

## Session 2:

# Magnitude of the Crisis: The Fiscal and Human Costs

Introduction  
*Peggy Robinson*

Who Benefits from Preservation:  
The People Behind the Numbers  
*James E. Wallace*

Estimating Mortgage Prepayments  
and Defaults in Older Federally  
Assisted Rental Housing and the  
Possible Costs of Preventing Them  
*Carla I. Pedone*

The Preservation Needs of Public  
Housing  
*Ann B. Schnare*



## Introduction to Session 2

### Magnitude of the Crisis: The Fiscal and Human costs

Peggy Robinson  
*MacNeil/Lehrer NewsHour*

Providing an overview of these three papers is a somewhat daunting task. What follows is an attempt to examine some common themes and highlight some areas of critical importance. Because TV producers, even at MacNeil/Lehrer, are taught to look for the headline or the soundbite, this overview starts with three soundbites:

From Jim Wallace:

. . . The federal government provides assistance in some form to one-fourth of the renters in the country — roughly some 4.4 million (households) — all of whom are low income. (And when it comes to providing housing for these people) a variety of threats — owner actions and government inaction — are directed to (this) very vulnerable population. . . .

From Ann Schnare:

. . . Recent discussions concerning the preservation of the existing stock of low-income housing have focused on the roughly two million units in privately owned and operated housing. However, some 1.4 million public housing units may also be in jeopardy. . . . The threat to the nation's oldest and largest housing assistance program can be traced in large part to the ongoing depreciation of an aging stock.

From Carla Pedone:

. . . (The National Low Income Housing Preservation Commission's) study represented the first, and so far the only, analytical attempt to estimate the number of units in the older HUD-assisted inventory likely to be affected by owners prepaying or defaulting on their mortgages. . . . The Senate Subcommittee on Housing and Urban Affairs has asked the Congressional Budget Office to evaluate the model developed by the commission. . . . Technical corrections were made and further modifications are planned to improve certain aspects of the model for changes in policies and economic variables that have occurred since the commission's study was published.

These soundbites are arranged in a different order than the papers because the flow is as follows: first, the people; second, the buildings; and third, the updated, predictive model.

All of these papers in their own individual ways underscore the seriousness of the preservation issue when it comes to federally assisted low-income housing. They address some immediate policy concerns, especially in the prepayment arena, and they provide insight and guidance for formulating any sort of framework for long-term policy.

Jim Wallace presents a chilling portrait of the human dimension that is the very basis for concern and, thus, is the underpinning for all policy considerations. It is sometimes too easy to talk numbers, models, theories, and dollars while forgetting the human face inextricably intertwined with all the data.

Wallace focuses on the roughly 4.4 million renters who receive some form of assistance from the federal government — from those who live in housing that is privately owned but are beneficiaries of some sort of federal subsidy to those who receive rental assistance under the Section 8 Certificate and Voucher programs to those low-income households in the public housing program.

Although some of the data that Wallace has assembled in this paper are familiar, nonetheless, there are some figures that should be highlighted and underscored. First of all, the discussion is about very poor people. The vast majority have incomes below 50 percent of the local median income. According to data presently being tabulated for the U.S. Department of Housing and Urban Development (HUD) and which Wallace incorporated in his paper, 73 percent of the tenants in Section 8 housing programs are below the poverty line.

Over the last decade and a half, even with some federal assistance, housing costs have become burdensome for many. According to the 1985 National American Housing Survey, 44.6 percent of poverty-level renters paid 70 percent or more of their income for housing in 1985. And as housing costs have increased, the number of low-rent units has declined while the number of low-income renters has been increasing.

For an idea of the scope of the “at-risk” population, it is helpful to review some of the characteristics of the 4.4 million Americans in federal programs:

- 34 percent (1.4 million) of subsidized renters are elderly.
- 49 percent (2.0 million) are minorities.
- 11 percent (441,000) are households of five or more.
- 47 percent (2.0 million) are families with children.

Wallace discusses the demographics of each federally assisted program in his paper. It is useful to note some recent figures that relate to public housing. A 1990 survey of tenants of 202 public housing authorities by the National Association of Housing and Redevelopment Officials indicated that the primary source of income was as follows:

- 41 percent were on welfare.
- 24 percent were working poor (earned income).
- 24 percent were Social Security recipients.
- 11 percent had other sources.

Wallace argues that the entire federally assisted housing inventory and its vulnerable population are at risk. And in her paper, Ann Schnare shows some stark cold numbers to indicate the degree of risk one aspect of this inventory — public housing — faces. By examining the capital needs of public housing’s aging stock, she puts in strict dollar terms what it will take to correlate preservation needs in public housing with its physical condition and its ongoing repair and replacement needs.

While there is a significant federal commitment to public housing capital needs — in the FY 1990 budget, operating subsidies amounted to about \$1.7 billion — Schnare provides evidence that perhaps this is not nearly enough.

There are some 3,400 independent Public Housing Authorities across the country. The vast majority of the projects are two- and three-story walkups, one-story townhouses, or single-family, detached structures. Only 28 percent are four or more stories. According to Schnare, a significant portion of this stock is in a serious state of disrepair.

Many building systems simply need to be replaced or overhauled just to make them function efficiently or function at all. In some

communities, modifications are required to comply with HUD regulations or local codes. Some would only become viable places to live if they are redesigned or reconfigured.

Reviewing three separate studies, Schnare assesses what it would cost to restore existing building systems to working order; what it would cost to meet other important policy objectives such as energy conservation, handicapped accessibility, or lead-based paint abatement; and what it would cost to have an adequate funding level for preventive maintenance needs. These calculations are made with an eye toward eliminating a vast backlog of capital needs and also toward providing for future accrual needs as buildings continue to age and necessary repairs and maintenance reserves must be funded.

In brief, any attempt to eliminate the backlog in the entire needs spectrum (while providing for accrual funding) amounts to a sizeable commitment in federal funds. Even in a future that might have a possible peace dividend, big bucks are needed, especially when present funding levels are approximately \$1.6 billion a year. According to Schnare, to eliminate the complete backlog in five years would require spending \$7.4 billion each year; to eliminate it in 10 years, \$4.8 billion a year; in 20 years, \$3.4 billion a year.

In Carla Pedone's paper, the author gives a snapshot in time of an ongoing project at the Congressional Budget Office. Pedone and her colleagues are refining, reassessing, and correcting the landmark Preservation Analysis Model developed for the National Low Income Housing Preservation Commission. It should be reemphasized here that Pedone's paper is a preliminary report.

If the other two papers are concerned with the human and the physical side to the crisis, Pedone's paper focuses on developing a more accurate model that could be used to predict just how many owners eligible to prepay will do so, how many will default, and how many will remain in their programs "as is." The refined version of the model also attempts to predict how many owners who are ineligible to prepay will default.

Pedone has developed two additional versions of the model: one with technical corrections only and the second, Technical Corrections Plus, with modifications to account for changes in policy and economic variables since the commission's study was done in 1988.

As a result of these modifications, there is some initial indication that the predicted outcomes are significantly different in the Technical Corrections Plus version than those originally suggested by the Preservation Commission's model. Specifically, the Technical Corrections Plus model is predicting a lower incidence of defaults but a higher number of prepayments.

If all types of owners are combined, 24 percent of the total would be affected by defaults; 45 percent would be affected by prepayments. Virtually all of the remaining units (some 31 percent) are predicted to operate as is through 2002.

Interestingly enough, the Technical Corrections Plus model decreases by \$5.6 billion the estimated total costs of preventing all defaults and prepayments in the 1988-2002 period. This decrease is based on property-specific remedies — government negotiations with all individual owners intending to default or prepay. The total outlay for preventing defaults is estimated at \$4.6 billion, with \$2.1 billion in new appropriations and some \$2.6 billion in old funds. This is a \$3.8 billion decrease. The total outlays for preventing prepayments would be an estimated \$8.5 billion, \$5 billion in new appropriations and the rest in old funds.

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