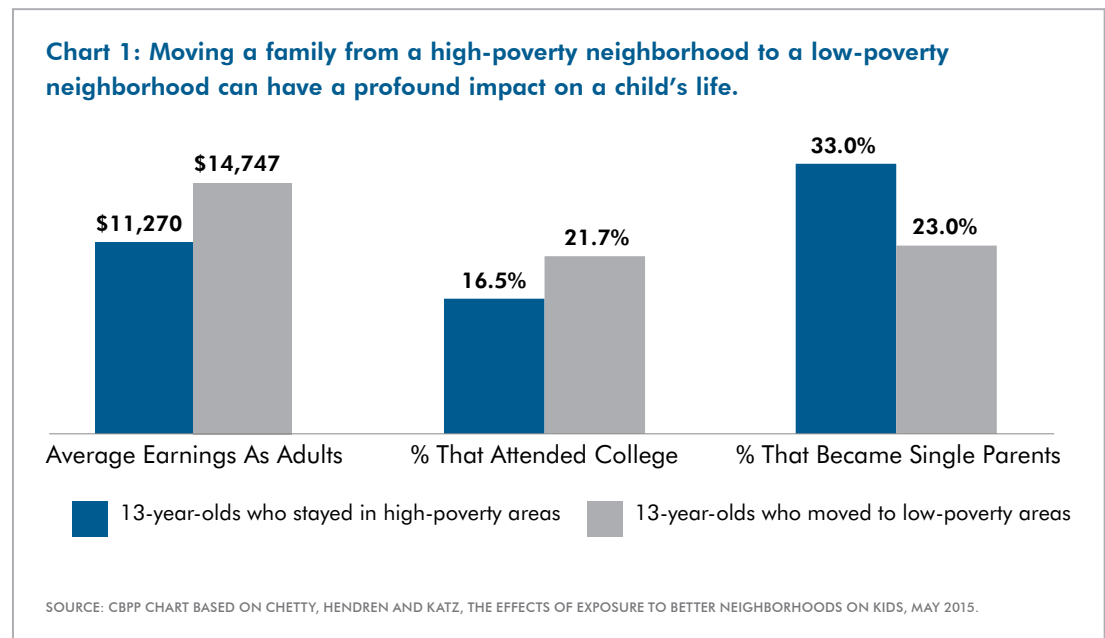
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CHAPTER I: EXECUTIVE SUMMARY

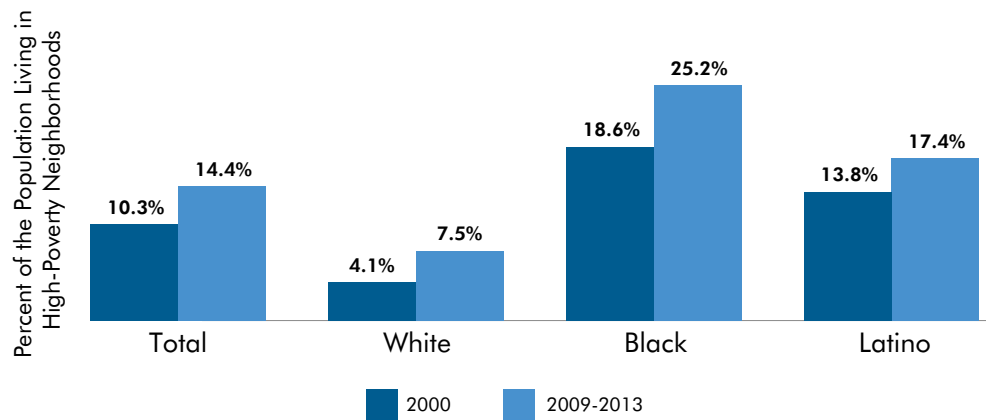
The promise of economic mobility – that a child growing up in poverty can work her way up the income ladder – has always been an essential part of the American Dream. For millions of people in this country, however, that promise has not been fulfilled.

We have long known that where a person lives – the city, the neighborhood, even the block – determines her access to schools, jobs, food, health services, public transportation and other resources that are necessary to build skills, stay healthy and get ahead.¹ It even impacts her life expectancy.² But thanks to groundbreaking new research from Harvard’s Raj Chetty, we now have a deeper understanding of the direct link between where a child grows up and the opportunities she gets in life. For example, Chetty’s latest study found that each year a child spends in a high-poverty neighborhood – as opposed to a lower-poverty neighborhood with more opportunities – decreases her chances of going to college, increases her chances of becoming a single parent and decreases her expected earnings as an adult.³



Unfortunately, the number of Americans living in high-poverty neighborhoods – places that are often cut off from jobs, good schools and other opportunities – has increased significantly in recent years. According to the Century Foundation, today 13.8 million people in the United States live in high-poverty neighborhoods, meaning more than 40 percent of the neighborhood’s residents are poor, compared to just 7.2 million in 2000.⁴ In fact, the number of neighborhoods identified as “high-poverty” increased by more than 75 percent over the same period.⁵ These changes have hit communities of color particularly hard: more than one in four poor blacks and nearly one in six poor Latinos live in concentrated poverty, compared to just one in 13 poor whites.⁶

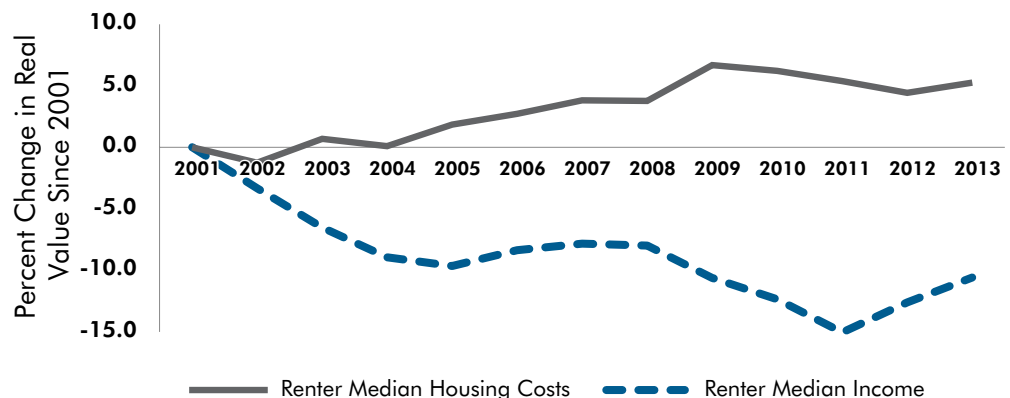
Chart 2: Concentrated poverty has increased since 2000, with a disproportionate impact on households of color.



SOURCE: JARGOWSKI, ARCHITECTURE OF SEGREGATION, SEPTEMBER 2015.

There are several factors that contributed to the increased concentration of poverty in recent years – some are economic, others are social. One crucial factor is the rising cost of living, which has left many lower-income households with no choice but to live in neighborhoods with poor-quality housing, rampant crime, bad schools and few jobs. Over the past decade, wages have stagnated for most low- and moderate-income workers while rents have steadily risen, especially in high-demand markets with the most job opportunities.⁷ As a result, a growing number of low-income renters are competing for an increasingly scarce supply of affordable rental homes, creating an unprecedented affordability crisis.

Chart 3 : After adjusting for inflation, median rents have risen significantly since 2001, while the typical renter’s income has dropped.



SOURCE: ENTERPRISE AND THE JOINT CENTER FOR HOUSING STUDIES, PROJECTING TRENDS IN SEVERELY COST-BURDENED RENTERS, SEPTEMBER 2015.

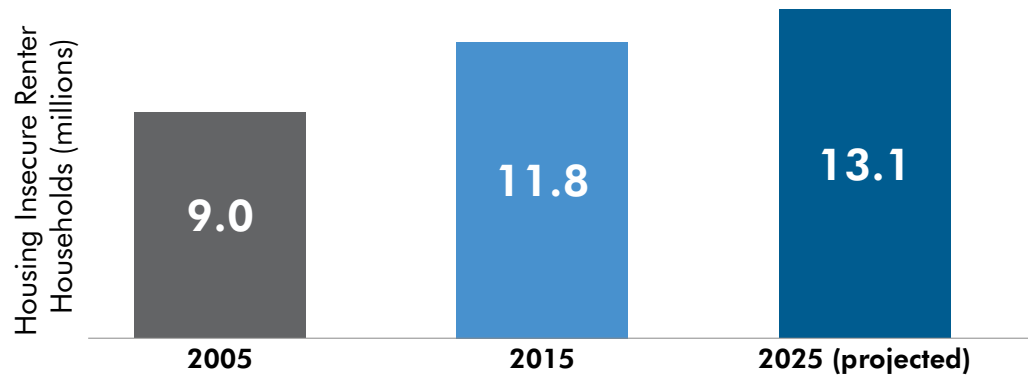


Photo by Gabor Ekecs

When last measured in 2014, more than one in four families who rented their homes – 11.4 million renter households in total – were “housing insecure,” meaning they paid more than half of their monthly income on housing.⁸ Many housing insecure families have to make difficult tradeoffs simply to keep a roof over their heads, and many are just one unforeseen event – an illness, a job loss, even a drop in hours at work – from seeing an eviction notice on their front door. The number of housing insecure renters in the U.S. has increased by 30 percent over the past decade. Absent meaningful changes to public policy, we expect that number to steadily increase in the years to come. According to projections from Enterprise and the Joint Center for Housing Studies,

even if rent growth matches income growth, the number of housing insecure renters is expected to increase by about 1.3 million households over the next decade – an increase of over 10 percent.⁹

Chart 4: Barring significant policy action, housing insecurity among renters is expected to continue to grow over the next decade.



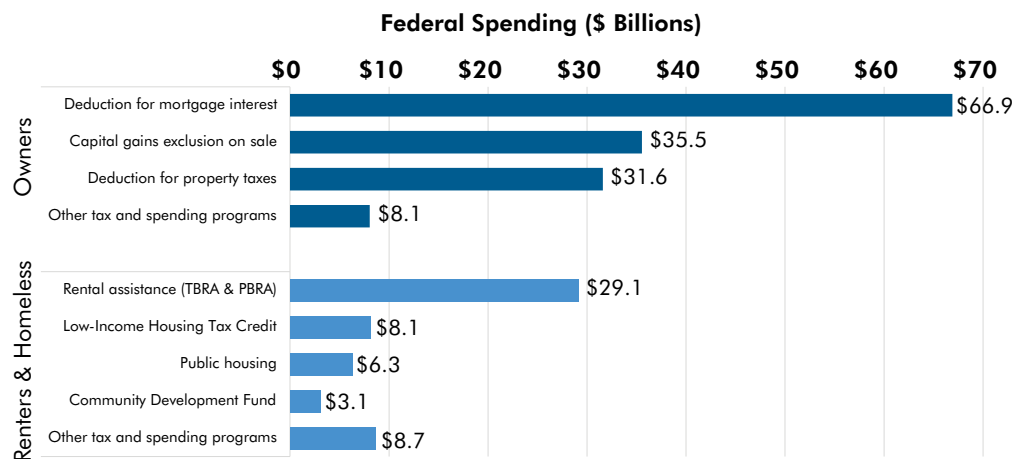
SOURCE: ENTERPRISE COMMUNITY PARTNERS AND THE JOINT CENTER FOR HOUSING STUDIES, PROJECTING TRENDS IN SEVERELY COST-BURDENED RENTERS, SEPTEMBER 2015.

Misguided public policy is another key factor behind recent increases in concentrated poverty. The Century Foundation’s Paul Jargowsky recently published a report describing America’s “architecture of segregation,” a set of federal, state and local policies that have encouraged subsidized housing to be disproportionately located in poor inner-city neighborhoods, discouraged lower-income families from moving into more affluent suburbs and tacitly permitted landlords and mortgage lenders to discriminate against lower-income minority families. “Concentration of poverty,” Jargowsky wrote, “is the product of larger structural forces, political decisions and institutional arrangements that are too often taken for granted.”¹⁰

Here’s the good news: America has tackled massive, seemingly intractable housing problems in the past, and we can do it again. Through policies enacted at the federal, state and local levels, we have ensured that long-term, affordable mortgage credit is available for most Americans throughout the business cycle. We have created an effective system for financing, building and maintaining quality rental housing that’s affordable to low-income households, driven by programs like the Low-Income Housing Tax Credit. Through innovations like Section 8 vouchers and supportive housing, we have ensured that many of the most vulnerable people in our communities – including those struggling with homelessness – have access to quality, affordable housing and the services they need to thrive. And through a variety of effective partnerships between the federal government, state and local governments and the private sector, we have drastically improved the physical conditions in which most low-income people live – a far cry from the blighted slums of decades ago.

In order to make a meaningful dent in systemic problems like concentrated poverty and housing insecurity, we will need bold, systemic solutions from the private and public sectors – and that often starts with changes to public policy. But first we must reconsider our current priorities in housing policy at all levels of government.

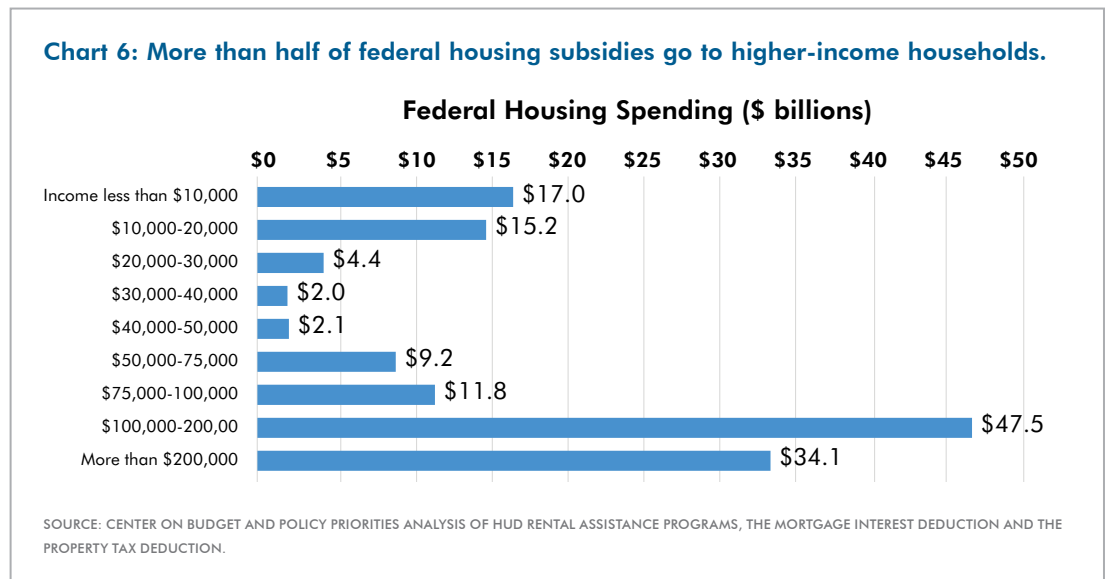
Chart 5: Each year, nearly three-quarters of federal housing subsidies go to homeowners.



SOURCE: ENTERPRISE ANALYSIS OF DATA FROM THE OFFICE OF MANAGEMENT AND BUDGET'S FY 2016 BUDGET.

The federal budget shows just how skewed our country’s housing priorities have become. The federal government spends about \$200 billion each year to help Americans buy and rent their homes, delivered through a patchwork of direct spending programs, tax incentives, loan guarantees and other programs.¹¹ However, the bulk of those subsidies go to higher-income households who would likely be stably housed without the government’s support, in part because a disproportional percentage of federal housing resources support homeowners, whose incomes are typically twice those of renters.

When the Center on Budget and Policy Priorities analyzed the programs for which reliable income data are available, they found that more than half of federal housing subsidies benefit households with incomes above \$100,000.¹² In fact, each year more federal housing subsidies go to the richest 5 million households – those making more than \$200,000 per year – than go to the poorest 20 million households combined.¹³



One fact is clear: in order to establish America as a true land of opportunity, in which every person has a fair shot at success, we need a new approach to housing policy. In the following chapters, we lay out a bold new vision for federal, state and local housing policy, with a focus on creating strong, affordable and inclusive communities of opportunity across the country.

Our proposals follow four broad strategies for reform:



1. ENSURE BROAD ACCESS TO HIGH-OPPORTUNITY NEIGHBORHOODS

Certain housing programs, such as Section 8 Housing Choice Vouchers and the Low-Income Housing Tax Credit program, have long track records of success in creating stable and affordable housing options for low-income families. But more must be done to ensure that families who benefit from these programs have access to neighborhoods with good schools, job opportunities, public transit and other resources. At the same time, we need to ensure that local zoning rules, building regulations and transportation plans encourage – or at least do not discourage – lower-income families to live in high-opportunity communities. Specific policy recommendations include:

- ▶ **Improve the Section 8 program and expand regional mobility programs to help more families with rental assistance vouchers access high-opportunity neighborhoods**
- ▶ **Establish state and local laws banning “source of income” discrimination by landlords and property owners**
- ▶ **Balance the allocation of Low-Income Housing Tax Credits and other federal subsidies to both high-opportunity neighborhoods and low-income communities, while creating more opportunities for mixed-income developments**
- ▶ **Establish inclusionary zoning rules at the state and local levels**
- ▶ **Establish state and local regulations that encourage innovation and promote the cost-effective development of multifamily housing**
- ▶ **Incorporate affordable housing considerations into local and regional transportation planning through equitable transit-oriented development**



2. PROMOTE COMPREHENSIVE PUBLIC AND PRIVATE INVESTMENTS IN LOW-INCOME NEIGHBORHOODS

Even as we promote better access to neighborhoods with good schools, access to jobs and other opportunities, public policies must also encourage the public and private investments that are necessary to transform lower-income neighborhoods, many of which have long suffered from disinvestment and neglect, into communities of opportunity. Affordable housing is often a crucial catalyst for these investments, but this strategy requires more than housing alone. It also requires significant, long-term investments into local businesses, schools, public safety, healthy food, health services and other essential resources. The end goal is to transform neighborhoods into ones that people live in by choice, not by necessity. Specific policy recommendations include:

- ▶ **Make the public and private investments necessary to preserve existing affordable housing while creating mixed-income communities**
- ▶ **Build capacity of public, private and philanthropic organizations at the local level to pursue cross-sector solutions to the problems facing low-income communities**
- ▶ **Create state and local land banks and other entities to return vacant and abandoned properties to productive use**
- ▶ **Make permanent and significantly expand the New Markets Tax Credit**
- ▶ **Create a new federal tax credit for private investments in community development financial institutions and other community development entities**
- ▶ **Establish federal regulations that encourage “impact investments” in low-income communities by individual and institutional investors**



3. RECALIBRATE OUR PRIORITIES IN HOUSING POLICY TO TARGET SCARCE SUBSIDY DOLLARS WHERE THEY'RE NEEDED MOST

In order to meet the growing demand for affordable rental housing in all communities, we must target limited subsidy dollars to where they are most needed. After a series of federal budget cuts in recent years, today only 23 percent of households who are eligible for federal rental assistance actually receive it, leading to decade-long waiting lists and lotteries for rare openings.¹⁴ At the same time, developers requested more than three-times the amount of Low-Income Housing Tax Credits than were available in 2013, meaning hundreds of viable developments that would serve low-income families in need are turned down because of scarcity of tax credits.¹⁵ Meanwhile, we're spending tens of billions of dollars each year to subsidize the mortgages of high-income families who don't need government support to remain stably housed.¹⁶ Specific policy recommendations include:

- ▶ **Reform the Mortgage Interest Deduction and other federal homeownership subsidies to ensure that scarce resources are targeted to the families who are most in need of assistance**
- ▶ **Gradually double annual allocations of Low-Income Housing Tax Credits and provide additional gap financing to support the expansion**
- ▶ **Significantly expand funding to Section 8 vouchers to ensure that the most vulnerable households in the U.S. have access to some form of rental assistance**
- ▶ **Expand funding to the Housing Trust Fund and the Capital Magnet Fund as part of any effort to reform America's mortgage finance system**
- ▶ **Break down funding silos to encourage public investments in healthy and affordable housing for recipients of Medicaid**
- ▶ **Create permanent funding sources at the state and local level to support affordable housing**



4. IMPROVE THE OVERALL FINANCIAL STABILITY OF LOW-INCOME HOUSEHOLDS

In order for families to remain stably housed in a decent neighborhood, they need to earn an income that reflects the actual cost of living in that community. Unfortunately, after adjusting for inflation, the typical American renter's income has fallen by more than 10 percent since 2001, while the median rent has increased by 5 percent.¹⁷ As a result, families are spending an increasing share of their take-home pay on rent, forcing them to make deep cuts elsewhere in their household budget and making it virtually impossible for many low-income families to save for a rainy day or longer-term financial goals.¹⁸

Specific policy recommendations include:

- ▶ **Establish minimum wages at the federal, state and local levels that reflect the reasonable cost of living for each community**
- ▶ **Expand the Earned Income Tax Credit, the Child Tax Credit and other essential income supports to America's low-wage workers**
- ▶ **Create a new federal fund to help test and scale innovative financial products that encourage low-income households to save, with a primary focus on unrestricted emergency savings**
- ▶ **Help more low-income families build strong credit histories**
- ▶ **Establish strong protections against predatory financial products**



Photo by Warwick Green

Many of the proposals in this platform already have broad bipartisan support – in fact, many were also offered by the Bipartisan Policy Center’s Housing Commission in 2013.¹⁹ In addition, the majority of the policies can be implemented with little or no long-term cost to taxpayers. To be sure, some of the policies will carry significant costs, but the size and scale of the problem requires bold action. All told, once fully phased we estimate that the policies in this platform would require an additional \$60 billion – \$70 billion in annual investment from the federal government. While certainly a big price tag, Congress could cover a significant portion of the annual investment through smart reforms to the mortgage interest and property tax

deductions – two remarkably inefficient subsidies that cost taxpayers roughly \$100 billion each year – all while expanding support to the homeowners who need it most.²⁰ We discuss how this could work in a later chapter of the platform.

As we weigh the costs and benefits of each proposal, we must also consider the high cost of inaction – the price of allowing millions of Americans to remain stuck in communities without access to good schools, jobs and other opportunities. For example, according to a recent study of high-cost cities like New York, San Francisco and San Jose, the dearth of affordable housing options costs the U.S. economy an estimated \$1.6 trillion each year in lost wages and productivity alone.²¹ In other words, this is not just a matter of fulfilling the promise of equal opportunity for all Americans – it’s also a matter of keeping our economy competitive by unleashing the full potential of the American workforce.

Over the next several years – perhaps even decades – these are the types of investments that will be necessary to tackle America’s growing rental housing crisis and create communities of opportunity throughout the country. The problems we face are not intractable – indeed, we already have many of the tools needed to solve them. The key question is whether we have the political will to strengthen those tools and make the investments necessary to address the problem at the scale at which it exists.

Fair Housing and Community Development: A “Both/And” Approach

In many ways, 2015 was a pivotal year for fair housing. In June, the Supreme Court upheld “disparate impact” as a legal tool for fair housing complaints, reinforcing that housing discrimination does not have to be intentional to be illegal. A few weeks later, the Obama administration released its long-awaited final rule on Affirmatively Furthering Fair Housing, clarifying the obligations of state and municipal governments under the federal Fair Housing Act.

Fair housing is essential to creating inclusive communities of opportunity, and federal resources should be distributed in a way that allows low-income people to make housing choices that are best for themselves and their families. This means preserving affordable housing where it exists today, revitalizing distressed communities, building affordable homes in neighborhoods of opportunity and creating and promoting options for mobility. And for communities that are in transition, including gentrifying neighborhoods where housing costs are rapidly rising, we must preserve affordable housing options so that current residents are not displaced. These strategies, of course, are not mutually exclusive; they must be pursued in tandem. As Supreme Court Justice Anthony Kennedy noted in the majority opinion in June:

“Much progress remains to be made in our Nation’s continuing struggle against racial isolation ... The (Fair Housing Act) must play an important part in avoiding the ... grim prophecy that ‘our Nation is moving toward two societies, one black, one white — separate and unequal.’ ... The Court acknowledges the Fair Housing Act’s continuing role in moving the Nation toward a more integrated society.”

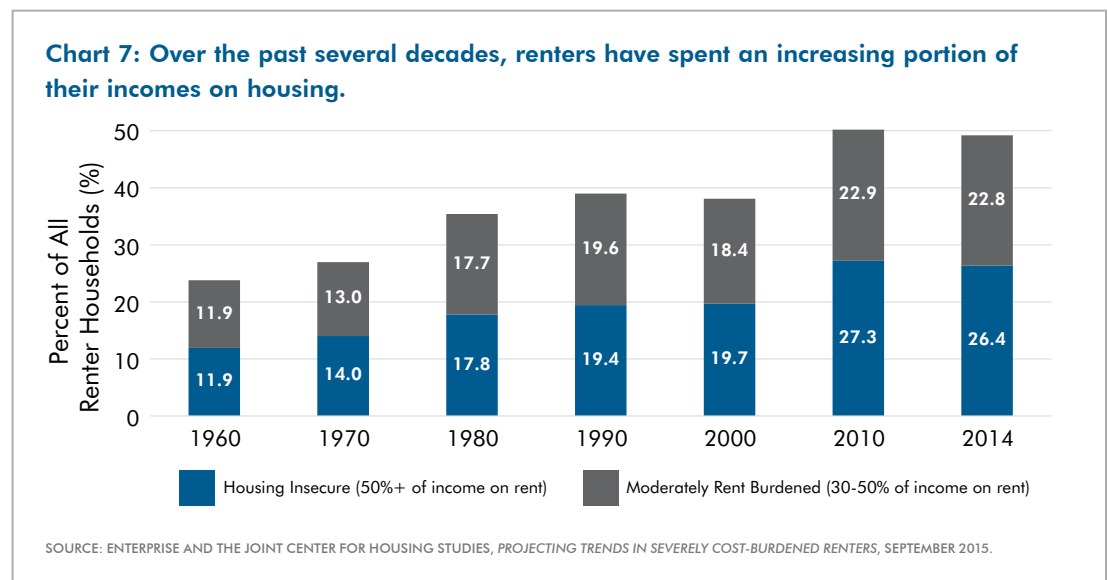
Photo by Shutterstock



CHAPTER II: WHAT IS CAUSING AMERICA'S RENTAL HOUSING CRISIS?

Over the past decade, communities across America have seen significant increases in both concentrated poverty (the number of poor people living in high-poverty neighborhoods) and housing insecurity (the number of households paying more than half of their income on housing). At first glance, these might seem like two distinct problems, but in reality the two share a common root cause: lower-income people simply cannot afford a decent place to live in a decent neighborhood.

Consider this: as recently as 2000, the typical renter paid about 24 percent of her monthly income on rent. Today, the typical renter pays more than 30 percent. As a result, 27 percent of households who rent their homes are housing insecure today, compared to just 20 percent in 2000 and 12 percent in 1960.²³



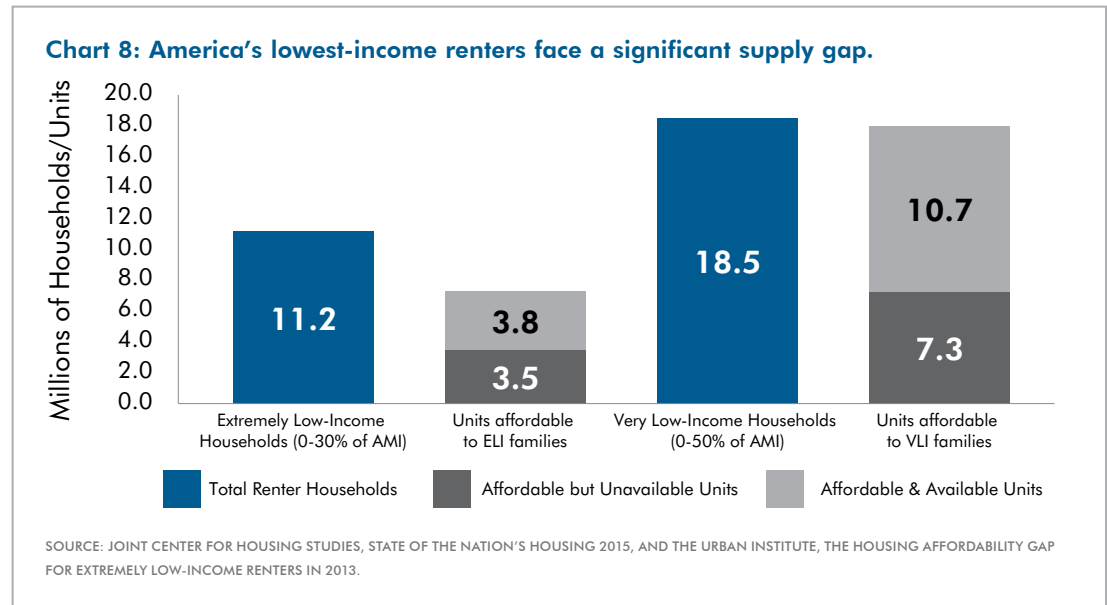
There are several factors contributing to this growing rental affordability crisis:

- As more households delay or forego homeownership, demand for rental housing has grown significantly.** In the wake of the recent foreclosure crisis, a growing number of Americans are turning to the rental market – some by choice, some because they have no other option due to excessively tight credit standards for mortgages.²⁴ The U.S. homeownership rate currently stands at 63.7 percent – near a 30-year low – and researchers at the Urban Institute expect the rate to keep falling as the number of new renters outpaces the number of new homeowners.²⁵ According to Harvard's Joint Center for Housing Studies, an average of 770,000 new renter households were created each year since 2004, making it the strongest 10-year period for renter growth since the late 1980s.²⁶

- **Rental supply is not keeping up with the rising demand, especially on the lower end of the market.** Developers of rental housing have ramped up construction in recent years to meet the growing demand, but the current level of production – about 360,000 multifamily units per year – is still falling well short of the need. In addition, the vast majority of multifamily construction is for the higher end of the rental market: the median asking rent for new apartments in 2014 was \$1,370, or about half of the median renter’s monthly income.²⁷ As a result of scarce supply – especially for lower-rent apartments – rental vacancy rates are at the lowest point in two decades, causing rents to rise in just about every market, often at much faster rates than overall inflation.
- **As the cost of living rises, wages are stagnating for low- and moderate-income workers.** While the American labor market continues to improve, the wages earned by most American workers have not kept pace with the rising cost of living. After adjusting for inflation, the typical renter’s income has fallen by more than 10 percent since 2001, while the median rent has increased by 5 percent.²⁸ As a result, families are spending an increasing share of their take-home pay on rent, forcing them to make deep cuts elsewhere in their household budget and making it virtually impossible for many low-income families to save for a rainy day or a down payment on a home.²⁹
- **While need has skyrocketed, public resources for affordable housing have remained flat or even decreased.** Recent budget cuts at the federal, state and local levels have hit housing and community development programs particularly hard. According to the Center on Budget and Policy Priorities, recent federal budget cuts due to sequestration resulted in 100,000 fewer low-income families with rental assistance vouchers, even as the number of families eligible for vouchers has increased significantly.³⁰ In addition, the HOME Investment Partnership program, a crucial source of gap financing for affordable housing developments, has been cut by more than 50 percent since 2010, while the Community Development Block Grant (CDBG) program has been cut by 25 percent over the same period.³¹

As a result, a growing number of lower-income renters are competing for an increasingly scarce supply of affordable rental homes. According to the Joint Center for Housing Studies, there are currently 18.5 million very low-income renter households in the U.S. – meaning they earn less than 50 percent of the area median income (AMI) – but only 18 million rental units that are affordable at that income level, creating a total gap of half a million units.³² To make matters worse, about one-third of those “affordable” units are unavailable because they’re occupied by higher-income tenants, while another 7 percent are considered inadequate.³³

The shortage in supply is even more severe for America’s most vulnerable households. According to the Urban Institute, for every 100 renter households with extremely low-incomes – meaning they earn less than 30 percent of AMI – there are only 28 units that are both adequate and affordable to them. That supply gap has grown substantially in recent years: as recently as 2000 there were 37 affordable and available rental units for every 100 extremely low-income renter households.³⁴



Given these ongoing trends – and barring significant changes to public policy – we expect America's rental housing crisis to get significantly worse in the coming years. According to projections from Enterprise and the Joint Center for Housing Studies, even if rent growth matches income growth, we estimate that the number of housing insecure renters will increase by about 1.3 million households over the next decade – an increase of over 10 percent – driven mostly by an increase in older households. Due in large part to the aging of the Baby Boom generation, we estimate that more than half of the increase in housing insecurity among renters will be people who are over the age of 65, while roughly a quarter will be over the age of 75. By comparison, today only about 15 percent of housing insecure renters are over the age of 65.³⁵

It's important to keep in mind that these are not just housing issues, but broad social problems. The impacts of living in unaffordable, poor-quality or disconnected housing stretch far beyond the housing market, including:

- **Difficult trade-offs.** Low-income households who spend more than half their income on housing have, on average, less than \$20 left each day to cover all other expenses.³⁶ As a result, families who are housing insecure spend on average 38 percent less on food and 55 percent less on health care compared to otherwise similar households living in affordable housing, with significant consequences on nutrition and long-term wellness.³⁷ Housing insecure families also put 42 percent less toward retirement savings compared to similar renters who live in affordable housing.³⁸
- **Poor health outcomes.** Children in housing insecure families are 35 percent less likely to be classified as well, 28 percent more likely to be seriously underweight and 19 percent more likely to be food insecure compared to similar families in subsidized housing.³⁹ In addition, a recent study of public housing residents found that children living in poor-quality homes were 39 percent more likely to visit the emergency room compared to children living in recently renovated homes.⁴⁰

- **Higher rates of asthma and other preventable diseases.** Up to 40 percent of asthma episodes among children are caused by housing-based triggers.⁴¹ According to one study, when you move an asthmatic child out of poor-quality housing and into a green, healthy home, their asthma-related trips to the doctor drop by 66 percent.⁴² Those doctor visits don't just cost money, they often take the child out of school and the parent out of work as well.⁴³ Other studies have found that energy-efficient retrofits to a low-income person's home can result in improvements in general health,⁴⁴ hypertension, sinusitis, hay fever and other diseases,⁴⁵ in addition to significant savings on the monthly utility bill.⁴⁶
- **Poor performance at school.** When a child grows up in an unaffordable home, she is often forced to move frequently, which can lead to disruptions in school attendance and, ultimately, poorer school performance.⁴⁷ Studies show that a single change in elementary schools results in a decrease in math and reading skills equivalent to a four-month learning disadvantage.⁴⁸ In addition, studies have found that children growing up in overcrowded housing have lower math and reading scores, complete fewer years of education, are more likely to fall behind in school and are less likely to graduate from high school than their peers.⁴⁹
- **Longer commutes and fewer job opportunities.** Families with limited housing options often have to move to a neighborhood that's either unsafe or disconnected from jobs, good schools and other opportunities.⁵⁰ According to one study, for every dollar that's saved by moving further away from work, the typical low-income worker pays 77 cents in additional commuting costs.⁵¹ Meanwhile, for the typical metropolitan commuter, only about a quarter of jobs in low- and middle-skill industries are accessible via a reasonable transit commute.⁵²

Further research is necessary to estimate the all-in cost of America's rental housing crisis. But we are confident that it is costing us hundreds of billions – perhaps even trillions – of dollars each year, especially when you consider all the money spent on treatments for preventable diseases, the countless teacher-hours spent helping students catch up in class, the hours of productivity lost each day because of excessive commutes and the billions in tax revenues lost due to limited access to jobs.⁵³

Put another way, we're left with a choice as a country: we can either invest in affordable housing in strong, inclusive communities now, or we can pay for it in other ways down the line.

We can no longer afford to ignore these growing problems. The following chapters lay out our recommendations for bringing this crisis to an end once and for all.

Segregated Communities and Public Policy

In many ways, residential segregation was the official housing policy of the federal government until the middle of the 20th century. Beginning in the 1930s, the federal government built separate public housing for white and black households – often segregated by neighborhoods – to replace inner-city slums. These segregationist policies were expanded during World War II, when civilian workers moved in droves to inner-cities to take advantage of factory jobs, and again during the post-war boom when much of the country’s massive, high-density public housing projects were erected.⁵⁴

It wasn’t just public housing, though. The Economic Policy Institute’s Richard Rothstein has written extensively about the federal government’s massive investment in so-called “white suburbanization,” including both the creation of the interstate highway system and government-backed loans to develop large white-only subdivisions outside of cities. At the same time, the Federal Housing Administration explicitly refused to insure mortgages to black borrowers or loans in predominantly black neighborhoods, making it much harder for households of color to build intergenerational wealth through homeownership.

Certain state and local laws exacerbated the problem, ranging from racially explicit zoning rules to housing covenants that restricted the sale of homes in certain neighborhoods to black families. By the signing of the Fair Housing Act in 1968, much of the damage had already been done, with impoverished and mostly minority inner-cities encircled by affluent, mostly white suburbs.⁵⁵

In many ways, the modern community development movement began as a direct response to these decades of disinvestment from lower-income minority communities. Public policy played a key role in growing the sector. The creation of Community Development Corporations in the late 1960s, the Community Reinvestment Act and the Community Development Block Grant program in the 1970s, the Low-Income Housing Tax Credit program in the 1980s, the Community Development Financial Institution Fund and HOME Investment Partnership program in the 1990s and the New Markets Tax Credit in the early 2000s, all aimed to increase public and private investments in poor, inner-city and mostly minority neighborhoods.



Photo by Harry Connolly

CHAPTER III: A NEW APPROACH TO HOUSING POLICY

Over the past year, the Enterprise policy team conducted independent research and met with dozens of housing policy experts, affordable housing advocates, real estate investors and other key stakeholders to identify the long-term policies necessary to address America's rental housing crisis. Much of this work builds on the findings of the Bipartisan Housing Commission's final report, *Housing America's Future: New Directions for National Policy*, which was published in February 2013.⁵⁶

The team concluded that any long-term strategy for housing policy in the U.S. must have four core components:

- 
1. ENSURE BROAD ACCESS TO HIGH-OPPORTUNITY NEIGHBORHOODS
- 
2. PROMOTE COMPREHENSIVE PUBLIC AND PRIVATE INVESTMENTS IN LOW-INCOME NEIGHBORHOODS
- 
3. RECALIBRATE OUR PRIORITIES IN HOUSING POLICY TO TARGET SCARCE SUBSIDY DOLLARS WHERE THEY'RE NEEDED MOST
- 
4. IMPROVE THE OVERALL FINANCIAL STABILITY OF LOW-INCOME HOUSEHOLDS

Below are specific policy recommendations within each category, along with initial estimates of the cost and impact of each proposal (where available). For a full summary of the platform's recommendations, see *Appendix A*.

Opportunity Is a Bipartisan Issue

“In some cities, kids living just blocks apart lead incredibly different lives. They go to different schools, play in different parks, shop in different stores and walk down different streets. And often, the quality of those schools and the safety of those parks and streets are far from equal – which means those kids aren’t getting an equal shot in life. That runs against the values we hold dear as Americans. In this country, of all countries, a person’s zip code shouldn’t decide their destiny. We don’t guarantee equal outcomes, but we do strive to guarantee an equal shot at opportunity – in every neighborhood, for every American.”

– President Barack Obama in his Weekly Address, July 2015

“A key tenet of the American Dream is that where you start off shouldn’t determine where you end up. If you work hard and play by the rules, you should get ahead. But the fact is, far too many people are stuck on the lower rungs... There are many factors beyond public policy that affect upward mobility. But public policy is still a factor, and government has a role to play in providing a safety net and expanding opportunity for all.”

– Speaker of the House Paul Ryan in Expanding Opportunity in America, July 2014

“A lot of our cities truly are divided. They have a lot of inequality that has only gotten worse... We need to think hard about what we’re going to do, now that people are moving back into and staying in cities, to make sure that our cities are not just places of economic prosperity and job creation on average, but do it in a way that lifts everybody up – to deal with the overriding issues of inequality and lack of mobility.”

- Democratic Presidential Candidate Hilary Clinton in Washington, March 2015

“We need to address the fact that we have 40-some-odd million people who feel trapped in poverty and do not feel like they have an equal opportunity to get ahead. And I don’t view that as a partisan issue or an electoral one. I think it goes to the heart of what it means to be America... I feel like the war on poverty has failed because it’s incomplete. I think we have to take the next step, which is to help people trapped with inequality of opportunity to have the opportunity to build for themselves a better life.”

– Republican Presidential Candidate Marco Rubio on Face The Nation, January 2014

Photo by Lloyd Wolf





1. POLICIES THAT ENSURE BROAD ACCESS TO HIGH-OPPORTUNITY NEIGHBORHOODS

IMPROVE THE SECTION 8 PROGRAM AND EXPAND REGIONAL MOBILITY PROGRAMS TO HELP MORE FAMILIES WITH RENTAL ASSISTANCE VOUCHERS ACCESS HIGH-OPPORTUNITY NEIGHBORHOODS

The Section 8 Housing Choice Voucher program serves 2.1 million households and is America's primary tool for helping low-income renters remain stably housed while renting apartments in the private market. While the program has been largely successful in helping low-income families find decent, stable and affordable housing, more must be done to ensure that recipients have access to communities with good schools, jobs and other opportunities.⁵⁷ In 2014, nearly 60 percent of families with children receiving a voucher lived in a neighborhood with a poverty rate of more than 20 percent, while 14 percent lived in a neighborhood with a poverty rate of more than 40 percent.⁵⁸ Similarly, in 2008 only one in four families with children receiving a voucher lived near an elementary school that ranked in the top half of the state.⁵⁹

Certain program rules seem to encourage voucher holders to live in higher-poverty neighborhoods. HUD limits the total amount of rental assistance that a family can receive by establishing fair market rents for a particular area. Under current rules, these market rents are set for each metro area, even though there are significant disparities in the cost of living within each metro. For example, rents in wealthier neighborhoods of Manhattan or West Chester County in New York are significantly higher than those in the Bronx, but the neighborhoods are subject to the same rent limits for administering the Section 8 program.

HUD is currently testing so-called "small area fair market rents" in certain cities, which would set market rents at the zip code level instead of the metro level.⁶⁰ When small-area rent limits were tested on a pilot basis in Dallas studies found that voucher holders were able to move to neighborhoods with 17 percent less violent crime and poverty rates that were two percentage points lower, all while bringing down the total cost of the program.⁶¹

When structured properly, the use of small-area fair market rents has the potential to open up certain low-poverty neighborhoods to voucher holders. At the same time, however, there is risk of exacerbating disinvestment in higher-poverty neighborhoods by reducing rents in those areas below the level at which responsible landlords can reasonably operate and maintain the existing stock and create new housing.⁶² Local benchmarks should be carefully calibrated to ensure that the value of each voucher accurately reflects the cost of living in that community, especially in gentrifying neighborhoods where rents are rapidly changing. In addition, any expansion of small-area fair market rents should be phased in over a period of several years to minimize any negative impact on lower-cost neighborhoods within the metro area, while providing flexibility for gentrifying neighborhoods.

In addition to this change, HUD can further encourage access to high-opportunity neighborhoods by changing the way it oversees the voucher program's administration at the local level. The Center on Budget and Policy Priorities recently proposed several other administrative changes, including:

- 1) Creating strong incentives for state and local housing agencies to achieve better location outcomes, such as by adding weight to these factors when measuring agency performance.
- 2) Minimizing jurisdictional barriers to families' ability to live in high-opportunity communities, such as by encouraging agencies within a single metro area to unify their program operations.
- 3) Assisting families in using vouchers to rent in high-opportunity areas, such as through increased funding for mobility counseling.⁶³

These changes should be informed by the results of HUD's "Moving to Opportunity" demonstration, which helped families receiving federal rental assistance move from high-poverty neighborhoods to lower-poverty neighborhoods. A recent evaluation of the demonstration found that children who moved into high-opportunity neighborhoods at a young age saw their lifetime earnings increase by about \$302,000 compared to similar children who stayed put, alongside significant mental and physical health benefits.⁶⁴ The researchers concluded that the additional tax revenue from these earnings alone would completely "offset the incremental cost of the subsidized voucher."⁶⁵

In addition to these changes at the federal level, local housing authorities and community-based nonprofits play a key role in improving location outcomes for voucher recipients. As part of a 1995 settlement with HUD over segregation in public housing, Baltimore's Housing Mobility Program provides long-term counseling, financial education and other resources to minority families with housing vouchers hoping to move to a low-poverty neighborhood in or near the city.⁶⁶ A key component of the Baltimore program is voucher mobility, which makes it easier for a family to move across jurisdictions. The nonprofit Inclusive Communities Project operates a similar counseling program in the Dallas region, which helps voucher holders find housing in nearby Collin, Denton, Tarrant, Rockwall, Ellis and Kaufman counties.⁶⁷ In Chicago, the housing authority's Regional Housing Choice Initiative provides counseling and financial incentives for voucher holders to move to neighborhoods with better schools, employment opportunities and lower crime rates. A recent analysis of the Chicago program showed that children in participating families attended significantly better-performing schools and increased their reading scores by an average of 14 percentage points after the move.⁶⁸

Other housing authorities have partnered with local school districts to improve education outcomes for voucher recipients. For example, a school district in Tacoma, Washington, is working with its local housing authority to reduce school mobility rates among its lowest-income students. The housing authority provides rental assistance vouchers, on-site counseling and other services to eligible families that commit to live within the attendance area of McCarver Elementary School, an area of the city that has experienced particularly high rates of family mobility and homelessness. The pilot is still underway, but initial assessments have shown that the program has resulted in fewer suspensions, better attendance, increased parent engagement and signs of both academic and behavioral progress for participating students.⁶⁹

ESTABLISH STATE AND LOCAL LAWS BANNING “SOURCE OF INCOME” DISCRIMINATION BY LANDLORDS AND PROPERTY OWNERS

The Fair Housing Act of 1968 generally prohibits discrimination in the sale and rental of housing, but the law does not apply to discrimination against renters based on the source of their income. For example, in most states a landlord can choose not to offer a unit to a low-income family simply because they have a Housing Choice Voucher. According to the Urban Institute, local studies in New York City, New Orleans and Washington, D.C., have found that many landlords discriminate against voucher holders by either imposing additional conditions or simply rejecting their applications.⁷⁰

At least 13 states and several cities and counties have passed laws that prohibit discrimination based on source of income,⁷¹ which have proven to improve acceptance rates and location outcomes for voucher recipients.⁷² We encourage more states and municipalities to enact similar bans and incentives to expand access to high-opportunity neighborhoods for voucher holders. In addition, Congress should consider expanding the Fair Housing Act to prohibit landlords from discriminating based on the source of an applicant’s income.

BALANCE THE ALLOCATION OF LOW-INCOME HOUSING TAX CREDITS AND OTHER FEDERAL SUBSIDIES TO BOTH HIGH-OPPORTUNITY NEIGHBORHOODS AND DISTRESSED COMMUNITIES, WHILE CREATING MORE OPPORTUNITIES FOR MIXED-INCOME DEVELOPMENT

The Low-Income Housing Tax Credit, also known as the Housing Credit, has financed virtually all of the country’s affordable housing construction since the mid-1980s. The program is an undeniable success story in public-private partnership, helping to build or preserve nearly 2.8 million homes that are affordable to low-income renters. However, due to a variety of constraints – including higher land costs and “not-in-my-backyard” objections from current residents – it is often comparatively difficult for developers to build Housing Credit properties in certain high-cost neighborhoods, which typically provide better access to jobs, good schools and public transit.

Even though it is a federal tax credit, the Housing Credit program is almost entirely administered by state housing finance agencies, meaning it is mostly up to the states to decide where developments are built and under what terms. For this reason, the location of Housing Credit properties varies widely from state to state. Nationwide, roughly one-third of Housing Credit units in metropolitan areas are located in low-poverty neighborhoods, meaning census tracts with poverty rates below 10 percent. In Arizona, however, just 2 percent of Housing Credit properties are located in low-poverty neighborhoods, while in neighboring Nevada the number is 40 percent.⁷³

In administering the Housing Credit program, it is crucial for each state to balance the allocation of credits to both high-opportunity neighborhoods and distressed communities. This often requires specific provisions that encourage development in higher-opportunity neighborhoods in the state’s Qualified Allocation Plan (QAP), which lays out the basic rules and guidelines for allocating credits.

For example, Massachusetts and Texas each provide bonuses to developments in areas identified as opportunity neighborhoods, while Mississippi and Illinois provide a scoring preference to developments in counties with the high median incomes. Other states, such as Pennsylvania and Connecticut, prioritize developments that are located near certain amenities, such as employment centers and transit.⁷⁴

Congress can also play a crucial role in strengthening the Housing Credit. In many high-cost markets, it is nearly impossible to provide housing that is affordable to extremely low-income families without significant operating subsidies beyond the Housing Credit. At the same time, many low-income families earning between 60 and 80 percent of AMI are not eligible for Housing Credit apartments, yet have very limited affordable housing options in high-cost areas.

Congress should provide additional flexibility to states to achieve a more diverse mix of incomes in Housing Credit properties. Rather than maintain a single across-the-board income limit of 60 percent of AMI, which is the current law, developments could be targeted such that some apartments are available to low-income households earning up to 80 percent of AMI, so long as a certain percentage of the units in the property are affordable to extremely low-income families. The overall average income limit would still be required to remain at or below 60 percent of AMI. By allowing this income averaging in Housing Credit properties, states will have the flexibility to serve more extremely low-income tenants paying lower rents, since the higher rents paid by the higher-income tenants would help maintain the financial feasibility of the development.⁷⁵

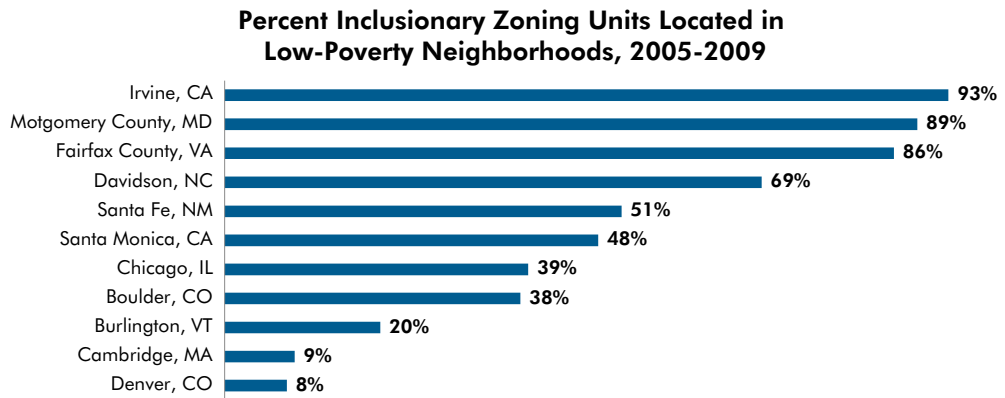
ESTABLISH INCLUSIONARY ZONING RULES AT THE STATE AND LOCAL LEVELS

Over the past 40 years, more than 500 localities have enacted some form of inclusionary zoning to encourage or require market-rate developers to help expand the local supply of affordable housing.⁷⁶ Under a typical inclusionary zoning rule, in order for a developer to receive the necessary approvals and permits to begin construction, they must agree to set aside a certain percentage of the units in a new or rehabilitated development for low- and moderate-income renters.

Specific inclusionary zoning rules vary from city to city. For example, New York City has for years had a voluntary inclusionary zoning program that offers density bonuses to participating developers. Mayor Bill de Blasio recently proposed a citywide mandatory policy for all new developments in areas that are rezoned.⁷⁷ Chicago has a citywide program that is mandatory for all developments that meet certain thresholds. In other cities, developers have the option to either set aside affordable units or pay into an affordable housing fund.⁷⁸

Research shows that well-designed inclusionary zoning initiatives can significantly improve access to low-poverty neighborhoods for low-income families – often with little to no additional subsidy. In a recent study of 11 jurisdictions with inclusionary zoning policies in place, more than two-thirds of the affordable units created through the policy were located in high-opportunity neighborhoods.⁷⁹ We encourage more jurisdictions to establish similar inclusionary zoning rules that fit the development patterns and affordable housing needs of the local community.

Chart 9: A significant portion of homes built through inclusionary zoning rules are located in high-opportunity neighborhoods.

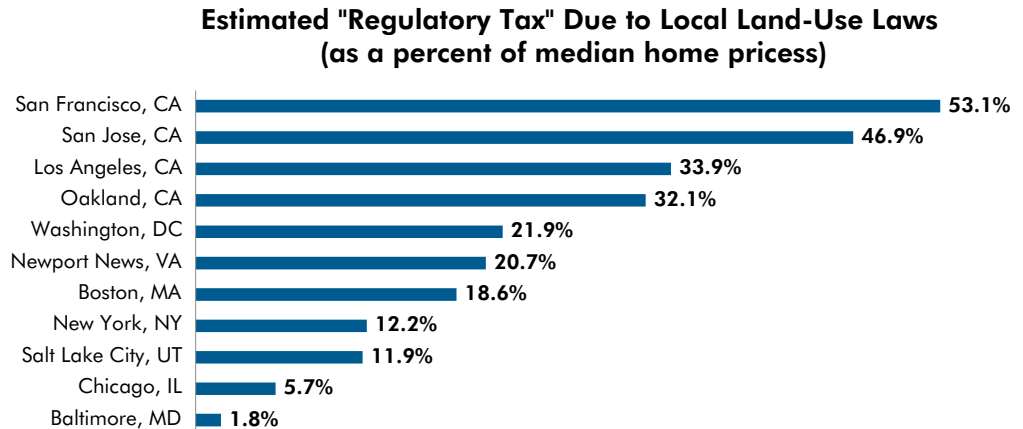


SOURCE: RAND CORPORATION, IS INCLUSIONARY ZONING INCLUSIONARY? A GUIDE FOR PRACTITIONERS, 2012.

While zoning is typically a local issue, it’s worth noting that some states, such as Arizona and Oregon, have laws that essentially ban local inclusionary housing rules. We urge all states to remove these and any other impediments to the development of affordable housing at the local level. In addition, some states have put in place laws that supersede exclusionary zoning rules at the local level. For example, Massachusetts state law allows developers to override local zoning bylaws in order to increase the stock of affordable housing in areas where less than 10 percent of the housing stock is deemed affordable.⁸⁰

ESTABLISH STATE AND LOCAL REGULATIONS THAT ENCOURAGE INNOVATION AND PROMOTE THE COST-EFFECTIVE DEVELOPMENT OF MULTIFAMILY HOUSING

In addition to inclusionary zoning rules, jurisdictions should take a careful look at other local regulations – including land use restrictions, building codes, parking minimums and permitting and approval processes – to ensure that they do not unnecessarily delay or restrict the development of new rental housing or increase costs throughout the development process. According to a 2003 study from the National Bureau of Economic Research, these and other land-use regulations imposed regulatory taxes of at least 10 percent in some of the country’s most expensive cities, including New York, San Francisco, Los Angeles, Boston and Washington, D.C.⁸¹ Another study in 2008 found that, for areas that have seen an increase in job opportunities, cities with high levels of local regulation tend to see a smaller increase in the housing stock, greater house price appreciation and lower employment growth compared to low-regulation cities.⁸²

Chart 10: Estimated regulatory tax on housing costs due to local land-use regulations.

SOURCE: GLAESER, GYOROKO AND SAKS, *WHY IS MANHATTAN SO EXPENSIVE? REGULATION AND THE RISE IN HOUSE PRICES*, NATIONAL BUREAU OF ECONOMIC RESEARCH, 2003.

In January 2014, Enterprise and the Urban Land Institute's Terwilliger Center for Housing released a report entitled *Bending the Cost Curve: Solutions to Expand the Supply of Affordable Rentals*, which offers concrete policy recommendations to support the cost-effective development of affordable rental housing while maintaining appropriate standards for quality, durability and livability.⁸³ The report offers a set of recommendations for state and local policymakers, including:

- **Review local density, building and unit size, amenity and other requirements.** Many jurisdictions introduce both direct and indirect supply constraints by limiting the amount of land, the number of units or the size of buildings that can be developed. Density restrictions can increase upfront per-unit development costs, as many expenses – such as land costs, design costs, legal expenses and financing application fees – are fixed or only partially correlated to the number of units in a development. These restrictions should be evaluated to ensure that they do not limit housing supply in an effort to manage the impacts of growth and development. In addition, many jurisdictions require substantial rehabilitation projects to be brought up to code for current new construction, which can make rehabilitation cost-prohibitive. For existing buildings, separate rehabilitation codes should be adopted, including requirements for structural integrity, occupant safety and energy efficiency.
- **Streamline development timelines by eliminating barriers to “by-right” development and improving the public engagement process.** Local zoning codes and land use regulations set restrictions on the type and size of developments that can be built on a plot of land. Developments that fall within those parameters are generally considered “by-right,” meaning they can proceed without extensive review and approval. Developments that fall outside the parameters must receive the necessary variances and entitlements in order to proceed, which can cause delays, increase costs or even prohibit certain developments. In addition to eliminating those barriers, jurisdictions should revisit their public engagement processes and requirements to ensure that developments are not unnecessarily delayed or blocked by “not-in-my-backyard” opposition,

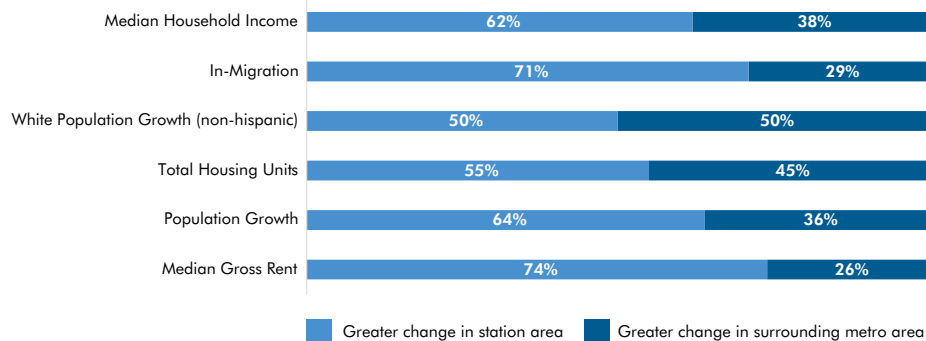
while maintaining opportunities for crucial community input. Successful engagement efforts typically involve clarity in both the procedures and the timeframe expected for the developers and the community.

- **Allow for a diverse range of building types.** Alternative building types, such as microunits, group homes and accessory dwelling units – which are self-contained, smaller units on the lot of a single-family home – are particularly important sources of affordable rental housing, especially for young adults and lower-income seniors who hope to age in place or near family members. But these units often meet local opposition and zoning challenges. Local zoning and building codes should provide flexibility to property owners while maintaining reasonable standards of quality and livability. In addition, jurisdictions should provide clarity to property owners about any fees that may be assessed and other responsibilities.
- **Support innovative building techniques.** Jurisdictions should also examine whether their existing regulatory and zoning requirements discourage innovative building techniques, such as prefabricated modular, panelized or manufactured housing. For example, organizations such as *NextStep* – a Kentucky-based network of nonprofit homebuilders working to replace older mobile homes with more energy-efficient manufactured homes built to higher standards – are forging partnerships between the factory-built housing industry and the affordable housing development community. These products can offer opportunities for cost savings and architectural innovation.
- **Implement parking requirements that match resident needs.** Developments often need to incorporate some off-street or structured parking to attract tenants, particularly in neighborhoods with poor walkability or a lack of transit access. However, many jurisdictions require parking levels that exceed what is necessary to accommodate resident needs. These requirements can substantially increase construction costs: developers have reported costs of up to \$70,000 per space for structured parking.⁸⁴ These requirements can also serve as de facto density restrictions, as parking takes up land that could otherwise be used for additional units. Parking standards should be carefully evaluated based on the needs of residents and the surrounding land use. Especially in urban infill developments near transit, parking minimums may be substantially reduced or eliminated entirely.
- **Effectively use public subsidies that increase the supply of affordable homes.** While many of the above policy recommendations focus on removing barriers, state and local governments can also work to actively support the production and preservation of affordable homes. For example, some jurisdictions subsidize the cost of land and infrastructure improvements, either through local funds or through regulatory incentives, in exchange for the creation of affordable rental housing on site. Others offer “first-look” programs to give affordable housing developers right of first refusal for local public land. Others offer property tax abatements for affordable housing during the development phase. In addition, many local governments charge mandatory “impact fees” to fund infrastructure and service improvement across the jurisdiction. Fee waivers and “smart” impact fees – which lower the fees charged to properties with smaller units – can dramatically reduce predevelopment costs.

INCORPORATE AFFORDABLE HOUSING CONSIDERATIONS INTO LOCAL AND REGIONAL TRANSPORTATION PLANNING THROUGH EQUITABLE TRANSIT-ORIENTED DEVELOPMENT

Public investments in transit can help to catalyze regional growth and improve access to employment, education and health care services, especially for lower-income residents who tend to rely on public transportation. However, without careful planning these investments can also push up rents and home prices in neighborhoods near new transit lines, which could decrease affordability for low- and moderate-income residents. A study from the Dukakis Center at Northeastern University found that, in a majority of neighborhoods that received new transit service between 1990 and 2000, median incomes, housing costs and levels of in-migration increased relative to the rest of the metro area.⁸⁵ For example, growth in housing costs outpaced the surrounding area in about three-quarters of the neighborhoods that received new transit service during that time period.

Chart 11: Changes in neighborhoods gaining new transit access between 1990 and 2000.



SOURCE: DUKAKIS CENTER AT NORTHEASTERN UNIVERSITY, MAINTAINING DIVERSITY IN AMERICA'S TRANSIT-RICH NEIGHBORHOODS: TOOLS FOR EQUITABLE NEIGHBORHOOD CHANGE, 2010.

Equitable transit-oriented development (eTOD) seeks to create housing and transportation options for residents of all income levels, typically through the construction or preservation of affordable rental housing near public transportation. Several factors make eTOD difficult to achieve in certain markets, including:

- A limited supply of developable land near transit
- Automobile-oriented development patterns that limit transit access and walkability
- Local regulations that limit the number of and housing supply within mixed-use communities

In 2015, Enterprise published a report laying out specific recommendations for state and local policymakers to overcome these barriers.⁸⁶ These recommendations include:

- **Adopt a clear strategy for eTOD.** Implementing eTOD requires engaging multiple entities, which often have different immediate priorities, including both the housing and transportation sectors, various levels of government, and the development community. Puget Sound Regional Council, a regional planning agency located in Seattle that handles transportation planning,

collaborated with the Washington State Housing Finance Commission to develop transit-supportive criteria for the allocation of Low-Income Housing Tax Credits. In Atlanta, the Metropolitan Atlanta Rapid Transit Authority has set a goal for 20 percent of the housing units developed around transit stations to be affordable.

- **Reform local plans, codes and policies that influence station-area development.** Successful eTOD requires a supportive regulatory framework, yet many jurisdictions impose a number of restrictions that complicate station-area development, including limits on density, excessive parking requirements, overly restrictive or prescriptive building codes, excessive development fees and poorly managed public-engagement processes. To address these barriers, Prince George's County, Md., which borders Washington, D.C., routinely uses station area zoning-overlay tools to reduce parking minimums near transit.
- **Expand access to capital with appropriate terms and conditions.** The financial feasibility of eTOD depends on the availability of capital to meet unique development needs. Government support can significantly enhance capital availability. For example, in 2010 the city of Denver contributed \$2.5 million in top-loss capital to create a \$15 million eTOD acquisition fund for the city. The fund now totals \$24 million and can be used across the seven-county metropolitan region. In the San Francisco Bay Area, the Metropolitan Transportation Commission contributed \$10 million in transportation funding to seed the Bay Area Transit-Oriented Affordable Housing Fund, a \$50 million structured fund to finance pre-development, acquisition and construction for affordable housing. And in Southern California, the Los Angeles County Metropolitan Transit Authority (Metro) has committed 35 percent of units developed in Metro-owned land to affordable housing, as well as \$10 million for a transit-oriented affordable housing fund.
- **Enhance access to high-demand sites for affordable housing developers.** In strong markets, affordable housing developers often struggle to compete with market-rate developers to redevelop sites or preserve existing affordable housing. In 1996, King County, Washington, which is in the Seattle metropolitan region, instituted a public land disposition program in which all county-owned property deemed surplus is reviewed in order to determine suitability for residential development. Acceptable sites are then marketed for development, with a portion of units developed reserved for affordable housing.

While most policy decisions related to eTOD are made at the state, regional or local level, the federal government also plays an important role. For example, the Federal Transit Administration (FTA) supports local transit capital projects through the Capital Investment Grant program. In 2013, the FTA adopted a new evaluation framework that creates incentives for a range of transit-supportive elements, including affordable housing. We urge the FTA and other federal agencies to pursue further ways to better integrate local housing needs into any federally-supported transit project.

Preserving America's Naturally Affordable Housing Stock

When people think of rental housing, they tend to think of large multifamily buildings in dense urban areas. In reality, more than 80 percent of the nation's rental housing is located in smaller buildings with fewer than 20 units, and more than half of America's renters live in single-family homes with fewer than five units.⁸⁷ The stock of single-family rental has increased dramatically in recent years, as millions of foreclosed homes have been converted to rental properties.⁸⁸

Smaller apartment buildings tend to be older and command lower rents compared to larger multifamily buildings, making them a critical source of unsubsidized affordable housing. However, these buildings are often owned by individuals or small-scale mom and pop investors, who often have trouble accessing capital to refinance, recapitalize or rehabilitate their properties. In addition, the relatively small mortgages on these properties – usually below \$3 million – make it very difficult for lenders to originate them profitably after accounting for personnel, legal and other transaction costs. Due to the slim margins, the loans tend to be originated by smaller local banks with limited access to the secondary mortgage market, which makes it difficult to provide long-term, fixed rate loans.

Enterprise strongly supports public policies that seek to preserve this crucial stock of naturally affordable rental housing, especially in high-opportunity neighborhoods and gentrifying areas. For example, the Federal Housing Finance Agency, which regulates Fannie Mae and Freddie Mac, recently set annual goals for Fannie- and Freddie-backed lending to affordable small multifamily properties.⁸⁹ In addition, the Federal Housing Administration recently launched a new risk-sharing insurance product to help owners recapitalize or rehabilitate their small multifamily buildings, so long as they keep rents affordable to low-income families.⁹⁰



Photo by Lloyd Wolf



2. POLICIES THAT PROMOTE COMPREHENSIVE PUBLIC AND PRIVATE INVESTMENTS IN LOW-INCOME NEIGHBORHOODS

MAKE THE PUBLIC AND PRIVATE INVESTMENTS NECESSARY TO PRESERVE EXISTING AFFORDABLE HOUSING WHILE CREATING MIXED-INCOME COMMUNITIES

After decades of underinvestment, many of the country's 1.1 million units of public housing are in need of significant capital investment. According to HUD, the aging stock has a backlog of at least \$25.6 billion in unmet capital needs,⁹¹ and an estimated 10,000 public housing units are lost entirely each year to obsolescence and decay.⁹²

Preserving at-risk public housing must be a key component of federal housing policy. But we need to think beyond the current funding model, which has allowed hundreds of thousands of units to wither in a state of disrepair. HUD's Rental Assistance Demonstration (RAD) allows public housing authorities to convert dilapidated projects into privately financed, government-subsidized properties, using the Section 8 program to preserve long-term affordability. By altering the source of the rental subsidy, participating authorities can attract outside sources of financing. Some of those sources are public, such as the Low-Income Housing Tax Credit, while others are private.⁹³

Several local housing authorities see RAD as a promising tool for preserving at-risk public housing while deconcentrating poverty in their most distressed neighborhoods. For example, with support from Enterprise Community Partners, the city of San Francisco is working to rehabilitate over 4,500 distressed public housing apartments through RAD, using a combination of Low-Income Housing Tax Credits, debt financing, grant support and project-based rental assistance. According to the San Francisco Housing Authority, the RAD program allows for the city to make the necessary capital investments over a period three years, while it would take more than 50 years to raise the necessary funds through the public housing program.⁹⁴

Congress initially authorized local housing authorities to convert 60,000 units under RAD, but HUD has so far received applications to convert over 190,000 units.⁹⁵ At the urging of hundreds of public housing authorities and other stakeholders through the Enterprise-led Raise the Cap Coalition, Congress in 2014 increased the cap to 185,000 units, which covered the current backlog of applications in the pipeline. As a next step, Congress should remove the unit cap altogether.

We believe that RAD has the potential to preserve most, if not all, of the country's at-risk public housing stock. However, the highest-need properties that require significant rehabilitation will need significant capital subsidies from the federal government. According to our preliminary estimates, it would require roughly \$15 billion - \$20 billion in federal support - or about \$3 billion - \$4 billion annually for the next five years - to support RAD conversions that address the capital backlog for the entire public housing stock.

In addition to the public housing stock, there are 1.3 million units of privately owned affordable rental housing supported with Section 8 project-based rental assistance (PBRA). Under the PBRA program, a property is partially funded by the federal government through a long-term contract with the owner, through which HUD covers a portion of the monthly rent over a certain period. According to the Urban Institute, about one-third of existing PBRA units are at risk of losing their affordability status due to contracts that are set to expire in the coming years.⁹⁶ Preservation of all existing PBRA units, specifically by renewing rental assistance contracts when they expire, must be a key priority for federal housing policy. After all, it is significantly cheaper – somewhere between one-half and two-thirds the cost – to preserve an existing affordable property than it is to build a new one.⁹⁷

Another 450,000 affordable rental units are supported through the Department of Agriculture's Section 515 Rural Rental Housing program. The Section 515 program provides long-term, low-interest and highly leveraged loans – covering between 95 percent and 105 percent of a project's development costs – to support the construction of affordable rental housing in rural communities, along with ongoing rental assistance to keep the units affordable to very low- and extremely low-income households. Most of the country's Section 515 stock was built in the 1970s and 1980s, and three-quarters of outstanding loans are expected to mature in the next 10 years.⁹⁸ Many of the units in properties with maturing loans are at serious risk of being lost due to either obsolescence (in weaker markets) or conversion to market-rate housing (in stronger markets). We encourage the USDA to develop new tools to support the cost-effective rehabilitation and preservation of all at-risk Section 515 units.⁹⁹

BUILD CAPACITY OF PUBLIC, PRIVATE AND PHILANTHROPIC ORGANIZATIONS AT THE LOCAL LEVEL TO PURSUE CROSS-SECTOR SOLUTIONS TO THE PROBLEMS FACING LOW-INCOME COMMUNITIES

No two communities are the same, and each distressed neighborhood faces a unique set of social and economic challenges, from growing poverty and high unemployment to poor performing schools and blighted streets. While solutions must be tailored to the specific needs of the community, there is a significant need for better communication across cities, with a focus on state and local policies that have proven to work. In addition, overstretched budgets at all levels of governments can make matters worse, leaving cities without the tax base or resources to provide the necessary public services and social programs.

In 2014, Enterprise and our partners joined the White House and HUD to launch the National Resource Network (NRN), a consortium of experts that is providing cross-cutting technical assistance to help turn around dozens of the country's most economically challenged communities. Over the next three years, the NRN will help 80-100 cities build the capacity to rethink the delivery of basic services, reform key spending areas and invest in social equity and economic recovery. The NRN provides three core services:

- **Direct assistance to cities.** The NRN deploys teams of private and public sector experts to work with eligible cities on the ground to implement locally identified projects and initiatives that will deliver economic benefits in the near term. NRN teams also work to build local capacity and leadership for the future.
- **Access to peer networks and new ideas.** The NRN convenes and connects local leaders to their peers and other experts solving similar problems across the country.

- **Online, on-demand access to expertise.** The NRN's website provides an unprecedented online library of tools, resources and technical assistance opportunities that support and enhance the work of local leaders.

In addition to the NRN, HUD supports local nonprofits through the Section 4 Capacity Building for Community Development and Affordable Housing program. The Section 4 program ensures that community-based organizations have the ability to attract resources to create and sustain jobs, increase housing production and preserve the vitality and affordability of existing housing developments nationwide. Since 1993, Enterprise has distributed over \$125 million in Section 4 support to more than 1,250 community development organizations throughout the country. Over the past decade, Section 4 grants have created or preserved over 89,000 homes and attracted over \$14.5 billion in investment for low-income neighborhoods and communities across the country. We encourage Congress to significantly expand annual allocations to these programs to reach as many communities as possible.

The federal government can further help to build local capacity by better coordinating grant resources across sectors. One promising approach is the federal Promise Zones initiative, which was launched in 2013 to promote cross-sector, inter-agency investments in America's most distressed neighborhoods. The program is a collaboration between local policymakers and several federal agencies – including the Departments of Education, Housing and Urban Development and Justice – to identify high-poverty communities for focused public and private investment that target job creation, the development of affordable housing, improved educational outcomes and other goals. Among other benefits, areas designated as Promise Zones receive on-the-ground technical assistance from federal staff and priority status in accessing certain federal resources, including:

- Choice Neighborhoods planning and implementation grants offered by HUD, which help to revitalize neighborhoods by rehabilitating or replacing distressed public and HUD-assisted housing alongside broader efforts to improve health, safety and educational outcomes for residents (modeled after HUD's HOPE VI program).
- Promise Neighborhoods grants offered by the Department of Education, which support community-led "cradle-to-career" initiatives that offer a continuum of health, social and educational services (modeled after the Harlem Children's Zone in New York City).
- Byrne Criminal Justice Innovation grants offered by the Department of Justice, which help local governments develop community-oriented strategies to address the drivers of crime in so-called "hot spots" in a particular region (modeled after the Chicago Violence Reduction Strategy).

So far the federal government has designated 13 Promise Zones, including communities in dense urban areas, suburbs, rural areas and tribal lands. While it is too early to assess the program's overall impact, the first round of Promise Zone initiatives has shown promising signs of progress. For example, according to the White House, the Los Angeles Promise Zone has used its Promise Neighborhoods grant to increase college preparedness among high school graduates by 63 percent. The San Antonio Promise Zone has used its funding from the Promise Neighborhoods and Choice Neighborhoods programs to increase the local high school's graduation rates from 46 percent to 84 percent.¹⁰⁰

CREATE STATE AND LOCAL LAND BANKS AND OTHER ENTITIES TO RETURN VACANT AND ABANDONED PROPERTIES TO PRODUCTIVE USE

According to the Federal Reserve, only about 2 percent of the country’s housing stock is considered long-term vacant, meaning the property is nonseasonal and has been vacant for an unusually long period of time, typically because of abandonment. However, the stock of abandoned properties is highly concentrated in a small number of neighborhoods: about one-tenth of all Census tracts account for about 40 percent of all long-term vacant properties in the U.S.¹⁰¹ Communities that have experienced long-term economic stagnation or decline (such as Detroit), areas that have experienced a natural disaster (such as New Orleans) and areas that were hit hard by the recent foreclosure crisis (such as Las Vegas) have particularly high levels of blight and abandonment.¹⁰²

Chart 12: Top 10 metro areas with the highest vacancy rates for nonseasonal housing.



SOURCE: HUD, VACANT AND ABANDONED PROPERTIES: TURNING LIABILITIES INTO ASSETS, WINTER 2014.

Abandoned properties are more than just eyesores – they’re often also magnets for vandalism, arson, drug trafficking and other criminal activity, often resulting in a drop in property values throughout the neighborhood.¹⁰³ According to the Center for Community Progress, even a single abandoned property on a block can have a ripple effect on the local economy, including:

- 1) Decreased property values of adjacent properties
- 2) Decreased property tax revenues from nonpayment of taxes
- 3) Decreased property tax revenues from declining property values of adjacent properties
- 4) Increased costs of police and public safety for surveillance and response
- 5) Increased incidence of arson resulting in higher costs of fire prevention
- 6) Increased costs of local government code enforcement activities
- 7) Increased costs of judicial actions

Many states and local governments have responded to blight problems by creating land banks, which are government entities or nonprofit organizations that are focused on the conversion of vacant and abandoned properties into productive use. Land banks acquire vacant properties – often through an agreement with the city after the owner fails to pay their property taxes – and works with the local community to make the most of the asset, given local needs and market conditions. Sometimes this means selling the property to a homebuyer who will fix it up, other times it means rehabilitating the property and renting it out, and other times it means demolishing the property and replacing it with a new structure, a park, a garden or another community asset. As of 2014, at least 10 states and over 120 municipalities had established land banks.¹⁰⁴

Of course, land banking is just one of many possible solutions to neighborhood blight and abandonment. In Philadelphia, for example, the local horticultural society has contracted with the city government to green unused vacant lots by removing trash, laying topsoil, planting seed and trees and installing fences, all at a modest cost of about \$1 per square foot.¹⁰⁵ Studies found that greening a single vacant lot in a neighborhood can increase the value of surrounding houses by 20 percent,¹⁰⁶ while leading to significant drops in gun violence and vandalism.¹⁰⁷ Enterprise strongly supports state and local neighborhood revitalization and blight clearance efforts that are tailored to the specific needs of the surrounding community and reflect the local housing market.

MAKE PERMANENT AND SIGNIFICANTLY EXPAND THE NEW MARKETS TAX CREDIT

The New Markets Tax Credit (NMTC) was designed to attract private investment in low-income communities where capital doesn't naturally tend to flow. Since its enactment in 2000, the program has helped to develop or rehabilitate more than 100 million square feet of residential and commercial real estate and created nearly 750,000 jobs, all while leveraging \$8 in private investment for every \$1 from the government.¹⁰⁸ Research shows that the NMTC has generated more federal tax revenue than the credit costs, essentially paying for itself.¹⁰⁹

The program allows individual and corporate investors to reduce their federal income tax burden in exchange for a qualified equity investment in a community development entity (CDE), which uses that money to fund businesses and real estate projects in underserved communities.¹¹⁰ At least 85 percent of those investments must be in neighborhoods with a poverty rate of at least 20 percent or a median income that's below 80 percent of the area median. In practice, the communities receiving NMTC investments are even more distressed than required by law, with poverty rates over 30 percent and incomes below 60 percent of the area median.¹¹¹

Because of scarce resources, there is a very high level of competition for NMTC allocations. In 2013 developers and community groups submitted nearly \$26 billion worth of applications for \$3.5 billion in credit authority.¹¹² We estimate that for every one project that received a credit allocation that year, there were at least nine fundable projects that were rejected.

Despite a proven track record of success and broad bipartisan support, the NMTC program is at serious risk today. The program has yet to be made a permanent part of the tax code, leaving lawmakers to extend and fund the program on an annual basis. While Congress has extended the program each time it expired,

lawmakers have continually failed to renew the program on a long-term or permanent basis. This uncertainty deters forward-looking investors from committing capital and discourages CDEs from undertaking long-term approaches to addressing community revitalization. There is also a need to increase funding levels, as the current allocation falls far short of need. For these and other reasons, in 2015 bipartisan legislation was introduced in both the House and the Senate to permanently extend and strengthen the NMTC with an allocation of \$5 billion per year.

In addition to these immediate improvements, stakeholders and policymakers have offered several other proposals for improving the NMTC. For example, the Congressional Budget Office (CBO) recently recommended requiring CDEs to invest 100 percent of their qualified equity investments into low-income communities, instead of the current requirement of 85 percent. The CBO also recommended reworking the awarding process to place greater emphasis on a CDE's community impact, which is evaluated along with its management capacity, capitalization and business strategy.¹¹³

CREATE A NEW FEDERAL TAX CREDIT FOR PRIVATE INVESTMENTS INTO COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS AND OTHER COMMUNITY DEVELOPMENT ENTITIES

Community development financial institutions (CDFIs) are federally certified financial institutions that direct at least 60 percent of their lending activities to low-income neighborhoods. In 2014, CDFIs made over 28,000 loans or investments totaling nearly \$3 billion, financing nearly 10,000 small businesses and more than 25,000 housing units.¹¹⁴

CDFIs raise capital from several sources, including banks, foundations, individuals, religious institutions and government agencies. Many high-capacity CDFIs also offer fixed-income investment products to individual and institutional investors. For example, the Enterprise Community Impact Note is a fixed-income security that delivers a competitive rate of return to investors while primarily financing housing and community development projects in lower-income neighborhoods. According to analysis from ImpactUs, a soon-to-be-launched Enterprise-supported web platform for community investment products, at least 28 large CDFIs are currently raising investment capital through securities, with a combined \$2.4 billion in offerings and \$688 million in debt outstanding.

Under current law, any interest earned through an investment in a CDFI is taxed at the same rate as interest earned in a savings account, certificate of deposit or corporate bond, which typically have no obligation to produce clear social benefits. If investments like the Impact Note were subject to a lower tax rate or received some other tax benefit, it would meaningfully expand investor interest, leading to more private investment in low-income communities.

Certain states already grant preferential tax treatments to investments in CDFIs and other eligible community development organizations. South Carolina offers a 33 percent credit against state tax liabilities for each dollar invested in or donated to state-certified CDFIs and community development corporations.¹¹⁵ In California, investors receive a tax credit worth 20 percent of their investment into CDFIs and other entities that are part of the California Organized Investment Network (COIN).¹⁶⁶

Congress should establish a nonrefundable federal tax credit worth a certain percent of an investment made into eligible securities offered by certified CDFIs and other community investment entities. The tax credit could either apply to the total value of the investment or the annual interest earned by the investor. Either way, the tax benefit should be spread out over a certain timespan – likely 5 years – to encourage investors to hold the investment for longer periods of time. Here’s how the proposed Community Investment Tax Credit could flow to investors:

- Congress authorizes the Treasury Department to allocate a certain amount of tax credits, such as \$50 million per year to start. The tax credits can be used to reduce the federal tax obligations of both individuals and corporations.
- Each year the Treasury Department – likely through the CDFI Fund – allocates the tax credits to CDFIs offering eligible fixed-income securities. Tax credits can be allocated either through a competitive process (similar to the New Markets Tax Credit allocation), a needs-based formula (similar to the Low-Income Housing Tax Credit allocation to states) or some combination of the two.
- Over the course of the year, each CDFI would then allocate the tax credits to individuals and corporations that invest in the eligible security.¹¹⁷ The total tax credits that go to investors would be limited to the total amount allocated to the CDFI that year, likely on a first-come-first-serve basis.
- The individual or corporation would then claim the tax credit over the designated credit period. For example, if the tax credit is worth 10 percent of the invested principal and the credit period is 5 years, the investor could claim 2 percent of the principal amount each year.

More research is necessary to determine the appropriate value of the Community Investment Tax Credit, the type of securities that should be eligible for the credit, the period over which the credits can be claimed and other key details of the proposal. As a general rule, the value of the credit should be set against some benchmark, with the goal of aligning the financial return of a typical CDFI-related security with that of a more mainstream security.

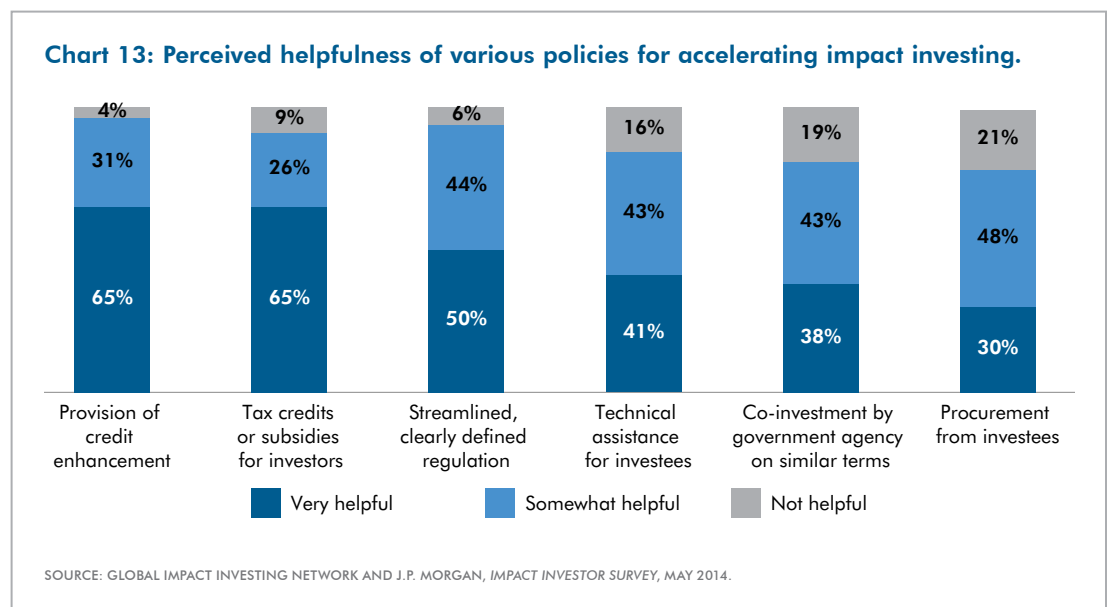
We recommend testing this proposal with an initial allocation of \$50 million, which would generate up to \$500 million in new investment capital if applied as a 10-percent tax credit. If the tax credit proves to increase investor interest in securities offered by CDFIs – and if the CDFIs prove capable of deploying that capital effectively to communities – Congress should consider making the Community Investment Tax Credit a permanent part of the U.S. Tax Code.

ESTABLISH FEDERAL REGULATIONS THAT ENCOURAGE “IMPACT INVESTMENTS” IN LOW-INCOME COMMUNITIES BY INDIVIDUAL AND INSTITUTIONAL INVESTORS

Over the past decade, the global market for “impact investing” – investments made with the intention to generate measurable social and environmental impact alongside a financial return – has grown in both scale and prominence. In the U.S., profit-seeking investors are working with public and private partners to address some of the most pressing issues facing distressed communities – from poor health and education outcomes to a lack of quality, affordable housing.

While the term impact investing is relatively new – it was coined in 2007 – the underlying concept of public-private partnerships is anything but. For decades, America’s community development sector has functioned through a public-private model, with private investors, government agencies and local nonprofit organizations working together toward shared goals with mutual accountability. Public policy plays a key role in making these partnerships possible. For example, the federal government facilitates the flow of private capital into distressed and underserved communities through an array of policies, including tax incentives like the Low-Income Housing Tax Credit and the New Markets Tax Credit, regulatory requirements like the Community Reinvestment Act and capacity building programs like the Section 4 Capacity Building for Community Development and Affordable Housing program.

By continuing to grow and improve the broader market for impact investing in the U.S., we have the opportunity to unleash significant private investment into communities that have long suffered from disinvestment and neglect. But that will require a thoughtful, comprehensive policy strategy from the federal government. Notably, when researchers at the Global Impact Investing Network (GIIN) and J.P. Morgan asked impact investors to identify the government policies that would be most helpful in accelerating the growth of the impact investing market, they identified subsidies to improve an investment’s risk/return profile – either through credit enhancement or tax credits – and clearly-defined regulations as the highest priorities.¹¹⁸



In 2013, Enterprise co-founded the Accelerating Impact Investing Initiative (AI3), a cross-sector coalition of investors, researchers, philanthropic organizations, practitioners and policy experts working to develop public policies to improve and expand the market for impact investments in the United States. Together with our partners, including Pacific Community Ventures and Harvard's Initiative for Responsible Investment, over the past year we have identified a set of specific policy changes that could meaningfully expand the market, including:

- **Establish a standard system of measurement that combines social impact and financial performance metrics.** As the market for environmentally and socially responsible investments has grown in recent years, so too has the infrastructure for measuring the real-world impact of those investments. However, there is still significant disparity in the metrics used by investors to track social and environmental impact.¹¹⁹ The federal government should establish a nationally recognized system for double- and triple-bottom-line accounting, including sector-specific standards for setting goals, selecting metrics, and collecting, storing, validating, analyzing and reporting impact data. As common metrics and industry best practices emerge, the federal government should incorporate these standards into its oversight and direct support of impact investing.
- **Incentivize mission-oriented organizations – especially large tax-exempt foundations – to align their investment practices with their charitable mission.** U.S.-based private foundations combine for roughly \$650 billion in endowments.¹²⁰ In order to maintain their tax-exempt status, each year a foundation must allocate at least 5 percent of their total assets toward their charitable purpose. This can be done either in the form of grants or “program-related investments” (PRIs), defined by the Internal Revenue Service (IRS) as below-market-rate investments for which the primary purpose is to accomplish a charitable purpose, not to generate a financial return. Specifically, many foundations have hesitated to pursue PRIs because of a vague requirement that the investment must not be “significantly intended to produce income.” In addition to clarifying these rules, the IRS should streamline the process for approving a potential PRI, which could help to remove legal barriers for some small foundations. These changes would build on the IRS's recent guidance on “mission-related investments” (MRIs), which seek a risk-adjusted financial return alongside social or environmental goals that are consistent with the foundation's charitable purpose.¹²¹
- **Reform the rules governing the fiduciary responsibility of pension fund managers to better accommodate impact investments.** U.S.-based pension funds are a massive source of investment capital, with nearly \$18 trillion in combined assets under management. Just under half of those assets are in plans governed by the Employment and Retirement Securities Act of 1974 (ERISA), which requires pension funds to be managed “for the exclusive purpose of providing benefits to participants and their beneficiaries.” In October 2015, the U.S. Department of Labor, which oversees the implementation of ERISA, issued new guidance which makes it easier for pension fund managers to pursue “economically targeted investments,” a type of impact investment that seeks certain social goals alongside a market-rate financial return.¹²² While this guidance is a step in the right direction, more can be done at the federal, state and local levels to encourage more impact investments by pension funds. For example, state and local regulators can

set explicit targets for economically targeted investments by public pensions – say, 2 percent of invested assets each year – while federal regulators can establish new disclosure rules for social and environmental impact that better align America’s fiduciary responsibilities with those of other developed countries.

- **Modernize the Community Reinvestment Act to reflect the current financial system and better encourage investment in low-income communities.**

The Community Reinvestment Act of 1977 (CRA) requires depository institutions to help meet the credit needs of the communities in which they operate. Since its enactment, CRA has been a remarkably powerful tool for encouraging private investment in low-income communities, but the law has not had a major update since 1995 – and the financial industry has evolved significantly since then. To bring CRA into the 21st century, Congress should:

- 1) Increase the requirements for community development investments by banks
- 2) Provide certain banks – particularly internet banks with a national footprint – with more flexibility to serve the community development needs of the nationwide market, not just the community in which they receive deposits
- 3) Identify a single regulatory agency – as opposed to today’s fragmented structure with several federal regulators – to usher in reforms as needed¹²³
- 4) Extend the regulatory obligation to include all firms that provide financial services to predominantly low-income communities, including prepaid cards, check-cashing services, payday lenders and certain insurance companies.¹²⁴

- **Establish a new federal fund to support state and local Social Impact Bonds.** Under a typical Social Impact Bond (SIB) – also called a “social impact partnership” or “pay-for-success” contract – private investors provide upfront capital to fund a particular social program. Those investors are paid back by the government – plus a financial return – only if predefined social outcomes are achieved, often paid for by a reduction in government spending. To date, all closed SIB contracts have been devised and negotiated at the state or local level, with little financial support from the federal government. However, many of these initiatives have the potential to yield meaningful long-term federal savings. This is often called the “wrong pocket” problem, where one government entity takes risk or incurs a cost while another government entity reaps financial benefits. By creating a new federal fund to support state and local SIBs, Congress can help to mitigate the wrong pocket problem and meaningfully expand the SIB model.¹²⁵ In addition, whenever a SIB initiative yields actual budgetary savings, policymakers should agree to reinvest at least a portion of those savings back into the proven social program.

Faubourg Laffite: A Case Study in Place-Based Investment

Ten years ago, as Hurricane Katrina tore through the Gulf Coast, the nearly 900 apartments that made up the Lafitte public housing complex in New Orleans' historic Treme neighborhood were evacuated. With the exception of a handful of apartments, the buildings would never re-open.

When the Gulf Coast office of Enterprise, Providence Community Housing and L+M Development Partners took on the task of rebuilding Lafitte and other properties in the surrounding neighborhood, the goal was to provide opportunity for all former Lafitte residents to return to a strong and vibrant community. Building quality and affordable homes was an essential first step, but we knew it wouldn't be enough. We needed to connect those homes to other opportunities for a better life – stable jobs, quality health care and, for the neighborhood's youngest residents, a good education.

With crucial support from the federal, state and local governments, as well as private investment made possible by those public resources, Enterprise and our partners are working to transform the neighborhood around Lafitte into a community of opportunity. Together we have completed the development of nearly 600 homes that are energy-efficient and built to sustain another storm. Providence re-opened an adjacent community center with an afterschool program for neighborhood children and job readiness programs for adults focused on health-related fields. When complete, Faubourg Lafitte will include 1,500 homes, including a one-for-one replacement of all 900 subsidized apartments and the development of an additional 600 for-sale and market-rate rental homes.

At the same time, the broader Treme neighborhood surrounding Faubourg Lafitte is undergoing a dramatic transformation. Soon two new hospital campuses will open within walking distance of Faubourg Lafitte, providing an estimated 8,000 jobs. A new state of the art charter school recently opened in the neighborhood, as well as a new 3.1-mile public park providing recreation space and walking or bicycle access from Faubourg Lafitte to jobs in the French Quarter. Treme is also home to ReFresh, a new fresh food retail center which includes a Whole Foods, a nutritional center and a café that provides life skills and employment training for disconnected youth.

Faubourg Lafitte is an example of a successful public-private partnership and a sustained, coordinated and comprehensive investment into a deeply impoverished neighborhood. And that investment is already paying dividends, with over \$4 billion of public and private investment taking place in the surrounding community.



Photo by Harry Connolly



3. POLICIES THAT RECALIBRATE OUR PRIORITIES IN HOUSING POLICY TO TARGET SCARCE SUBSIDY DOLLARS WHERE THEY'RE NEEDED MOST

REFORM THE MORTGAGE INTEREST DEDUCTION AND OTHER FEDERAL HOMEOWNERSHIP SUBSIDIES TO ENSURE THAT SCARCE RESOURCES ARE TARGETED TO THE FAMILIES WHO ARE MOST IN NEED OF ASSISTANCE

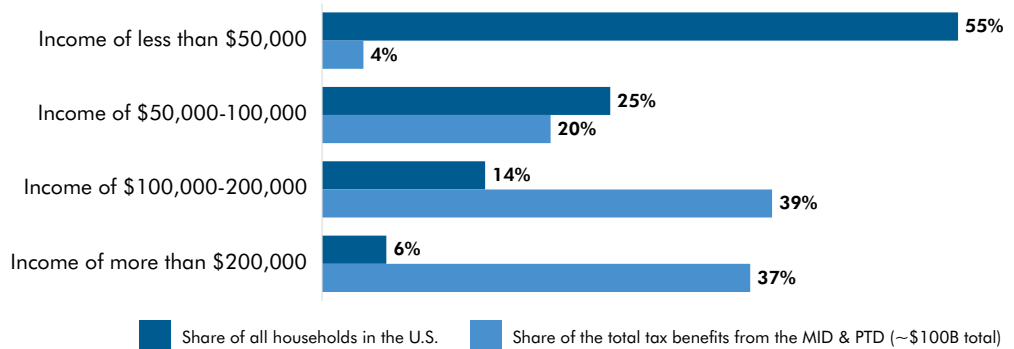
Even in the wake of the worst foreclosure crisis since the Great Depression, sustainable homeownership remains a key pathway to building wealth and providing financial stability for lower-income working households. Unfortunately, our country's primary policy tools for supporting homeownership – the Mortgage Interest Deduction (MID) and the Property Tax Deduction (PTD), which combined cost taxpayers about \$100 billion each year – are woefully inefficient and ineffective. There are six basic problems with these tax policies:

- **They're exclusionary.** The MID and PTD can only be redeemed if a family itemizes the deductions in their tax return. However, close to half of homeowners with mortgages – mostly on the middle and lower end of the income distribution – receive no benefit at all because they either do not itemize their deductions or do not owe federal income taxes.¹²⁶
- **They're regressive.** Even if your housing costs remain the same, the value of the MID and PTD actually increase as you move up the income scale. For example, a moderate-income family who pays \$10,000 annually in mortgage interest and property taxes receives a benefit of roughly \$1,500, since they pay a 15 percent marginal tax rate. However, a higher-income family with the same interest and property tax payments receives a benefit of roughly \$2,500, since they pay a 25 percent marginal tax rate.
- **They're poorly targeted.** Because the loan limit for claiming the MID is \$1 million and the PTD has no limit – and because the deduction can be taken on both primary residences and vacation homes – the majority of the benefits flow to higher-income households with more expensive homes. For example, more than three-quarters of the annual benefits from the MID go to households earning more than \$100,000 per year – families that are likely able to achieve homeownership without a government subsidy.¹²⁷
- **They distort the housing market.** For higher-income homebuyers, the added benefits of the MID and PTD essentially encourage families to take on more debt to purchase bigger and more expensive homes. This additional purchasing power essentially inflates home prices on the higher end of the market, which in effect increases the cost of buying a home in the middle and lower ends of the market.¹²⁸
- **They create barriers to opportunity.** According to researchers at the Urban Institute, “wealthier jurisdictions can more easily convince their residents to increase property taxes to fund schools when a portion of the increase is ‘reimbursed’ by the federal government,” while poorer neighborhoods are typically unable to do so.¹²⁹ This can have the undesirable effect of actually

deepening inequality and economic segregation across geographic areas instead of helping to alleviate these disparities.

- **They don't work.** There is little evidence that the MID or PTD have any meaningful impact on homeownership rates in the U.S. For example, according to the Congressional Budget Office, our country's homeownership rate is similar to that of Australia, Canada and the United Kingdom – none of which offers tax deductions to support homeownership.¹³⁰ That's why nine in 10 economists recently surveyed by Zillow favored either eliminating or phasing out the MID over time.¹³¹

Chart 14: More than three-quarters of the benefits of the MID and PTD go to higher-income households, even though these households make up a relatively small portion of the U.S. population.



SOURCE: BROOKINGS-URBAN TAX POLICY CENTER, *ELIMINATE THE MORTGAGE INTEREST AND PROPERTY TAX DEDUCTION*, 2009

Once the “third rail” of housing subsidies, reforms to the MID and other tax subsidies to homeowners have been embraced by Republicans and Democrats in several recent tax reform efforts, in part because its cost is so high and its shortcomings are so glaring.¹³² In recent years, dozens of researchers, policy analysts, academics and other experts have offered promising ideas for reforming the MID. While the details vary, the proposals fall into three general categories:

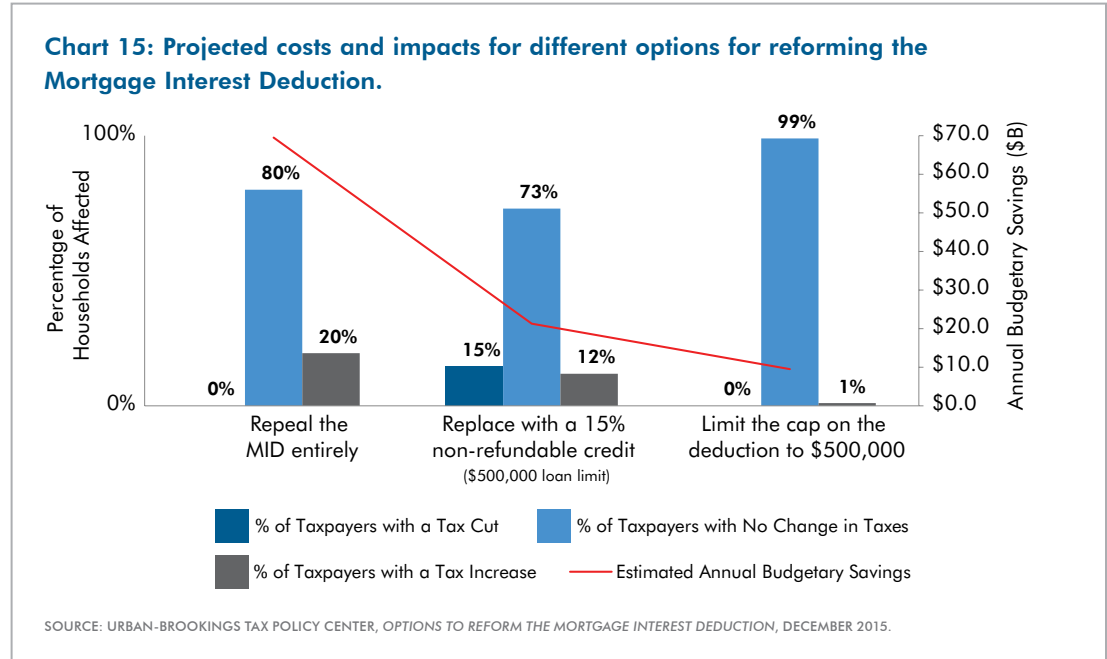
- **Cap the deductions at more reasonable levels.** Perhaps the simplest option for reforming the MID and PTD is to place a lower cap on the total benefits a family can claim through the programs. This can be done either through a cap on the total amount deducted in a given year or by reducing the loan limit for claiming the deductions. According to a recent analysis from the National Low-Income Housing Coalition, of the nearly 20 million mortgages originated between 2012 and 2014, only 5 percent were larger than \$500,000 – and those mortgages were highly concentrated in a handful of U.S. counties.¹³³ Setting the total loan limit at \$500,000 for the MID – instead of the current level of \$1.1 million – would be an important first step toward better targeting the subsidies, but it would do virtually nothing for the millions of low- and moderate-income homeowners who do not currently benefit from the programs. This approach to reform also generates a relatively modest amount of savings. According to initial estimates from

the Tax Policy Center, gradually capping the MID at \$500,000 would save taxpayers about roughly \$95 billion over the next decade, or an average of \$9.5 billion per year.¹³⁴ (Including the PTD as part of the reform would lead to significantly more savings each year.)

- **Transform the deductions into a single capped tax credit.** Another approach to reform would be to replace the MID and PTD with a new Home Mortgage Tax Credit worth a certain percentage of annual interest and/or property tax payments. The tax credit could either be nonrefundable or refundable – meaning if the benefits exceed the family’s federal tax liability, the government writes a check – and benefits would be capped at a certain amount, determined either by loan size or a total dollar value.¹³⁵ Such a reform would have several benefits. First, it would increase the benefit to lower-income homeowners, since more families are more likely to claim a tax credit than an itemized deduction. Second, it would ensure that the total tax benefit is based on a family’s housing costs, not their tax bracket. Third, it would ensure that resources are better targeted by limiting the benefits received by higher-income homeowners. According to initial estimates from the Tax Policy Center, gradually replacing the MID with a capped, 15-percent nonrefundable tax credit would save taxpayers roughly \$213 billion over the next decade, or an average of \$21.3 billion per year.¹³⁶ (Again, including the PTD as part of the reform would lead to significantly more savings each year.)
- **Eliminate the deductions and replace them with more explicit, targeted subsidies.** A third option would be to simply eliminate the MID and PTD entirely and replace it with a more explicit and targeted form of subsidy for marginal borrowers, such as down payment assistance, a tax credit for first-time homebuyers or subsidized low-interest loans for qualified families.¹³⁷ In addition, Congress could use some of the budgetary savings to expand funding for prepurchase housing counseling and homebuyer education, which has proven to significantly reduce the likelihood that a borrower will fall behind on their mortgage payments.¹³⁸ While arguably the most targeted and effective way to promote sustainable homeownership, such an approach would likely be very unpopular, in part because it would result in a significant tax increase for most homebuyers who currently claim the deductions, even those with low and moderate incomes. Once fully phased in, eliminating both deductions could free up roughly \$100 billion in subsidy dollars each year to be used to support low- and moderate-income homebuyers and renters.¹³⁹

Regardless of the specific approach, we believe that any effort to reform the MID and PTD must follow four guiding principles:

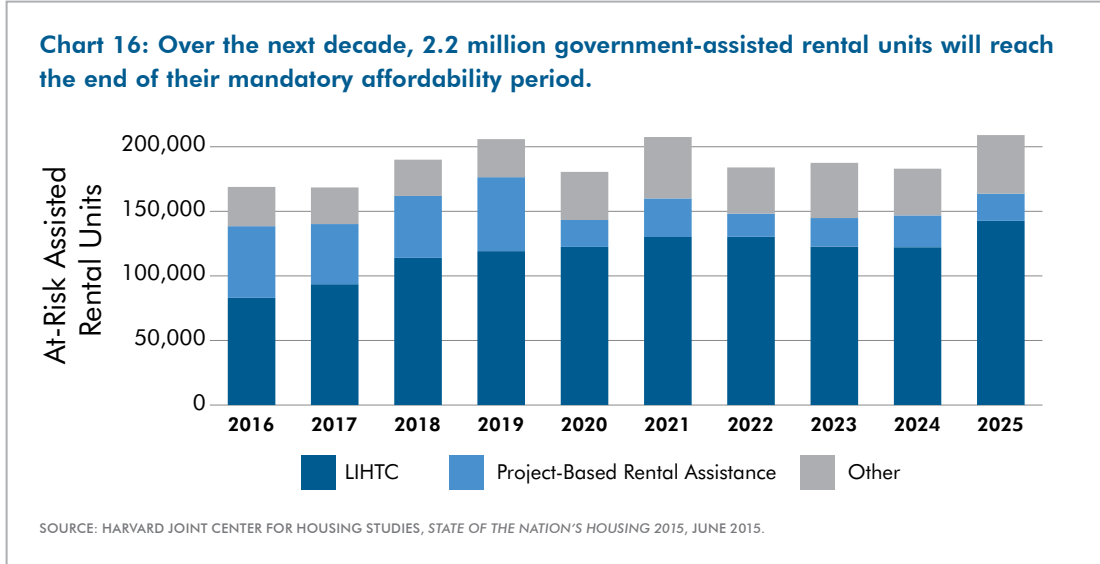
- 1) Focus scarce public resources on the marginal borrowers that are most likely to need support in order to achieve sustainable homeownership
- 2) Deliver that support in a way that is most likely to reach those marginal homeowners
- 3) Phase in any reform over several years to minimize its impact on home prices
- 4) Reallocate all of the budgetary savings to effective but underfunded programs that support affordable housing for America’s lowest-income families¹⁴⁰



GRADUALLY DOUBLE ANNUAL ALLOCATIONS OF LOW-INCOME HOUSING TAX CREDITS AND PROVIDE ADDITIONAL GAP FINANCING TO SUPPORT THE EXPANSION

As discussed above, the Housing Credit is the country’s primary tool for creating new affordable rental homes. However, as demand for rental housing has skyrocketed in recent years, the amount of Housing Credits available to states has not kept pace. Developers requested more than \$2.4 billion in Housing Credits from state allocating agencies in 2013, over three times the available authority, according to the National Council of State Housing Agencies.¹⁴¹ As a result, each year many viable projects that would serve low-income families in need are turned down because of scarcity of tax credits, not because of the applicant’s qualifications or the community’s needs.

The Housing Credit is also the country’s main tool available to preserve the aging federally assisted housing stock, which places additional pressure on limited program resources. According to the Joint Center for Housing Studies, an estimated 2.2 million assisted rental units will reach the end of their mandatory affordability period over the next decade, many of which are at risk of being converted to market-rate housing or removed from the housing stock altogether. About 1.2 million of those at-risk units are in properties developed by the Housing Credit.¹⁴²



According to our analysis, in order to keep up with rising demand, preserve at-risk affordable housing and make a meaningful dent in the existing affordable housing supply gap, annual allocations to the Housing Credit must at least double. If phased in over a period of several years, we believe that there will be sufficient demand among developers and investors for these additional Housing Credits.

There is already broad, bipartisan support for an expansion of the Housing Credit. The Joint Center for Housing Studies recently called the Housing Credit a “critical source of investment capital,” and added that “competing demands – for new construction as well as for preservation – have put the tax credit program under extreme pressure and raised the question of whether it ought to be expanded.”¹⁴³ Recognizing the growing need for affordable rental housing, the Bipartisan Policy Center’s Housing Commission in 2013 proposed increasing Housing Credit resources by 50 percent over current funding levels.¹⁴⁴

More recently, President Obama’s proposed fiscal year 2016 budget also included a provision that would significantly expand the Housing Credit by allowing the program to take advantage of existing unused resources.¹⁴⁵ The White House proposal would permit states to convert up to 18 percent of their private activity bond volume cap into Housing Credit allocation authority, which would result in a roughly 50 percent increase in Housing Credits for states that are able to and choose to convert the full amount. However, the amount of unused volume cap varies by state, and some states may elect not to convert the full 18 percent (or any volume cap at all) for a variety of reasons. While this proposal would provide states unprecedented flexibility to more effectively meet local needs, it is not a viable long-term substitute for new Housing Credit allocation authority.

To enable the industry to cultivate investor demand for additional Housing Credits, we recommend that allocations be raised 50 percent in the first year and 10 percent each year for five years. Once fully phased in, we expect a doubling of the Housing Credit to help build or preserve up to an additional 80,000 rental homes each year, each of which is affordable to low-income families for a period of at least 30 years. We estimate that this expansion will cost the government an additional \$7 billion - \$8 billion annually in foregone tax revenues.

In addition to the tax credits themselves, Housing Credit properties require additional sources of funding, such as grants or rental assistance, in order to be financially viable or achieve a level of affordability that's deeper than the program's minimum requirement. Historically, this gap financing has been provided by programs like the HOME Investment Partnerships Program, through which the federal government issues grants to states and local governments to meet their affordable housing needs. Approximately one in four developments financed with Housing Credits use HOME dollars.¹⁴⁶ However, federal funding to HOME has been cut by more than 50 percent since 2010, forcing local policymakers and developers to do more with less.¹⁴⁷ For these reasons, any expansion of the Housing Credit must be accompanied by additional federal resources for gap financing. Once fully phased in, we estimate that a doubling of the Housing Credit will require an additional \$3 billion - \$4 billion each year in gap financing, provided either from a significantly expanded HOME program or another source.

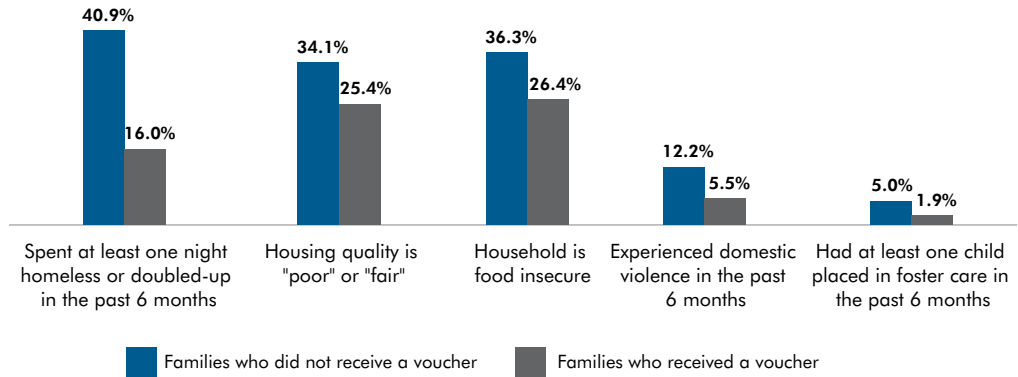
As part of any significant expansion of the Housing Credit program, Congress should also put in place strong protections to ensure that current Housing Credit properties remain affordable for the long term. While all Housing Credit properties are required to remain affordable for at least 30 years, after that point these properties are vulnerable to conversions to market-rate rentals.¹⁴⁸ In addition to enforcing the existing affordability requirements, Congress should consider extending the requirements beyond 30 years. State and local policymakers can also create incentives – such as tax benefits, operating grants or low-interest loans for renovations – for owners of Housing Credit properties to keep existing Housing Credits units affordable beyond the current required affordability period.

SIGNIFICANTLY EXPAND FUNDING TO SECTION 8 VOUCHERS TO ENSURE THAT THE MOST VULNERABLE HOUSEHOLDS IN THE U.S. HAVE ACCESS TO SOME FORM OF RENTAL ASSISTANCE

According to the National Apartment Association, it costs the typical landlord about \$370 each month just to maintain an apartment – and that's before accounting for upfront development costs and ongoing mortgage payments.¹⁴⁹ Realistically, it's practically impossible for a landlord to charge less than \$500 per month for a typical apartment without taking a loss. Even at that break-even price, a family would have to make at least \$20,000 per year to afford rent on that apartment, based on widely accepted standards of affordability. The unfortunate reality is that very few households earning below that amount – including elderly or disabled adults on fixed incomes, full-time workers earning at or near the federal minimum wage and single parents who can only work part time – will be able to make rent on a privately owned and financed apartment without some sort of assistance.

For decades, federal rental assistance programs – and the Section 8 Housing Choice Voucher program in particular – have proven to be effective in keeping low-income households stably housed, even those that are at serious risk of becoming homeless. According to initial findings from HUD's Family Options Study, which tracked certain outcomes for families with children living in homeless shelters, families with Section 8 vouchers were more than twice as likely to remain stably housed and avoid a foster care placement compared to families leaving shelter without a voucher, among other positive outcomes.¹⁵⁰

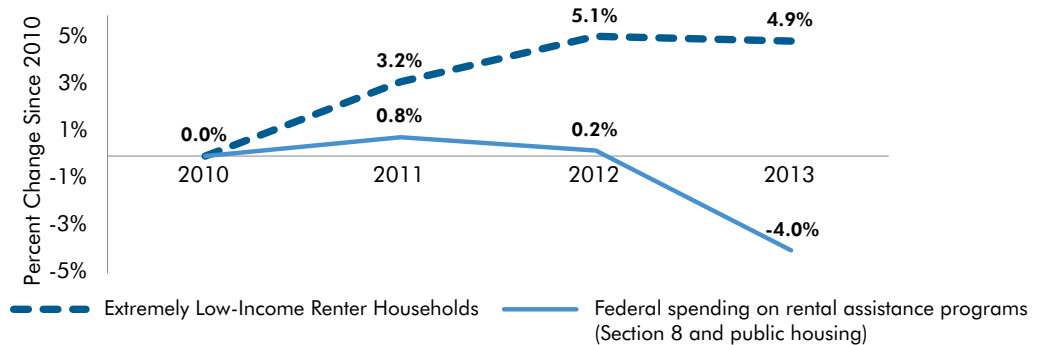
Chart 17: Families leaving homeless shelters with a Section 8 Voucher achieved far better outcomes than families without a voucher.



SOURCE: DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, FAMILY OPTIONS STUDY: SHORT-TERM IMPACTS OF HOUSING AND SERVICES INTERVENTIONS FOR HOMELESS FAMILIES, JULY 2015.

Despite these results, due to rising demand and a series of budget cuts, federal funding for rental assistance programs covers only a small fraction of the people who need it. HUD estimates, that the number of very low-income renters who qualify for rental assistance subsidies increased by 18 percent between 2003 and 2013,¹⁵¹ while annual funding to HUD’s primary rental assistance programs has stayed relatively flat.¹⁵² Today only 23 percent of households who are eligible for federal rental assistance actually receive it.¹⁵³

Chart 18: As the number of extremely low-income renter households has risen in recent years, federal spending on rental assistance has decreased.



SOURCE: ENTERPRISE ANALYSIS OF DATA FROM THE OFFICE OF MANAGEMENT AND BUDGET’S FY 2016 BUDGET.

That's one reason why the Bipartisan Policy Center's (BPC) Housing Commission proposed an ambitious expansion in federal rental assistance, with a particular focus on households with the greatest needs. The commission recommended establishing Section 8 vouchers as an entitlement for all extremely low-income households, essentially putting rental assistance on par with Medicaid, food stamps and public education.¹⁵⁴ According to the BPC report, taking into account reasonable participation rates and other assumptions, this change would provide economic stability to an estimated 3.1 million renter households that are currently unassisted, the vast majority of which are housing insecure today. The expansion would cost the federal government an additional \$22.5 billion annually – above the \$19 billion spent on Section 8 each year.¹⁵⁵

The Children's Defense Fund recently recommended an alternative approach to expanding Section 8 as part of its plan to end child poverty in the U.S.¹⁵⁶ The CDF proposed guaranteeing access to rental assistance vouchers for all families below 150 percent of the poverty line, as well as families for which fair market rent exceeded 50 percent of their income. According to the CDF's estimates, which were prepared in collaboration with the Urban Institute, such an expansion would help improve the housing security of an additional 2.6 million families, at an additional cost to taxpayers of \$23.5 billion each year. The report said that this change "would have the largest impact" of all of the recommendations in their plan, reducing child poverty by 20.8 percent and lifting 2.3 million children out of poverty.

As part of any significant expansion of the Housing Choice Voucher program, Congress should consider granting local housing authorities more flexibility to make the most of available subsidy dollars. Given scarce resources and long waiting lists, some housing authorities may determine that it makes more sense to offer a less generous form of rental assistance which would be available to more eligible families who might not need a means-tested voucher to remain stably housed. For example, Project Independence, a recent pilot initiative focused on low-income renters living with HIV and AIDS in Alameda County, California, offered a flat subsidy that varied by household and bedroom size but was not pegged to income. For example, a single person in a one-bedroom apartment would receive a subsidy of just \$225 per month. According to an independent evaluation of the program, participants in Project Independence were paying 68 percent of their monthly income on rent before receiving the subsidy, and with the subsidy they were paying 42 percent. Two years later, 96 percent of participants were still in rental housing, compared to just 10 percent of the comparison group (who did not receive assistance).¹⁵⁷

EXPAND FUNDING TO THE HOUSING TRUST FUND AND THE CAPITAL MAGNET FUND AS PART OF ANY EFFORT TO REFORM AMERICA'S MORTGAGE FINANCE SYSTEM

In 2008, Congress established the Housing Trust Fund and the Capital Magnet Fund to promote the production and preservation of affordable housing for lower-income families. The Housing Trust Fund is intended to support state and local efforts to build affordable rental housing and provide homeownership opportunities for very and extremely low-income families, while the Capital Magnet Fund helps community development financial institutions (CDFIs) attract private funds to finance their affordable housing activities.

As originally envisioned, both funds would receive funding through a modest assessment on the ongoing business of Fannie Mae and Freddie Mac, but federal regulators suspended those obligations when the GSEs were put into conservatorship in August of 2008. In 2015, however, Fannie and Freddie began



Photo by Michael Schoenfeld

contributing money to the two funds, which is expected to generate up to \$400 million for the programs each year.¹⁵⁸ Sixty-five percent of that funding will go to the Housing Trust fund, while the remaining 35 percent will go to the Capital Magnet Fund.

Seven years after conservatorship began, the future of Fannie and Freddie is largely uncertain, as the companies have been at the center of a high-stakes debate over the future of housing finance in the U.S. and the appropriate role of government in the housing market. In the 113th Congress alone, four different bills were introduced to wind down the mortgage companies and establish a new system of housing finance in the U.S.¹⁵⁹

To meet the growing needs of low-income renters and homeowners, we recommend expanding the Housing Trust Fund and Capital Magnet Fund as part of any housing finance reform effort. Instead of the current arrangement – which funds the programs through a 4.2 basis-point assessment on new loan purchases by Fannie and Freddie – Congress should establish an annual assessment of at least 10 basis points on all outstanding mortgages that are backed by the federal government. This would include all securities backed by Fannie Mae, Freddie Mac and Ginnie Mae, as well as any private entities that replace them in the future system. Notably, three of the four housing finance reform bills introduced in the 113th Congress would have significantly expanded funding for the Housing Trust Fund and Capital Magnet Fund.¹⁶⁰

We estimate that a 10 basis point annual assessment would generate about \$18 billion for the programs over the first five years and roughly \$6 billion per year after that.¹⁶¹ Based on reasonable assumptions of per-unit cost,¹⁶² once fully phased in we expect that this level of funding to the Housing Trust Fund will help build or preserve about 60,000 affordable homes each year, most of which are affordable to extremely low-income families. Based on data from the initial round of funding to the Capital Magnet Fund in 2010,¹⁶³ we expect that the expanded resources to that program will produce about 165,000 affordable rental homes each year for low-income families.¹⁶⁴

Looking Beyond the Housing Credit and Section 8 Vouchers: CBPP's Proposal for A New "Renters Tax Credit"

In 2012, the Center on Budget and Policy Priorities (CBPP) proposed a new federal tax credit program that would provide a deep housing subsidy to extremely low-income renters without the need for additional subsidy.¹⁶⁵ Similar to the Housing Credit, the proposed "Renters Credit" program would be administered by states, with the goal of ensuring that eligible households pay no more than 30 percent of their monthly income on rent. CBPP offered three different ways that the subsidy could flow to renters:

- A tenant-based tax credit, through which states allocate "credit certificates" directly to households, who then use the certificate to rent a unit of their choice in the private market.
- A project-based tax credit, through which states allocate credits to specific developments, under the condition that units are leased out to eligible households at reduced rents.
- A lender-based tax credit, through which states allocate credits to lenders, who then enter into agreements to reduce mortgage payments for building owners who rent to eligible households at reduced rents.

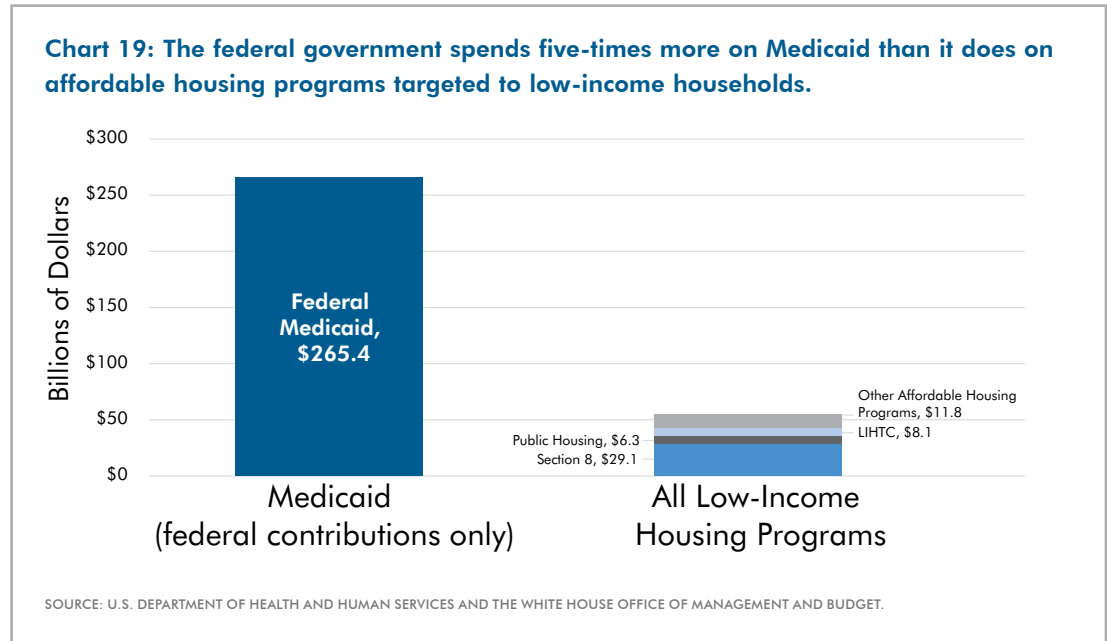
We believe that this is a promising idea that is worth further research and consideration. In particular, we believe that a new Renters Credit could potentially be used to provide a deeper level of subsidy for properties financed using Housing Credits. Under the current rules of the Housing Credit, owners have to charge rents that are affordable to families earning either 50 percent or 60 percent of the area median income – depending on the number of affordable units in the property – and ensure that a low-income family resides in the apartment. As one example of how the program could work, state housing finance agencies could allocate additional Renters Credits to owners who charge rents that are affordable to families earning 30 percent of the area median income. Such a program would work within the existing framework of the Housing Credit, leverage private capital and provide a slightly shallower subsidy compared to vouchers, which means a relatively low cost to taxpayers.



Photo by Warwick Green

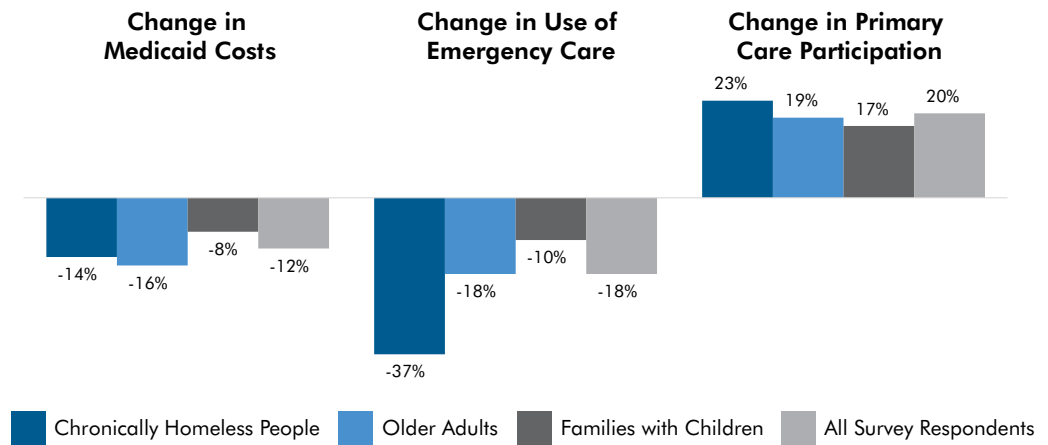
BREAK DOWN FUNDING SILOS TO ENCOURAGE PUBLIC INVESTMENTS IN HEALTHY AND AFFORDABLE HOUSING FOR RECIPIENTS OF MEDICAID

The federal government alone spends \$265 billion each year on Medicaid, the country’s primary health insurance program for low-income families and individuals.¹⁶⁶ That’s roughly five-times what the government spends on all affordable housing programs targeted to low-income people.



A growing body of evidence shows that investments in quality and affordable homes can have profound effects on a person’s long-term health outcomes, from improved asthma to a reduced chance of cardiovascular disease.¹⁶⁷ Providence Center for Outcomes Research & Education, with support from Enterprise Community Partners, recently studied the link between affordable housing and health care for Medicaid-eligible residents of Oregon, with a focus on families with children, elderly adults and people experiencing chronic homelessness. The study found that providing affordable housing with appropriate and integrated health services – including family housing, permanent supportive housing and housing plus services for low-income seniors – resulted in increased participation in primary care, fewer trips to the emergency room and lower health care costs.¹⁶⁸

Chart 20: Investments in affordable housing with integrated health services for Medicaid-eligible people helps to improve health outcomes and reduce costs to taxpayers.



SOURCE: PROVIDENCE CENTER FOR OUTCOMES RESEARCH & EDUCATION, HEALTH IN HOUSING: EXPLORING THE INTERSECTION BETWEEN HOUSING & HEALTH CARE, 2015.

For this reason, several states are pursuing housing-focused investments to improve outcomes while reducing long-term costs to Medicaid. Oregon, with support from an innovation grant from the U.S. Department of Health and Human Services, is testing new ways to serve low-income seniors through investments in housing plus services as part of the state’s Medicaid expansion under the Affordable Care Act.¹⁶⁹ In New York, the state legislature has appropriated funding to build permanent supportive housing for very low-income people, with hope that the investment will generate even bigger savings down the line through lower Medicaid costs.¹⁷⁰ To help fund the project, the state applied for a waiver from HHS to invest some federal Medicaid dollars in the initiative, citing similar long-term savings for the federal government. That request was denied.

New York and Oregon are not alone. According to a recent study from the Corporation for Supportive Housing (CSH), at least three other states are planning to use Medicaid dollars to invest in affordable housing,¹⁷¹ and several other states are exploring new ways to better integrate housing-based health services for Medicaid-eligible populations.¹⁷²

We recommend that Congress urge HHS to work with interested states to pursue similar cost-saving investments. Specifically, Congress should mandate that HHS pursue a pilot with up to 10 states – on a volunteer basis – to pursue housing-focused investments using a blend of state and federal Medicaid resources. The initial pilot should target populations that are both key drivers of Medicaid costs and most likely to experience housing insecurity, including:

- **Chronically homeless individuals.** We have long known that investments in permanent supportive housing – which offers both long-term housing and services for physical and mental health, substance abuse and other problems common in the chronically homeless population – can improve outcomes for people experiencing homelessness and yield significant long-term savings in other publicly funded services, including emergency room and other health care-related

expenses.¹⁷³ When researchers tracked health care spending on residents moving into Bud Clark Commons, a 130-unit supportive housing development in Portland, Oregon, they found that a stable home reduced the typical residents' Medicaid costs by 45 percent. In the year before moving into Bud Clark Commons, Medicaid-eligible residents spent an average of more than \$1,600 on health care each month. One year after moving in, those costs fell to less than \$900 per month.¹⁷⁴

- **Low-income seniors.** The federal government spent more than \$580 billion last year on Medicare expenditures for seniors and disabled adults.¹⁷⁵ In addition, older adults account for about 10 percent of Medicaid enrollees and 25 percent of the program's expenditures, according to estimates from the Kaiser Family Foundation and the Urban Institute.¹⁷⁶ About 12 percent of federal Medicaid spending – more than \$30 billion – is for long-term nursing home care, which is often avoidable through a relatively modest investments in housing plus services for low-income seniors.
- **Families with children that are in poor-quality housing or at high risk of becoming homeless.** Nearly half of all people covered by Medicaid are children.¹⁷⁷ When combined with the Children's Health Insurance Program (CHIP), the federal government covers more than one in three children in the U.S. and more than half of all low-income kids. Meanwhile, the top 10 percent of child enrollees – most of whom have chronic conditions – account for 72 percent of total Medicaid and CHIP spending on children.¹⁷⁸ By focusing on housing-based solutions aimed at preventing or alleviating high-cost chronic conditions – such as programs to prevent homelessness or physical improvements to reduce asthma and other respiratory issues – HHS can help control costs while putting low-income children on the path to success.

Specific investments in the pilot would be decided at the state level, in coordination with HHS's Centers for Medicare and Medicaid Studies. As part of any pilot initiative, HHS should allow participating states to keep a portion of the cost savings for further investments in the initiative. In addition, both HHS and the state could partner with HUD and state housing finance agencies as appropriate to maximize the impact of their investments. For example, a recent study from the Lewin Group and LeadingAge found that seniors in HUD-assisted housing are more likely to receive both Medicare and Medicaid services, more likely to have a chronic health condition and more likely to have high health care costs than their peers in unsubsidized housing.¹⁷⁹ For that reason, a state and HHS might choose to focus a portion of its investments on seniors living in HUD-assisted housing.

This pilot would require a significant upfront investment from taxpayers, but we do not expect it to cost taxpayers anything in the long-run. Indeed, Congress should make clear in the authorizing legislation that this pilot is intended to reduce long-term spending while improving the health and other outcomes of low-income families.

Making Healthy, Energy-Efficient and Resilient Building the Industry Standard

More than a decade ago, Enterprise was one of the first organizations to recognize that low-income families have the most to gain from living in green and healthy homes. Research shows that investments in energy-efficient housing pays dividends in several ways, including lower monthly housing costs for tenants and owners, better health outcomes and fewer trips to the doctor for residents and reduced consumption of energy, water and other natural resources.¹⁸⁰

In 2004, Enterprise launched the Green Communities Criteria, a first-of-its-kind framework for sustainable building practices for the construction and rehabilitation of affordable rental housing. For the latest update released in 2015, Enterprise worked with the American Heart Association and other partners to incorporate building practices that promote long-term health for residents, resilient design features to maintain livable conditions during natural disasters, and crucial connections to transit and other opportunities.¹⁸¹ Today the criteria have been incorporated into the rules for allocating Low-Income Housing Tax Credits in 22 states, and several cities, such as New York, Cleveland and Washington, D.C., have integrated the criteria into local incentives or requirements for green building and retrofits. We encourage all state and local housing agencies to do the same. In addition, we encourage federal policymakers to incorporate green and resilient building standards into any major residential development funded with significant federal subsidies, such as funding from HOME Investment Partnership Program or Community Development Block Grants.

In addition to the criteria, Enterprise is committed to strategies that support healthy families and communities. This includes promoting physical activity, increasing access to nutritional food, reducing smoking and providing resident services and programming that promote health education and healthy behaviors.

Photo by Tom Sobolik



CREATE PERMANENT FUNDING SOURCES AT THE STATE AND LOCAL LEVEL TO SUPPORT AFFORDABLE HOUSING

Of course, not all public resources to support the construction, preservation and operation of affordable rental housing come from the federal government. According to the Center for Community Change, 46 states have created a total of 57 housing trust funds, which combined for \$750 million to affordable housing initiatives last year. While the revenue source differs from state to state, the most common sources are real estate transfer taxes and documentary stamp taxes.¹⁸²

In addition, at least 73 cities across 27 states operate local housing trust funds to meet their local affordable housing needs, along with hundreds more scattered throughout Massachusetts and New Jersey.¹⁸³ For example, the District of Columbia Housing Production Trust Fund is funded through a portion of deed and recordation tax receipts, as well as a percentage of any unreserved surplus in the city's budget each year. In Seattle, voters have repeatedly approved "housing levies" to support affordable housing projects across the city. The latest levy, which was approved in 2009 with support from nearly two-third of voters, raised \$145 million over seven years through a tax on homeowners in the city. And in San Francisco, taxpayers recently approved the issuance of up to \$310 million in bonds to support affordable housing initiatives in the city, with the ability to fund the bonds through a modest increase in local property taxes if needed.

Enterprise strongly supports the creation of state and local housing trust funds and other permanent funding sources to support affordable rental housing. Of course, any local funding source should be carefully designed to reflect the community's local housing market and housing needs of its residents. For example, cities with stronger housing markets might consider a fee on development or a real estate transfer tax, a city with a booming tourism industry might consider a dedicated hotel tax, and a city with a weaker housing market might consider a revenue source that's entirely unrelated to real estate.¹⁸⁴ At the state level, in addition to creating statewide funding sources, policymakers should ensure that current laws – such as limitations on taxes levied by local governments – do not create unnecessary barriers to local funding efforts. State lawmakers should also ensure that revenues intended for housing trusts are not swept for other purposes, except in extreme circumstances.



4. POLICIES THAT IMPROVE THE OVERALL FINANCIAL STABILITY OF LOW-INCOME HOUSEHOLDS

ESTABLISH MINIMUM WAGES AT THE FEDERAL, STATE AND LOCAL LEVELS THAT REFLECT THE REASONABLE COST OF LIVING FOR EACH COMMUNITY

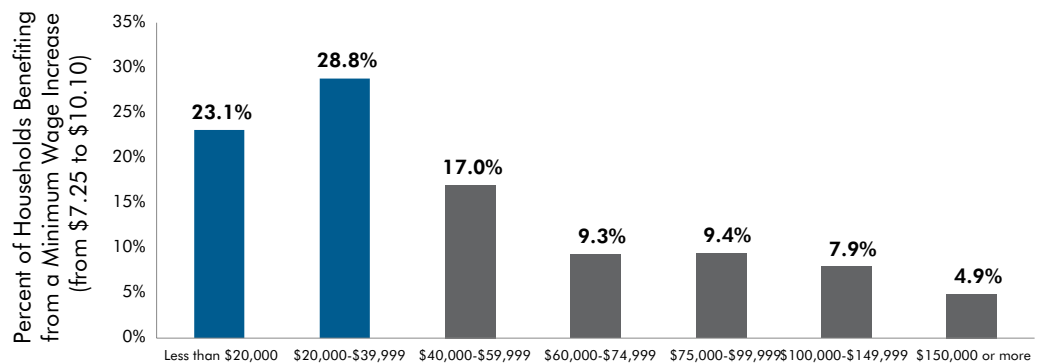
America's low-wage workers, particularly those who rent their homes, face a daily struggle just to make ends meet. Assuming a monthly rent of \$900 – roughly the current median gross rent in the U.S. – a full-time worker needs to make at least \$10.40 per hour just to avoid housing insecurity. In fact, according to the National Low-Income Housing Coalition, in no state can a full-time, minimum-wage worker afford a one-bedroom unit at fair-market rent.¹⁸⁵

The federal minimum wage has not changed since July 2009, and over that time it has lost more than 8 percent of its purchasing power due to inflation.¹⁸⁶ As of 2014, 21 states and the District of Columbia had set minimum wages that were higher than the federal minimum, and 11 of those states adjusted the rate annually to keep up with inflation. Still, about half of all workers in the U.S. live in states where the minimum wage is \$7.25 per hour.¹⁸⁷

According to the Congressional Budget Office, increasing the federal minimum wage from \$7.25 per hour to \$10.10 – as recently proposed by several members of Congress and the Obama administration – would benefit an estimated 16 million workers at virtually no cost to government.¹⁸⁸ According to a different analysis from the Economic Policy Institute, almost a quarter of the workers who would benefit from such an increase are in families with incomes of less than \$20,000 per year, while more than half are in families with incomes of less than \$50,000.¹⁸⁹

The CBO report also estimated that such a change would lead to a slight reduction in total employment in the U.S., but it's worth noting that economists are largely divided on the relationship between minimum wage levels and unemployment.¹⁹⁰ According to Princeton's Alan B. Kruger, widely considered to be one of the top researchers on issues related to the minimum wage, "research suggests that a minimum wage set as high as \$12 an hour will do more good than harm for low-wage workers, but a \$15-an-hour national minimum wage would put us in uncharted waters, and risk undesirable and unintended consequences."¹⁹¹

Chart 21: The majority of families benefitting from an increase in the federal minimum wage earn less than \$40,000 per year.



SOURCE: ECONOMIC POLICY INSTITUTE, RAISING THE MINIMUM WAGE TO \$10.10 WOULD LIFT WAGES FOR MILLIONS AND PROVIDE A MODEST ECONOMIC BOOST, DECEMBER 2013.

Raising the minimum wage could also bring significant long-term benefits to the federal government – most notably its budget. In addition to increasing tax revenues among low-wage workers, every additional dollar of earned income decreases a low-income family’s reliance on government assistance programs, such as food stamps, Medicaid and Temporary Assistance for Needy Families (TANF). According to researchers at the University of California Berkeley, low wages cost American taxpayers an estimated \$153 billion each year in public support for working families – which essentially serves as a subsidy to large corporations and business owners who keep wages low.¹⁹²

The time has come for Congress, state legislatures and local governments to set minimum wages that accurately reflect the cost of living in that community. To be sure, there are many ways to calculate the local cost of living, and costs vary widely from state to state and city to city. But as a general rule – perhaps with certain exceptions for very high-cost cities – we believe that a full-time, minimum-wage worker should be able to afford fair-market rent on a one-bedroom apartment in the area in which she works without being housing insecure. Minimum wages should be carefully calibrated at the federal, state and local levels to reflect that broad principle.

As an example, consider Seattle, where fair market rent on a one-bedroom apartment is \$1,150 per month, according to HUD.¹⁹³ At that rent, a full-time worker would need to make at least \$27,600 per year to avoid housing insecurity. Based on the general rule described above, the local minimum wage in that area should be at least \$13.25 per hour. It’s worth noting that lawmakers in Seattle recently voted to raise the local minimum to \$15 per hour by 2021.¹⁹⁴

Given variations in the cost of housing across the country, it is difficult to apply the same rule to the federal minimum wage. However, using as a proxy the country’s median gross rent of about \$900 per month, we estimate that federal minimum wage should be at least \$10.40. As mentioned above, increasing the federal minimum wage should have no meaningful cost to taxpayers – indeed it could lead to significant long-term savings through increased tax revenues and reduced spending on means-tested social programs.

Promoting Opportunity by Closing the Digital Divide

In today's digital world, access to high-speed internet is an essential part of economic opportunity, especially for students and job-seekers. According to the U.S. Census Bureau, about two-thirds of households earning less than \$25,000 per year have a computer in their home, but less than half have an internet subscription. By comparison, about 90 percent of households earning more than \$50,000 per year have an internet subscription.¹⁹⁵

To help close this digital divide, in 2015 HUD launched ConnectHome, an initiative to extend affordable broadband access to families living in federally-assisted housing. Through public-private partnerships with internet service providers, nonprofits and private businesses, ConnectHome will offer broadband access, technical training, digital literacy programs and devices for low-income families in 28 communities, selected through a competitive application process.

Enterprise strongly supports the ConnectHome initiative, and we urge Congress to fund similar efforts to expand access to affordable internet services for low-income families across the U.S., regardless of whether they live in HUD-assisted housing. The National Housing Conference's Connectivity Working Group, of which Enterprise is a member, recently offered a set of policy recommendations to further improve broadband connectivity in affordable housing, including:

- 1) Set a national goal for connectivity in HUD and USDA properties
- 2) Implement digital literacy and equipment support initiatives across the country
- 3) Treat broadband as an eligible expenditure in affordable rental housing
- 4) Support broadband in affordable housing through federal regulations
- 5) Provide federal funds to support broadband connectivity in affordable housing¹⁹⁶

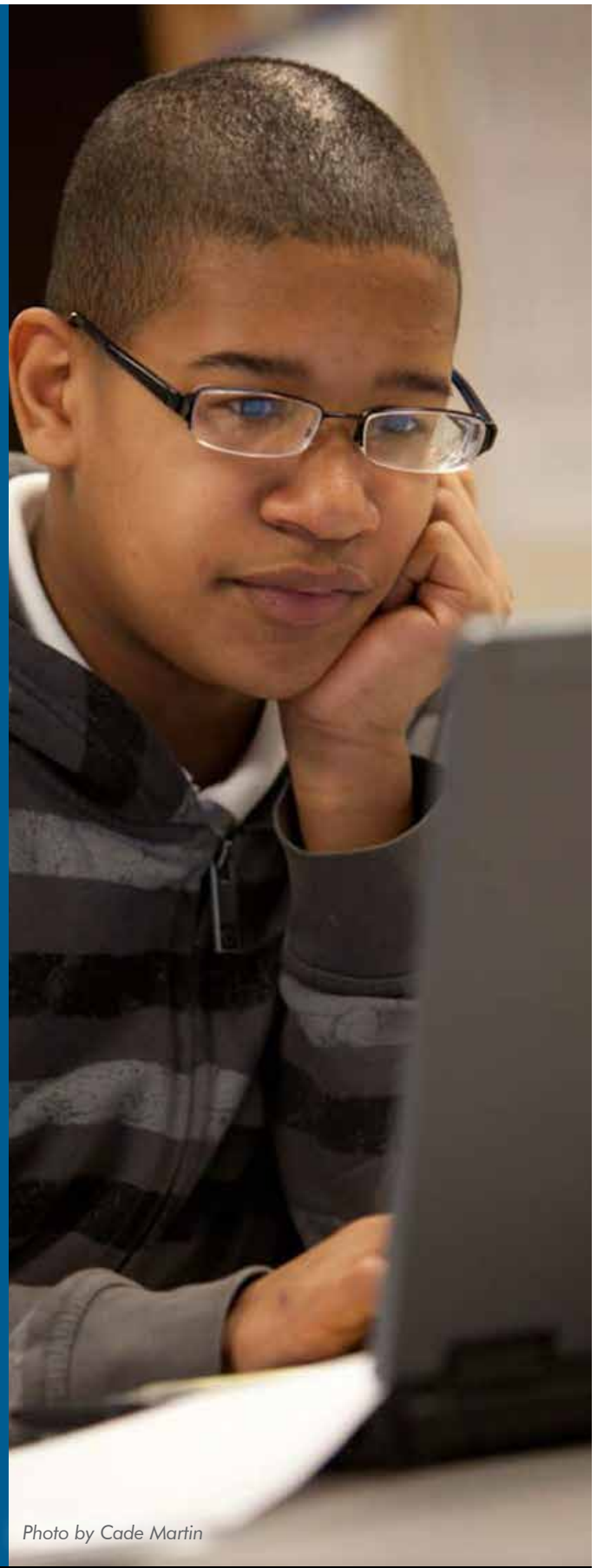


Photo by Cade Martin

EXPAND THE EARNED INCOME TAX CREDIT, CHILD TAX CREDIT AND OTHER ESSENTIAL INCOME SUPPORTS TO AMERICA'S LOW-WAGE WORKERS

In addition to setting a minimum wage, the federal government supplements the take-home pay of low-income workers through the Earned Income Tax Credit (EITC). Since its creation in the 1970s, the EITC has proven to be one of our country's most effective anti-poverty programs.



Photo by Pete Eckert

The EITC encourages work by providing a tax credit to eligible workers for every dollar of earned income up to a certain level. The credit's rate and maximum value depend on the worker's total income and family size. The tax credit is refundable, meaning if the total value of credit exceeds the worker's total tax liability, the government cuts a check for the difference. According to several studies, the clear majority of EITC recipients use their tax refund to pay bills, including housing payments, utilities, health care expenses and paying off debts.¹⁹⁷

Despite its successes over the years, the EITC is far from perfect. For example, under current rules the maximum assistance allowed for childless adults – which make up 65 percent of housing insecure renters – is less than \$500 per year, which is only enough to make modest improvements to a household's overall economic security. In addition, an eligible family has to wait until the end of the year to receive their EITC benefits, forcing many families to incur costly debt in the later months of the year just to make ends meet.¹⁹⁸

Several changes to the EITC have been proposed in recent years, most of which aim to expand eligibility and total benefits received through the program. According to estimates from the White House, if Congress were to phase in the credit more rapidly, lower the eligibility age from 25 to 21 and raise the maximum credit for childless adults to \$1,000 (along with other modest changes), it would help increase the earning power of 13.5 million low-income workers at an annual cost to taxpayers of about \$6 billion per year.¹⁹⁹

As part of a broader effort to end childhood poverty in America, the Children's Defense Fund also proposed a series of additional reforms to the EITC to better serve working families with children. Specifically, the CDF recommended increasing the rate at which the credit phases in (from a range of 34-45 percent to a range of 68-79 percent), while increasing the maximum credit for each household type. The Urban Institute estimates that such a change would increase EITC benefits to 7.6 million families at a cost to taxpayers of \$8.2 billion per year.²⁰⁰

Congress should also pursue alternative approaches to paying out EITC benefits, such as quarterly installments throughout the year rather than a single lump sum. For example, over the past several years Chicago's EITC Periodic Payment Pilot Project has been administering quarterly EITC payments to eligible families and comparing their economic stability to a control group receiving the standard EITC payment. Preliminary findings from the pilot show that families receiving quarterly payments were less likely to be financially stressed and more likely to increase their savings over the course of the year.²⁰¹

Another promising approach is the "Early Refund EITC" proposal, which was recently laid out by Sen. Sherrod Brown (D-Ohio). The new federal program would provide zero-interest, short-term cash advances to EITC-eligible workers to help cover the cost of monthly bills and promote financial stability throughout the year. The size of the advance would be capped at \$500 and deducted from the lump sum EITC payment received at tax time.²⁰²

In addition to these changes to the EITC, the Children Defense Fund recently recommended that Congress meaningfully expand the Child Tax Credit (CTC), which provides a \$1,000 tax credit to families for each child under 17. Under current rules, the tax credit is only partially refundable, meaning that families need to make more than \$16,000 to redeem the full benefit on their taxes. By making the CTC fully refundable, Congress can improve the financial stability of 8.2 million families with children, at a cost to taxpayers of roughly \$12.2 billion per year.²⁰³

Helping Low-Income Families Access Crucial Benefits on Tax Day

Many important financial benefits for low-income families are administered through the U.S. Tax Code, including the Earned Income Tax Credit. These tax benefits often involve complicated eligibility and other rules, but many low-income taxpayers lack the resources to pay for professional tax preparation services, which can cost up to \$200.

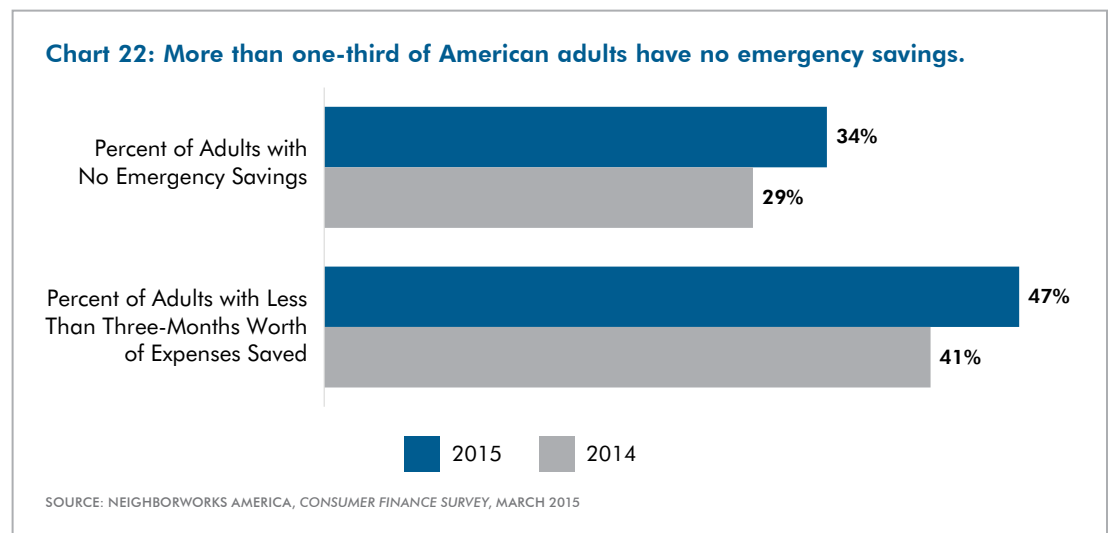
In Cuyahoga County, Ohio, Enterprise co-leads the Cuyahoga EITC Coalition, a community effort to promote economic justice and improve lives through volunteer tax preparation assistance and one-on-one financial counseling. The Coalition offers high quality, free tax preparation services at 25 locations in the county from January to April each year. In 2015 alone, the Coalition served more than 13,700 low-income clients, resulting in \$18.9 million tax refunds. Since 2005, the Coalition has saved taxpayers an estimated \$18 million in tax preparation fees.



Photo by Harry Connolly

CREATE A NEW FEDERAL FUND TO HELP TEST AND SCALE INNOVATIVE FINANCIAL PRODUCTS THAT ENCOURAGE LOW-INCOME HOUSEHOLDS TO SAVE, WITH A PRIMARY FOCUS ON UNRESTRICTED EMERGENCY SAVINGS

As a general rule of thumb, financial advisors recommend that families keep at least three months of rent and other household expenses as liquid savings, in part because it can take at least that long to find a new job after a sudden job loss.²⁰⁴ Unfortunately, millions of families – most of them low-income households – are falling woefully short of that goal. According to NeighborWorks America, more than one-third of Americans have no emergency savings – up from 29 percent a year ago – and another 25 percent only have enough saved to get by for a month or less if necessary.²⁰⁵ Half of all families who earn less than \$40,000 per year have no emergency savings whatsoever, and a significant portion of these households likely have a negative net worth.²⁰⁶ Without adequate savings, low-income families often have no choice but to turn to expensive sources of short-term credit – such as credit cards, title loans or payday lenders – in times of crisis or even just to make ends meet.²⁰⁷



The federal government has a long history of supporting savings and asset-building among low- and moderate-income families, but these programs are often tied to a specific long-term financial goals, not emergency savings. For example, since the late 1990s many banks and credit unions have offered Individual Development Accounts (IDAs), which are federally matched savings accounts that help people with modest means save towards purchasing a home, paying for college or starting a small business.²⁰⁸ Account holders who withdraw money for other reasons often have to incur penalties.

More recently, in 2014 the Treasury Department launched the MyRA program, a new form of government-backed Roth IRA account targeted to part-time workers and other employees who lack access to an employer-sponsored retirement savings plan.²⁰⁹ Retirement savers can also claim the so-called “Saver’s Credit” on their taxes, which is worth between 10 and 50 percent of a retirement plan or IRA contributions up to certain amount, depending on the saver’s income and filing status.²¹⁰ There are no major federal policies that are designed to encourage unrestricted emergency savings among low-income people.²¹¹

Despite the lack of federal support, many local nonprofits and private companies, including many credit unions, are testing and scaling innovative new ways of encouraging shorter-term savings that are not restricted to specific uses. Below are a few examples:

- *Doorways to Dream*, a Massachusetts-based nonprofit, recently launched Save to Win, a prize-linked savings program that essentially functions like a lottery. For every \$25 deposited into a one-year certificate of deposit at a participating credit union, eligible savers are entered into a monthly lottery, with prizes ranging from \$100 to tens of thousands of dollars.²¹²
- *Start2Save*, a pilot initiative developed by the Los Angeles-based Opportunity Fund in collaboration with Citibank, matches deposits into unrestricted, interest-bearing savings accounts. The program builds upon the Opportunity Fund's IDA model, but the savings amounts are relatively low – most participants have a two-year savings goal of \$500 – and are not tied to a specific long-term goal. A community-based organization or social service agency matches each monthly deposit on a 2:1 basis, which is only available when the savings goal is met. Participants also receive financial education, savings reminders and other nudges throughout the year to help them reach their goal.²¹³
- *Cornerstone Corporation for Shared Equity*, a Cincinnati-based community development organization, operates a program in which renters earn credits in an equity fund for performing certain tasks. After five years, renters are considered vested and can draw on their equity, with a maximum of \$10,000 being paid over 10 years.²¹⁴
- *SaveUSA*, a coalition managed by the Cities for Financial Empowerment Fund, offers low- and moderate-income tax filers receiving the EITC the opportunity to deposit their return directly into a newly created savings account. If the money stays in the account for at least one year, SaveUSA matches 50 percent of the deposited amount, up to a certain limit.²¹⁵
- *Refund to Savings (R2S)*, a collaborative initiative between Washington University in St. Louis, Duke University and Intuit, Inc. – (the makers of TurboTax), encourages low- and moderate-income families to deposit all or a portion of their annual tax return directly into a savings account.²¹⁶

These initiatives have achieved different degrees of success, face different barriers to reaching scale and rely on different levels of public and philanthropic support. However, it's clear that there is tremendous opportunity for more federal partnership to help identify promising models, test those models with rigorous evaluations and bring the most effective ideas to scale.

We recommend that Congress create a new federal fund – either as a new program run by the Treasury Department or an expansion of the Corporation for National and Community Services' Social Innovation Fund – to support the development and expansion of new financial products that encourage unrestricted emergency savings among low-income families. The fund would provide competitive grants, low-interest loans and other forms of assistance to eligible nonprofits, private companies and state and local government entities with the most innovative ideas and a demonstrated need for federal support.

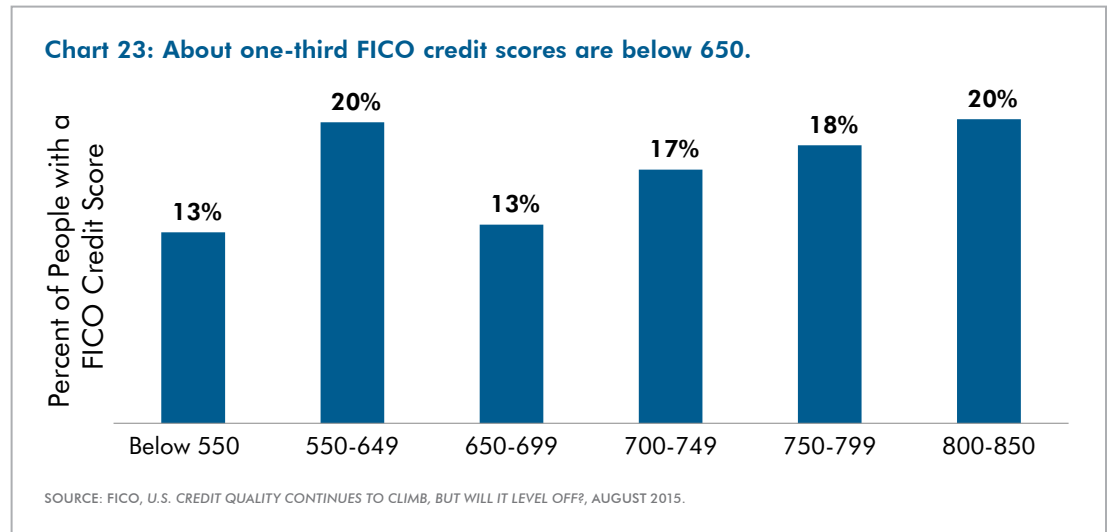
For products that have already proven to work in a cost-effective way, Congress should consider targeted policies that bring those products to scale. For example, inspired by the initial success of the SaveUSA pilot described above, in 2013 Rep. Jose Serrano (D-N.Y.) introduced the Financial Security Credit Act, which would provide an additional tax refund to eligible low-income families who agree to deposit all or part of their refund directly into an eligible savings account. Similar to SaveUSA, the new tax credit would focus primarily on filers who claim the EITC or Child Tax Credit.²¹⁷

In addition to the new fund, Congress should significantly expand HUD's Family Self-Sufficiency (FSS) program, which allows certain recipients of federal rental assistance to put a portion of their monthly rent payments toward long-term savings. Under normal circumstances, tenants of public housing and recipients of Section 8 vouchers pay 30 percent of their monthly income toward rent – meaning when their income increases, so do their rent payments. Under the FSS program, when a tenant's income increases, the difference between the new rent and the old rent is placed into an escrow account, which the tenant can access without restrictions after a certain period of time – typically five years. In order to access the money, the tenant has to accomplish a set of predefined goals by the end of the time period, such as maintaining steady employment and staying off of government assistance programs like TANF.

A 2011 HUD study of the FSS program found that families who successfully graduated from the program ended up with an average of \$5,300 in savings, with 63 percent of enrollees either graduating or remaining in the program after four years.²¹⁸ Despite these successes, the FSS program has remained relatively modest in size, mostly due to funding constraints. As of 2011, only about 47,000 voucher holders and 8,700 public housing residents participated in the program, representing a tiny fraction of the 3.2 million families who participate in the two housing programs.²¹⁹

HELP MORE LOW-INCOME FAMILIES BUILD STRONG CREDIT HISTORIES

Low-income families rely on credit scores for several essential economic activities, including getting a job, renting an apartment, opening a checking account, getting a credit card or taking out a loan to purchase a home, buy a car, pay for college or start a small business. Without a positive credit history – typically defined as a score in the mid-600s or higher – families are either charged exorbitant rates and fees or denied access to mainstream financial products altogether, leaving them with no choice but high-cost, often predatory options like payday lenders and title loans. According to the Urban Institute, more than 64 million Americans have no credit history, while more than half of all consumers have scores ranging from 500–650.²²⁰ Low-income families and families of color are especially likely to have poor or no credit histories.



As an essential first step toward solving this problem, national credit bureaus, including Experian, Equifax and TransUnion, should work with federal agencies, consumer groups and other stakeholders to update their credit scoring methodologies, with the primary goal of establishing a comprehensive and accurate picture of a low-income family's creditworthiness. For example, a coalition led by the Credit Builders Alliance is currently working with the credit bureaus to include recurring monthly expenses, such as rent and utilities, as part of the credit reporting process.²²¹ Research shows that adding this data can help almost three-quarters of families with no or sparse credit files obtain credit scores.²²² According to a recent study by Experian, including rental data on credit reports improved scores for 95 percent of residents of subsidized housing, with an average increase of 29 points.²²³ Currently Fannie Mae, Freddie Mac and the Federal Housing Administration are studying the costs and benefits of incorporating similar payment data into their mortgage underwriting standards.²²⁴

In addition to these near-term changes, Congress should pursue more proactive policies to help low-income borrowers establish and strengthen their credit histories. For example, Congress should meaningfully expand federal programs that provide low-income renters – especially those who hope to become homeowners in the future – with basic financial education, including strategies to build strong credit files. And through programs like the proposed fund mentioned above, Congress can help test and scale innovative financial products like the Prosperity SmartSave Card, which helps low-income families simultaneously build credit histories while accumulating emergency savings. The card, which was developed by Prosperity Works, rewards parents for on-time credit repayments and savings deposits by contributing money into their child's savings account.²²⁵

Extending the Benefits of Homeownership to Renters

As mentioned above, sustainable homeownership remains a key pathway to the middle class for lower-income working families. Among other proven benefits, homeownership offers stable housing costs at a time of skyrocketing rents and is one of the few opportunities for lower-income families to build wealth over time.

That said, homeownership cannot be the only mechanism through which low- and moderate-income families build assets and achieve household stability. In a forthcoming report entitled *Staying in Place to Get Ahead: Improving Renter Stability through Long-Term Leases*, Enterprise's Andrew Jakobovics and Allison Charette offer one promising way to extend some of the benefits of homeownership to renters.

The authors propose a new "master lease" program through which a nonprofit organization would lease a certain number of units in one or several privately-owned multifamily properties. Through a contract, the nonprofit commits to paying the owner rent for the leased units for a fixed period of time – likely 7-10 years – at a level slightly less than market-rate, essentially taking on responsibility for the occupancy of these units. The nonprofit would then enter into subleases with tenants, offering longer terms and lower rents than the tenant would receive on their own. Annual escalations in rent payments would be baked into the contract, based on reasonable expectations for inflation and other factors. In addition to the base rent, the nonprofit would include a small additional payment – likely \$25-\$50 per month – into the rent charged, which would automatically be deposited into a savings account, perhaps with a percentage match.

Through this agreement, the tenant would be able to plan their long-term housing costs years in advance – much like a homeowner can – while gradually building up savings each month. The landlord would also see a benefit, since they would be protected against vacancy risk and turnover costs over the course of the contract. We look forward to working with our partners to further develop and potentially even pilot this proposal in the coming years.

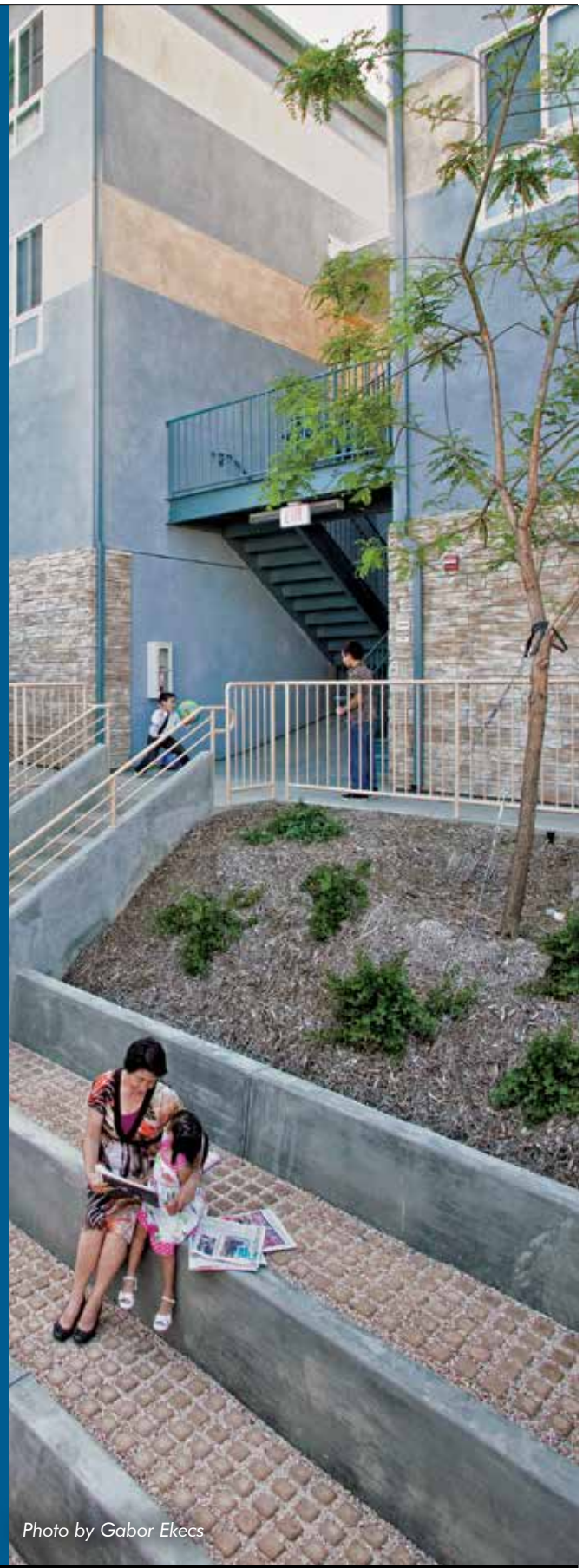


Photo by Gabor Ekecs

ESTABLISH STRONG PROTECTIONS AGAINST PREDATORY FINANCIAL PRODUCTS

During the most recent foreclosure crisis, lower-income homeowners – and people of color in particular – were disproportionately targeted for risky subprime mortgages, even when the borrower was eligible for a more conventional, lower-risk loan. According to the Center for Responsible Lending, during the housing bubble black and Latino borrowers with good credit were three times more likely to receive a subprime or high-interest mortgage compared to their white counterparts with good credit.²²⁶

In the years since, the federal government has put in place helpful protections against predatory mortgage products, including mandatory “know before you owe” disclosures and regulations that require lenders to consider the borrower’s ability to pay back a mortgage before making the loan.²²⁷ But other predatory financial products – including payday loans, title loans, bail bonds and high-interest credit cards – continue to harm low-income communities across the U.S. For example, nearly one in four borrowers of payday loans rely on either public assistance or retirement benefits as an income source.²²⁸ These loans tend to be for small dollar amounts initially, but disguised interest rates and hidden fees often result in mounting debt for the borrower. According to the Center for Responsible Lending, the national average for fees charged on a payday loan is 391 percent.²²⁹

Those costs increase exponentially when a borrower is unable to pay back the loan. ProPublica recently published a detailed analysis of racial and socioeconomic disparities in collection suits, in which a lender sues a borrower over the unpaid portion of a debt. According to the analysis, some states have put in place overly punitive legal systems that “can turn a \$1,000 loan into a \$40,000 debt” and “leave the debtor with a choice: endure garnishment in perpetuity or declare bankruptcy.”²³⁰ In more than half of U.S. states, creditors are allowed to garnish a quarter of a debtor’s after-tax wages as part of a court judgement, a policy that disproportionately affects lower-income households who can least afford such a massive cut in take-home pay.²³¹

More must be done to protect consumers – particularly low-income and minority borrowers – from these and other usurious loans. As a start, the federal Consumer Financial Protection Bureau should establish strong “ability to repay” rules – similar to the rules established for residential mortgages – for payday and title lenders. In addition, federal and state lawmakers should set sensible caps for the interest rates, fees and penalties charged to borrowers on all consumer credit loans, similar to the protections that are already in place for active-duty members of the military.²³² As part of their analysis, ProPublica also offered a set of reforms that could help fix America’s broken system for debt collection, including restricting the amount that can be garnished from a debtor’s wages or taken from a debtor’s bank account, cutting interest on judgements to a reasonable level and strengthening disclosures to debtors.²³³

Other Policies that Are Essential to Promoting Financial Stability

Due to the limited scope of this policy platform, the above proposals are just a sample of the broad policy changes that are necessary to improve the financial stability of low-income families. Other important policies include, but are not limited to:

- 1) Expanding access to high-quality and affordable early-childhood, primary and secondary education
- 2) Providing effective workforce readiness and technical training services, including apprenticeships
- 3) Helping low-income households afford essential services, such as health care and child care
- 4) Promoting broader access to paid sick leave, overtime pay and other worker benefits



Photo by Lloyd Wolf

CHAPTER IV: A CALL FOR BIPARTISAN ACTION

Sixty-six years ago, President Harry S. Truman signed the bipartisan Housing Act of 1949, which required the federal government to “realize as soon as feasible the goal of a decent home and a suitable living environment for every American family.” The law made clear that quality, affordable housing was essential to “the advancement of the growth, wealth and security of the nation.”²³⁴

In the nearly seven decades since, we have made significant progress toward realizing the Housing Act’s bold goal for housing policy in the U.S., but we have not yet achieved it. More than one in four families who rent their homes are still housing insecure, meaning they pay more than half of their monthly income on rent. Millions more live in homes that are technically affordable but are disconnected from jobs, good schools, transit and other opportunities – creating a significant barrier to success. It’s time to finish the job we began more than half a century ago by ensuring that every person in the U.S. has a safe and affordable home in a community of opportunity.

Affordable housing was not a partisan issue in 1949, and it should not be a partisan issue today. From the Fair Housing Act of 1968, to the creation of the Section 8 program in the Housing and Community Development Act of 1974, to the creation of the Low-Income Housing Tax Credit in the Tax Reform Act of 1986, to the Housing and Economic Recovery Act of 2008, Democrats and Republicans have a long history of working together to give low-income people a fair shot at success through quality, affordable housing. That same spirit of bipartisanship – that same commitment to the promise of equal opportunity – is needed now more than ever.

In the coming months, America will embark on a campaign to choose its next president, as well as hundreds of new leaders in Congress and statehouses across the country. Along the way, the country’s widening opportunity gap will surely be on the minds of many voters. As members of both parties develop their strategies for addressing the problem, we urge them to keep one fact in mind: if we ever hope to solve the problems facing low-income communities in the U.S. – from persistent poverty to poor health and educational outcomes – we must start by providing safe, healthy and affordable homes. **Housing is more than just shelter. It’s a platform – the critical first rung on the ladder of opportunity.**

This policy platform offers a roadmap for the path ahead, laying out the essential policies that should be part of any long-term plan for addressing America’s rental housing crisis and create communities of opportunity throughout the country. The next step is to begin a national dialogue about the role of government – at all levels – in bringing this crisis to an end once and for all. We look forward to that debate.

APPENDIX A: SUMMARY OF THE POLICY RECOMMENDATIONS IN THE PLATFORM

Policy Recommendation	Additional Cost to Taxpayers (\$B/year)
1. Policies that ensure broad access to high-opportunity neighborhoods	
Improve the Section 8 program and expand regional mobility programs to help more families with rental assistance vouchers access high-opportunity neighborhoods	N/A*
Establish state and local laws banning “source of income” discrimination by landlords and property owners	N/A
Balance the allocation of Low-Income Housing Tax Credits and other federal subsidies to both high-opportunity neighborhoods and low-income communities, while creating more opportunities for mixed-income development	N/A
Establish inclusionary zoning rules at the state and local levels	N/A
Establish state and local regulations that encourage innovation and promote the cost-effective development of multifamily housing	N/A
Incorporate affordable housing considerations into local and regional transportation planning through “equitable transit oriented development”	N/A
2. Policies that promote comprehensive public and private investments in low-income neighborhoods	
Make the public and private investments necessary to preserve existing affordable housing while creating mixed-income communities	\$4.0
Build capacity of public, private and philanthropic organizations at the local level to pursue cross-sector solutions to the problems facing low-income communities	~\$0.1
Create state and local land banks and other entities to return vacant and abandoned properties to productive use	N/A
Make permanent and significantly expand the New Markets Tax Credit	\$1.0
Create a new federal tax credit for private investments into community development financial institutions and other community development entities	~\$0.1
Establish federal regulations that encourage “impact investments” into low-income communities by individual and institutional investors	~\$0.1
3. Policies that recalibrate our priorities in housing policy to target scarce subsidy dollars where they’re needed most	
Reform the Mortgage Interest Deduction and other federal homeownership subsidies to ensure that scarce resources are targeted to the families who are most in need of assistance	N/A **
Gradually double annual allocations of Low-Income Housing Tax Credits and provide additional gap financing to support the expansion	\$11.0
Significantly expand funding to Section 8 vouchers to ensure that the most vulnerable households in the U.S. have access to some form of rental assistance	\$22.5
Expand funding to the Housing Trust Fund and the Capital Magnet Fund as part of any effort to reform America's mortgage finance system	N/A
Break down funding silos to encourage public investments in healthy and affordable housing for recipients of Medicaid	N/A
Create permanent funding sources at the state and local level to support affordable housing	N/A
4. Policies that improve the overall financial stability of low-income households	
Establish minimum wages at the federal, state and local levels that reflect the reasonable cost of living for each community	N/A
Expand the Earned Income Tax Credit, the Child Tax Credit and other essential income supports to America's low-wage workers	\$26.4
Create a new federal fund to help test and scale innovative financial products that encourage low-income households to save, with a primary focus on unrestricted emergency savings	~\$0.1
Help more low-income families build strong credit histories	N/A
Establish strong protections against predatory financial products	N/A

*N/A means that there is little to no long-term cost expected. Some of these policies may require an upfront appropriation from Congress, but we expect long-term savings to recoup those upfront costs.

**Estimate for budgetary savings generated by reforming the MID depends on the specific approach. We recommend that all budgetary saving from reforming the MID and PTD be redirected to affordable housing programs.

APPENDIX B: KEY DEMOGRAPHICS OF AMERICA'S HOUSING INSECURE POPULATION

	OWNERS			RENTERS			ALL HOUSEHOLDS *		
	Housing Insecurity Rate	% of All Housing Insecure HHs	% of All HHs in U.S.	Housing Insecurity Rate	% of All Housing Insecure HHs	% of All HHs in U.S.	Housing Insecurity Rate	% of All Housing Insecure HHs	% of All HHs in U.S.
Household Income									
Less than \$15,000	65.1	42.9	7.2	71.8	62.6	23.1	69.5	54.3	13.0
\$15,000–29,999	25.9	28.7	12.1	34.7	29.7	22.6	30.4	29.2	15.9
\$30,000–44,999	12.3	14.8	13.2	9.1	6.0	17.4	10.9	9.7	14.7
\$45,000–74,999	4.7	10.0	23.3	2.3	1.7	20.0	3.9	5.2	22.1
\$75,000 and Over	0.9	3.7	44.2	0.1	0.1	17.0	0.8	1.6	34.3
Household Type									
Married without Children	6.3	22.3	38.6	13.5	6.6	13.0	7.5	13.2	29.3
Married with Children	6.9	13.4	21.4	17.7	9.5	14.2	9.9	11.1	18.8
Single-Parent Family	21.5	10.2	5.2	38.1	24.1	16.7	32.3	18.3	9.4
Other Family	12.3	9.2	8.2	23.4	8.1	9.1	16.6	8.5	8.5
Single Person	20.3	42.2	22.7	31.7	43.7	36.5	25.8	43.1	27.7
Non-Family	7.5	2.7	3.9	20.4	8.1	10.5	15.3	5.8	6.3
Race/Ethnicity									
White	9.6	68.4	77.7	23.2	48.0	54.8	13.5	56.5	69.3
Black	16.4	11.9	7.9	33.2	23.7	18.9	26.1	18.8	11.9
Hispanic	15.5	12.4	8.7	29.1	20.2	18.4	23.0	17.0	12.3
Asian/Other	14.1	7.3	5.7	26.9	8.1	8.0	19.8	7.8	6.5
Employment Status									
Fully Employed	5.9	59.1	82.4	13.6	49.2	75.6	8.7	53.3	79.8
Short-Term unemployed	12.6	14.1	9.2	32.4	17.7	11.4	21.2	16.4	10.1
Long-Term unemployed	20.9	17.1	6.8	51.0	22.7	9.3	34.8	20.6	7.7
Fully Unemployed	48.2	9.7	1.7	60.0	10.4	3.6	52.2	9.7	2.4

SOURCE: JCHS TABULATIONS OF US CENSUS BUREAU, 2013 AMERICAN COMMUNITY SURVEY.

*Renter and homeowner households only. Analysis excludes homeless households due to a lack of reliable data.

APPENDIX C: RENTER HOUSING INSECURITY RATES BY STATE

State/Territory	Total Renter Households	% Moderately Cost Burdened	% Housing Insecure	Renter Housing Insecurity Ranking
Alabama	596,739	21.0%	25.6%	17
Alaska	91,488	27.2%	23.2%	38
Arizona	946,290	22.1%	25.0%	22
Arkansas	386,321	21.8%	20.9%	44
California	5,894,665	25.2%	30.0%	2
Colorado	733,180	24.4%	24.8%	26
Connecticut	454,745	23.2%	28.5%	6
Delaware	103,775	22.6%	24.8%	27
District of Columbia	165,478	19.9%	26.1%	15
Florida	2,629,172	25.2%	30.4%	1
Georgia	1,348,634	23.3%	26.7%	13
Hawaii	195,640	24.7%	29.2%	4
Idaho	185,787	23.0%	22.6%	39
Illinois	1,637,021	21.4%	26.9%	12
Indiana	784,999	21.7%	24.8%	25
Iowa	351,982	18.1%	21.3%	43
Kansas	370,893	19.3%	22.4%	40
Kentucky	584,762	20.8%	24.2%	30
Louisiana	610,947	20.5%	27.5%	9
Maine	156,245	21.2%	25.8%	16
Maryland	734,571	24.7%	25.0%	23
Massachusetts	977,324	22.5%	25.5%	20
Michigan	1,141,285	22.0%	28.7%	5
Minnesota	597,441	21.7%	24.0%	32
Mississippi	355,261	20.3%	25.5%	19
Missouri	778,104	20.8%	24.2%	31
Montana	132,450	21.2%	23.5%	37
Nebraska	251,715	19.9%	18.4%	50
Nevada	471,084	24.0%	23.6%	36
New Hampshire	154,876	23.2%	22.4%	41
New Jersey	1,168,743	23.3%	28.2%	7
New Mexico	250,333	21.2%	26.4%	14
New York	3,422,040	22.7%	29.8%	3
North Carolina	1,352,084	22.9%	24.8%	24
North Dakota	115,072	17.9%	19.7%	48
Ohio	1,589,175	20.8%	25.1%	21
Oklahoma	509,858	20.1%	20.6%	45

APPENDIX C: RENTER HOUSING INSECURITY RATES BY STATE CONTINUED

State/Territory	Total Renter Households	% Moderately Cost Burdened	% Housing Insecure	Renter Housing Insecurity Ranking
Oregon	602,867	25.5%	27.3%	10
Pennsylvania	1,547,574	21.6%	26.9%	11
Rhode Island	168,784	23.4%	28.1%	8
South Carolina	585,583	22.4%	24.3%	29
South Dakota	108,158	19.1%	17.7%	51
Tennessee	845,040	21.9%	25.6%	18
Texas	3,599,690	22.8%	24.0%	34
Utah	279,489	24.4%	19.9%	47
Vermont	75,012	24.4%	20.1%	46
Virginia	1,068,166	22.4%	24.7%	28
Washington	1,020,951	24.1%	24.0%	33
West Virginia	205,090	17.5%	21.6%	42
Wisconsin	763,684	22.0%	23.9%	35
Wyoming	75,761	20.1%	19.6%	49
US Total	43,176,028	22.8%	26.4%	

SOURCE: ENTERPRISE ANALYSIS OF CENSUS/ACS DATA

APPENDIX D: PERCENTAGE OF THE U.S. POPULATION LIVING IN CONCENTRATED POVERTY

		AGE				ALL AGES
		0-5	6-11	12-17	Adults	
TOTAL	Poor	16.5	15.6	14.7	13.8	14.4
	Non-poor	2.7	2.4	2.5	2.8	2.7
WHITE	Poor	6.2	5.1	4.6	8.2	7.5
	Non-poor	0.9	0.7	0.7	1.2	1.2
BLACK	Poor	28.0	26.6	25.2	24.2	25.2
	Non-poor	7.9	7.6	8.0	9.3	9.0
HISPANIC	Poor	18.1	17.9	17.6	16.9	17.4
	Non-poor	5.3	5.0	5.0	5.9	5.7

SOURCE: PAUL A. JARGOWSKY / THE CENTURY FOUNDATION ANALYSIS OF ACD DATA FOR 2009-2013

APPENDIX E: CURRENT FEDERAL SPENDING ON HOUSING PROGRAMS

Program	2014 Cost to Taxpayers (\$B)	2015 Cost to Taxpayers (\$B)
Programs Serving Homeowners*		
Deduction for mortgage interest	\$66.9	\$69.5
Deduction for property taxes	\$31.6	\$33.1
Exclusion of capital gains on sale	\$35.5	\$36.9
Discharge of mortgage indebtedness	\$3.1	\$0.0
Exclusion of interest on owner-occupied mortgage subsidy bonds	\$1.3	\$1.3
Deferral of income from installment sales	\$1.5	\$1.7
Other appropriations for homeownership	\$0.1	\$0.2
Total Spending on Homeownership Programs	\$140.1	\$142.7
Programs Serving Renters and the Homeless		
Tenant-based rental assistance	\$19.2	\$19.3
Project-based rental assistance	\$9.9	\$9.7
Low-Income Housing Tax Credit	\$8.1	\$8.0
Public housing	\$6.3	\$6.3
Accelerated depreciation on rental housing	\$1.1	\$1.1
Exclusion of interest on rental housing bonds	\$1.0	\$1.1
HOME	\$1.0	\$1.0
Community Development Fund	\$3.1	\$3.1
Homeless Assistance	\$2.1	\$2.1
Other HUD programs	\$1.9	\$2.7
Other USDA programs	\$1.3	\$1.2
Total Spending on Rental/Homeless Programs	\$55.0	\$55.6
Total Spending on Housing Programs	\$195.1	\$198.3

SOURCE: WHITE HOUSE OFFICE OF MANAGEMENT AND BUDGET, FISCAL YEAR 2016 BUDGET

*Does not include the federal tax exemption for the "net imputed rent" of an owner-occupant's home, which is expected to cost taxpayers an estimated \$79 billion in foregone revenues in 2015. Also does not include government mortgage insurance programs and other credit enhancement programs that do not carry an annual cost to taxpayers.

APPENDIX F: ACKNOWLEDGEMENTS

An Investment in Opportunity was authored by John Griffith and Diane Yentel, with strategic guidance from Ali Solis, Enterprise's senior vice president for Advocacy & Corporate Affairs, and research support from Andrew Jakabovics, Enterprise's senior director of Policy Development & Research. The platform benefited greatly from the vision and leadership of Terri Ludwig, Enterprise's president and CEO.

This report is the product of dozens of interviews and informal conversations with experts in affordable housing, housing finance and public policy. The authors would like to thank all of the members of the Enterprise Policy team for their leadership in developing, writing and editing the platform, including: Laurel Blatchford, Emily Cadik, Allison Charette, Rachel Reilly Carroll, NaShawn Johnson, Howard Leibowitz, Emily Lungard, Kenny Marable, Sarah Mickelson, Tiana Patterson, Manuel Ochoa, Jeanie Shattuck, Michael Spotts, and Elizabeth Strojan. Several other members of the Enterprise team also provided crucial input on the policy recommendations and other support, including: David Bowers, Angela Boyd, Mary Bushel, Keith Fairey, Andy Geer, Anne Griffith, Nicole Gudzowsky, John Harrison, John Hersey, Scott Hoekman, Matt Hoffman, Heather Hood, Catherine Hyde, Patrick Jordan, Judi Kende, Richard Larimer, M.A. Leonard, Mark McDermott, Tom Osdoba, Melinda Pollack, Suzanne Probst, Jeff Schaffer, Jon Searles, Jessica Sorrell, John Sullivan, Lydia Tom, Meaghan Shannon-Vlkovic, Michelle Whetten, Odetta MacLeish-White and Alan Zibel.

The authors would also like to thank every outside expert who informed their research and analysis, especially those who reviewed drafts of the report, including: Pamela Blumenthal, Liza Getsinger, Julia Gordon, Jim Parrott, Pam Patenaude, Erika Poethig, Ellen Seidman, Mark Willis and Barry Zigas.

Finally, the authors would like to thank the members of the Enterprise Community Partners, Inc., Board of Trustees and the Enterprise Community Investment, Inc., Board of Directors for their tremendous guidance, insights and support throughout the development of this policy platform:

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Tony M. Salazar
Elizabeth M. Stohr
Charles R. Werhane

The platform report was designed by Rachel Stern, and the platform website was designed and developed by The Design Group.

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234. *Housing Act of 1949* (accessed November 2015): <https://bulk.resource.org/gao.gov/81-171/00002FD7>



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