

Financing Affordable Housing in the United States

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Abstract

This article addresses the problem of the gap in affordable housing in the United States and the efforts being made to address the gap. At issue are the forms of federal financial support for affordable housing and the relative roles of private, for-profit suppliers; local public housing agencies; and nonprofit, community-based developers in providing affordable housing.

The primary U.S. vehicle for affordable housing production is currently the low-income housing tax credit. While this system has produced nearly 350,000 units of low-income housing, it has inherent inefficiencies relative to a direct capital grant and currently requires assembling mortgage financing from a number of sources. Congress and the Clinton administration have been reluctant to encourage much additional development by public housing agencies, and the capacity of nonprofit, community-based developers is still limited. Experiments are under way on a variety of credit enhancement and risk-sharing techniques.

Keywords: Affordability; Nonprofit sector; Programs

Introduction

This article concentrates on current U.S. programs and policies affecting the production, rehabilitation, or acquisition of rental and owner-occupied housing affordable to low-income target populations. At issue is the question of how best to reach those households needing some form of housing assistance to live decently at an affordable cost. This article does not address the full range of the ongoing debate about the relative merits of supply-side versus demand-side subsidies, but it concentrates on the issue of the U.S. mechanisms for development of housing to be provided at costs affordable to low-income households. The current financing mechanisms, for both equity and mortgage financing, will be addressed, as will the matter of subsidy sources for lowering monthly costs to levels affordable by lower income households. The article does not deal with a number of other conditions that affect the nation's ability to provide housing for those in need, including the increasing income inequality

in the United States since the late 1970s (U.S. Bureau of the Census 1990); the diminishing supply of unassisted, low-rent housing (Joint Center for Housing Studies of Harvard University 1991); or the other conditions that exacerbate the housing situation of the poor: housing discrimination, restrictive zoning and building codes, lack of health care, and insufficient job counseling and day care.

What is “affordable” housing?

“A decent home in a suitable living environment for every American family” was professed as a housing goal in the U.S. Housing Act of 1949 and reaffirmed in the 1990 National Affordable Housing Act, with the added condition that the housing should be affordable.¹ The gap between this goal and the U.S. reality has been and remains large, however “affordable” is defined. Although affordable housing has no official definition, a widely accepted implicit definition is that monthly housing costs in adequate housing should be no more than 30 percent of household income. This is the rent payment standard currently used by the U.S. Department of Housing and Urban Development (HUD) for two of its major housing programs: public housing and the program called Section 8, which provides rental assistance.

This implicit standard is by no means uniformly accepted. Michael Stone in his recent book, *Shelter Poverty: New Ideas on Housing Affordability*, argues that 30 percent of income is not an appropriate standard. He notes that, while other public programs have eligibility standards based on income, no other programs have an affordability standard (Stone 1993, chap. 2, n. 9). Stone uses the U.S. Bureau of Labor Statistics “Lower Budgets” to define the cost of necessities other than housing as a function of household size and type. Once a household has paid housing costs, which typically are regarded as a preeminent item in the household budget, it is “shelter poor” if the remaining income is not enough to cover these basic, nonhousing necessities.² By this standard, one-third of the nation’s people are shelter poor, including many homeowners. As Stone points out,

¹ This article is not limited to public housing or housing provided by and under control of nonprofit sponsors, sometimes called “social” housing.

² The standards developed by Stone do not attempt to deal with the problem of physical inadequacy of housing, except to note that many low-income households are both shelter poor and living in poor housing. The condition of households that would still be too poor to meet these nonhousing needs even if shelter costs were reduced to zero is considered “absolute” poverty.

this analysis does not indicate a magnitude of the affordability problem appreciably different from the conventional standard of 25 or 30 percent of income, but it is distributed very differently, with more severe problems among lower income households and larger households and less severe problems among middle-income and smaller households (Stone 1993).

The income target for federal programs has varied over time. Currently, the term “low-income households” refers to those with incomes at or below 80 percent of local median income, adjusted for family size. “Very low income households” are those with incomes at or below 50 percent of local median income. Most explicit rental subsidy programs in the United States are now directed toward the very low income group. The term “extremely low income households” has been used by some researchers to refer to those with 25 percent of median income or less. The Tax Reform Act of 1986 established still another income criterion, 60 percent of median income, for the low-income housing tax credit.

The affordable housing gap

By any measure of affordability or housing need, millions of low-income U.S. households lack decent and affordable housing. According to a report by HUD (1991), 11.6 million (58 percent) of the 20 million low-income renter households paid 30 percent or more of their income for housing in 1989. About 5.5 million (28 percent) paid more than 50 percent. For very low income households the problem is, understandably, even more acute. Forty percent of very low income families had rent burdens exceeding 50 percent of income.

Households in decent housing but paying a large fraction of their income for monthly housing costs could be helped most directly by an income transfer or a direct rental subsidy, such as the Section 8 rental assistance program in the United States, which already provides tenant-based assistance to 1.4 million households. Even worse off are those who pay a large fraction of income for housing yet live in substandard conditions.

The Joint Center for Housing Studies of Harvard University (1993) used the 1991 American Housing Survey to estimate the number of low-income households in housing need. The center identified low-income renter households that received no federal assistance and had a priority housing problem (i.e., were living

in physically inadequate housing³ or paying at least 50 percent of income for rent). As table 1 indicates, of the 6,048,000 extremely low income renter households, 2,266,000 (or 37 percent) were receiving federal housing assistance in 1991. Only 292,000 of the unassisted extremely low income renters did not have a priority housing problem, leaving 3,490,000 with no housing assistance and with a priority housing problem—2,657,000 with a severe housing cost burden in adequate housing and 833,000 in inadequate housing. Defining the assistance gap in this way, another 2,677,000 renters in the income range of 25 to 50 percent of local median lacked needed housing assistance, as did 1,242,000 of those in the range of 50 to 80 percent.

*Table 1. Gap in Housing Assistance for Renters
(Thousands of Households), 1991, by Income Relative to Local Median*

Category	Number in Each Income Group				
	Under 25% of Median	25% to 50%	Cumulative up to 50%	50% to 80%	Cumulative up to 80%
All renters	6,048	6,814	12,862	6,743	19,605
Assisted	2,266	1,399	3,665	440	4,105
Unassisted, adequate housing, and rent not exceeding 50% income	292	2,738	3,030	5,061	8,091
Affordable housing gap	3,490	2,677	6,167	1,242	7,409
Adequate housing but rent at least 50% income	2,657	1,805	4,462	496	4,958
Inadequate housing	833	873	1,706	745	2,451

Source: Joint Center (1993, table A-11), based on tabulations from 1991 American Housing Survey.

Note: Figures may not add up because of rounding.

Facing this affordability gap means facing the fact that, at this point in the United States, closing it is a losing battle. Even though the number of households receiving federal assistance has steadily risen, the diminishing number of unassisted low-rent units has caused the gap to widen over the past two decades (Joint Center 1991). This reflects a number of trends in the national economy too numerous to review here. It is instructive

³ The Joint Center (1993) defines housing inadequacy in terms of the lack of plumbing fixtures, heating equipment, and other mechanical subsystems, as well as with information on the repair and upkeep of properties.

to note, however, that during this period income inequality has increased (U.S. Bureau of the Census 1990). Even those fortunate enough to own their own homes have not been protected against larger economic forces. Michael Stone notes that since the late 1960s mortgage payments have increased twice as fast as disposable income, and since 1979 the rate of residential mortgage foreclosures increased from 0.3 percent to 1.3 percent (Stone 1993).

The need to increase housing assistance substantially is obvious. The challenge is in both finding the most politically successful arguments for this increase and applying the additional assistance as wisely as possible, even though within this challenge there are debates about how much of this need should be met by income transfers, how much by rehabilitation of physically inadequate structures, and how much by production of new affordable housing (see, e.g., Apgar 1990; Weicher 1990). This article concentrates on the U.S. supports for production of affordable housing.

Historical sources of federal support for affordable housing⁴

Over the decades, the federal government has provided support for affordable housing, chiefly for low-income renters. Such support has included the public housing program, subsidy of privately owned multifamily rental properties, rental assistance to tenants, and various homeownership programs. At the beginning of the 1990s, the programs were providing approximately the numbers of units shown in table 2. The major rental programs serve primarily very low income tenants, while the homeownership programs are directed more toward low-income home buyers.

This pattern of housing assistance reflects the cumulative effect of profound changes in the direction of U.S. housing policy over the decades. The public housing program, operated by local authorities, was initiated in the U.S. Housing Act of 1937 as a depression-recovery, public-works program for the “deserving poor.” Public housing now provides about 1.4 million units of housing for low-income persons. However, it has not been favored as a major vehicle for increasing the supply of affordable housing since the late 1970s. While originally providing only

⁴ David Listokin (1991) provides a more comprehensive overview of the developments in U.S. housing policy with respect to housing for lower income persons.

Table 2. Federally Assisted Housing Units, 1990

Program Type	Total Units ^a (Thousands)	Percent below 50% Median Income	Percent Nonprofit
Public housing	1,400 ^b	81 ^c	(public)
Privately owned rental housing			
Section 202 elderly	237	64.5 under \$7,500 (1988) ^d	100
Older assisted (below-market interest and rent supplements) (1960s and 1970s) (Section 236, 221(d)(3))	794	77 ^e	22
Newer assisted (project-based rental assistance) (1970s and early 1980s) (Section 8)	362 ^e	90 ^e	NA
Rural rental housing (Section 515, below-market interest and rent supplements)	450	68 ^f	5 ^g
Low-income housing tax credit	335 ^h	28 ⁱ	27
Tenant-based assistance (Section 8)	1,400 ⁱ	100 ^k	(public)
Urban homeownership (Section 235, below-market interest)	137	NA	NA
Rural homeownership (Section 502, below-market interest)	1,188	NA	3

Note: NA = not available.

^a The income level reached by these programs varies widely, although all programs were intended for low-income households. Unless otherwise noted, the totals are taken from Walker (1993), who assembled data for funds obligated from a variety of sources. Figures based on funds obligated may overstate current units in service, because some obligated funds are not used and some units may no longer be in service.

^b Listokin (1991).

^c Based on unpublished data from Abt Associates Public Housing Modernization Needs Study, conducted for HUD (686 responses to a survey of 818 public housing agencies).

^d U.S. House Select Committee on Aging (1989).

^e Wallace et al. (1993).

^f U.S. General Accounting Office (1987).

^g At the project level, the Housing Assistance Council indicates that of the 16,620 projects in service by 1992, 3,242 projects, or 19 percent, were under nonprofit sponsorship.

^h Figures are from total units placed in service from program inception (1987) through 1992 (National Council of State Housing Agencies 1994, table 9). Nonreporting states (Indiana, New Jersey, New Mexico, and the territory of the Virgin Islands) were estimated by taking half of the 1992 unit allocation and multiplying by a presumed five years of allocations at that level. California reported only the low-income units placed in service but was assigned the same number for total units placed in service because this has been the pattern in previous years.

ⁱ This roughly corresponds to the 30 percent of units covered by planned subsidies in addition to the tax credit at the point of allocation. Apparently all of the remaining

72 percent is allocated to the narrow band of 50 to 60 percent of median income (National Council 1994, table 4, for 1992 allocations, weighted by the 1992 allocation of total low-income [under 60 percent of median] units from the National Council 1992 Snapshot Survey), even though for units placed in service since 1987, 4 percent of the total units were tabulated by the National Council as units rented to higher income households (National Council 1994, table 9).

^j Obtained from HUD Office of Rental Assistance.

^k Based on program requirements enforced through annual income recertifications.

federal funding of capital costs, public housing now requires substantial operating subsidies, as operating costs have risen and the program has reached poorer families. Concerns with demands on the federal budget and with social pathologies associated with a concentration of problem families and individuals have drained support for development of new public housing. According to a recent report by the U.S. General Accounting Office (GAO 1995), while HUD considers most public housing authorities to be reasonably well managed, about 3 percent (92 of the 3,300) are considered “troubled.” Thirteen of the troubled authorities are large urban housing authorities, managing about 14 percent of the total public housing stock and most of the stock that is in the worst physical condition. These troubled authorities drive the public and congressional criticism of public housing, abetted in some cases by ideological aversion to public ownership of housing. The GAO report illustrated that public housing is not uniformly more expensive than housing in the private rental stock—some authorities operate at lower costs per unit and some higher.

The use of capital grants has been a very interesting development in the financing of affordable housing in the United States. The public housing program originally used local bonds to raise funds to develop the housing projects. The debt service on the bonds was then covered by federal contracts to make the annual payments to retire the bonds. However, even with the federal guarantees involved in the annual contract to repay the bonds, the interest rate on these bonds is higher than the interest rate for general government borrowing. As a result, a change was made in 1987 to provide the development capital through direct grants for the limited amount of public housing construction that has taken place since then. HUD provides these funds through the Federal Financing Bank, which raises the funds as part of general government borrowing. The Section 202 rental program for the elderly, authorized by the Housing Act of 1959 and later expanded to include handicapped persons, was restricted to nonprofit housing sponsors. The program originally used a direct, low-interest loan to finance these projects, but since the National Affordable Housing Act of 1990, the financing mechanism is a direct grant, for the same reasons as with public

housing. It is more efficient for government to pay directly, up front, even if this payment must be financed through general government borrowing, because interest costs on general government borrowing are less than interest costs on private financing, even if repayment is backed by the government, either directly or indirectly.

Federal assistance for rural housing has a long history in the United States. A farm homeownership program (Section 502) was adopted in 1949 and later expanded to include rural homeownership more generally. The Rural Rental Housing Assistance Program, created by the Senior Citizens Housing Act of 1962 (Public Law 87-723), provided financing for housing for elderly persons and low- and moderate-income families living in rural farm and nonfarm areas. Both programs primarily use an "interest credit" arrangement that effectively lowers the interest rate on the mortgage to 1 percent. Supplementary assistance is available for the rental program, which enables renters to pay only 30 percent of their income for housing.

The Housing and Urban Development Act of 1968 initiated major federal urban programs for turning away from public housing and providing subsidized rental housing (Section 236) and homeownership (Section 235). A program of the early 1960s, called Below Market Interest Rate (BMIR; Section 221(d)(3)), had provided a front-end subsidy that reduced the effective interest rate to 3 percent. These programs depended on an interest subsidy to achieve affordable rents and, in the case of the rental program, have also had substantial rental subsidies added to provide even deeper subsidies. Some of the properties with mortgage insurance and subsidies provided by HUD have fallen into financial and physical difficulty, with the result that a growing number have been foreclosed, many being owned by HUD for a period before they can be sold (Wallace 1994).

Because the private, for-profit owners of the rental projects typically had a contractual requirement to provide low-rent housing only for a period of 20 years, the so-called expiring use problem developed, as it was feared that owners of some of these projects would prepay their federally insured mortgages, relieve themselves of the use restrictions, and convert the property to conventional high-rent projects (National Low-Income Housing Preservation Commission 1988). Federal legislation in 1987 and 1990 tried to address this concern by replacing the owner's right to prepay and convert to market housing with provisions for equity takeout. Current owners are required either to sustain the low-rent character of these projects for their remaining useful life or to sell them to nonprofit buyers who would do so.

The production of subsidized housing by for-profit developers was given a great boost by the Tax Reform Act of 1969, which provided substantial tax benefits in the form of accelerated depreciation allowances and favorable capital gains tax treatments. Developers were able to capture capital, from investors able to use these benefits, for a combination of equity and profit. Even greater tax benefits were conferred by the federal tax legislation of 1981 (the Economic Recovery Tax Act of 1981), although the Tax Reform Act of 1986 severely curtailed the use of tax losses to shelter other income. Even while these tax benefits were being curtailed, however, an alliance between real estate interests and low-income housing advocates was able to include in the same 1986 legislative package a low-income housing tax credit, which since has become the primary production vehicle for low-income housing in the United States.

Under concerns about the growing budget demands of the Section 236 and BMIR programs, the Nixon administration imposed a moratorium on subsidized housing production in January 1973. Ultimately, while these earlier interest subsidy programs were scuttled, the private development interests succeeded in pushing for a new program, the Section 8 Housing Assistance Payments Program created by the 1974 Housing Act. The theory of the Section 8 program was that by providing private owners with 15-year rental subsidy contracts, the owners could get conventional private financing. In practice, most owners had to use federally insured mortgage loans, supported by guaranteed sales to the secondary mortgage market. The program was a popular one, resulting in increased demands for budget authority (annual contract for rental assistance times the term of the contract). The Section 8 production programs (for new construction and substantial rehabilitation), in turn, were curtailed beginning in 1981, when the new administration was making a concerted effort to reduce social spending and, in particular, the substantial budget authority required for the production programs. The production component of Section 8 also had been shown to be more expensive, for the housing provided, than the existing housing component (Wallace et al. 1981), which provided portable tenant subsidies with relatively short-term commitments to the subsidized households (and to the administering agencies, generally public housing agencies).

The Republican administrations of the 1980s also attempted to cut off the public housing and Section 202 elderly and handicapped programs entirely. They acted out of antipathy to public and nonprofit production and ownership of housing, combined with a policy of reducing federal social expenditures. Even

the current Democratic administration, laboring under an enormously bloated federal debt and continuing deficit budgets, has not proposed reinstating these housing production programs on any scale. An implicit housing production program, the HOME program, was passed in 1990 as part of the National Affordable Housing Act.

The HOME program provides federal funds to “participating jurisdictions,” primarily local and state governments, for broadly defined affordable housing programs, including tenant-based rental assistance, new construction, and housing rehabilitation. Local matching funds are required, with the matching requirements skewed to favor housing rehabilitation, where feasible. Fifteen percent of the funds are set aside for nonprofit community housing development organizations, to the extent they can use the funds.

Thus, entering the decade of the 1990s, the principal housing production programs were the low-income housing tax credit; the HOME program for a locally defined mix of new construction, rehabilitation, and tenant-based assistance; and Sections 502 and 515 for rural housing. The Section 8 program provided tenant subsidies.

Current production programs, financing mechanisms, and producers

Affordable rental housing, dominated by the tax credit

The low-income housing tax credit dominates the provision of affordable rental housing today (table 3). In 1992, tax credit projects that were placed in service represented 44,400 units, including 14,900 units of rural rental housing (Section 515).⁵ The new HOME program has made contractual commitments for

⁵ An official in the multifamily housing area of the Farmers Home Administration (FmHA) (now the Rural Housing and Community Development Service) indicated that virtually all of the Section 515 Rural Rental Assistance projects are also tax credit projects. Data from the National Council of State Housing Agencies (1994) indicate that about 27 percent of the 1992 tax credit unit allocations were for nonmetropolitan areas (outside metropolitan statistical areas, as defined by the U.S. Bureau of the Census). If this percentage applied to the units placed in service in 1992, that number would be nearly 12,000 units. Given that some of the 15,000 Section 515 projects are located in metropolitan areas, these figures are consistent with the observation that most of the units shown as Rural Rental Housing (under the Section 515 program) in table 3 are also counted in the low-income housing tax credit tally.

Table 3. Current Production of Federally Assisted Housing Units

Program Type	Total Units (Thousands)	Percent Nonprofit
Public housing	5.0 ^a	100 (public)
Privately owned rental		
Section 202 elderly and handicapped	7.3 ^b	100
Rural rental housing (Section 515, below- market interest and rent supplements)	14.9 ^c	5 ^d
HOME program	8.3 ^e	
Low-income housing tax credit	44.4 ^f	27 ^g
Urban homeownership (Nehemiah and HOME programs)	7.0 ^h	100
Rural homeownership (Section 502, BMIR)	25.7	3

^a Annual authorization for new development, although in practice many of these units are used for replacement of demolished units, according to the Council of Large Public Housing Authorities.

^b Units obligated (Walker 1993).

^c Figures for the Sections 515 (rental) and 502 (homeownership) programs were obtained from the Housing Assistance Council.

^d Estimates of rural housing program percentages under nonprofit sponsorship (rural rental and rural homeownership) are from Walker (1993). At the project level, the Housing Assistance Council indicates that of the 16,620 projects in service, 3,242 (19 percent) were under nonprofit sponsorship.

^e Computed from figures for total contractual commitments: 11,259 total units were apportioned rental/homeowner according to dollar commitments, as of April 13, 1994, according to the HUD Office of Affordable Housing Programs.

^f Figures are from National Council (1994, tables 6, 7, and 8) which provide the number of units placed in service in 1992 from the 1990, 1991, and 1992 tax credit allocations that are made at the point of applying for credits. For the nonreporting states (Indiana, New Mexico, and the territory of the Virgin Islands), an estimate of 500 units has been used. The percentage nonprofit is not available directly for these units placed in service in 1992; the percentage shown is the average for 1992 tax credit allocations.

^g Computed from 1992 allocations, National Council (1994, table 4).

^h The Nehemiah program allocated funds for 1,321 units in fiscal year 1989, 1,437 in 1990, and 1,353 in 1991. There were 2,932 HOME program first-time home buyer units contractually committed through April 13, 1994, estimated from dollar allocations. The table shows the simple sum of these figures, although this clearly overestimates annual production. In addition, the HOPE 3 program for 1992 had 3,729 units, all of which are for grants for purchase of existing, government-owned (foreclosed) single-family properties by moderate-income households. The HOPE 3 figures have not been included, because they do not represent new construction.

about 8,300 units of rental housing targeted to low-income families, a majority of which probably are also tax credit projects. The only other federally assisted rental program is the continuation, at a small scale, of the Section 202 program, which provides direct federal grants (since 1990) to nonprofit developers of housing for the elderly and handicapped. As table 3 shows, the 1992 obligations for this program were to cover 7,300 units. The nonprofit sponsors of the Section 202 projects are not eligible for the tax credit.

The low-income housing tax credit provides a federal guarantee of a stream of 10 years of tax credits (direct deductions from tax liability) for investments in a property meeting the program requirements. The most essential requirement that a project must meet to qualify for tax credits is that either (1) at least 20 percent of the units must be occupied by households with incomes at or below 50 percent of median income for the area or (2) at least 40 percent of the units must be occupied by households with incomes at or below 60 percent of median income for the area, adjusted for family size. In either case, qualifying units must have rents set at no more than 30 percent of the applicable income limit (either 50 or 60 percent of area median). In practice, essentially 100 percent of the units are provided for households with 60 percent of median income or less. In addition, the property must be kept in service for this target group for at least 15 years. In 1989 this requirement was nominally extended to 30 years, but if the state credit agency cannot find, within 1 year of the owner's 15th-year notice, a buyer willing to maintain the project as low-income housing for the balance of the 30 years, the owner can sell or convert the project to conventional market housing and the tenants are only held harmless for up to 3 years or until they move out.

The tax credit has attracted much developer attention because of the generous capture of capital it provides (at considerable expense to the U.S. Treasury). Favorable provisions in the federal income tax code have been used instead of direct expenditures to encourage development of affordable housing because, it is argued, they are more self-administering and less subject to scrutiny and debate than costs paid directly. They do represent an effective cost, of course, in that the tax revenues not collected because of these special provisions must either be collected some other way or contribute to the overall federal deficit. For some years, Congress has required a report on such tax expenditures. The U.S. Treasury estimates that the low-income housing tax credit will cost \$2.265 billion for fiscal year 1995 and \$14.580 billion over the 1995–99 period—\$4.375 billion for individual taxpayers and \$10.205 billion for corporations (Warren Gorham & Lamont 1994b).⁶

How are these costs incurred, and what public benefit is provided in terms of affordable housing production? The federal revenue losses arise simply from the annual tax credits that investors in qualifying projects can take as a direct deduction

⁶ Because of limitations on the availability of the tax credit for individual taxpayers that do not apply to corporate investors, corporate investment in tax credit projects has become the major equity source.

from their federal income tax liability for a period of 10 years, as long as the project remains in service and maintains tenants with the appropriate income levels. For new construction projects not financed by tax-exempt bonds, tax credits are generated at a nominal rate of 9 percent a year against the qualifying tax basis of the property—essentially the total development cost, including developer fees and profits for a project with all units qualifying as low-income units in the tax credit sense (under 60 percent of median income). For existing properties or those financed by tax-exempt bonds, the nominal rate is 4 percent. These percentages are revised periodically to maintain a discounted present value of 70 percent of project basis for the “9 percent” projects and 30 percent of project basis for the “4 percent” projects, discounted at an applicable federal rate related to Treasury borrowing rates. The tax credits available to each state are based on the state’s population (\$1.25 per capita). State agencies—usually the state housing finance agency, which heretofore had as its major role the provision of financing for homeownership using tax-exempt bonds to provide a below-market interest rate—then allocate the credits to projects proposed by developers.

Developers form a partnership with those who are interested in investing in the project for the tax credits and who are willing to invest capital up front. Because the investors are weighing this investment against alternatives and because there is some risk that the property will fail to qualify at some point—so that some of the tax credits already taken will have to be rebated to the Treasury—their required rate of return is considerably higher than Treasury borrowing rates. The upshot is that the tax credits represent much more in revenue loss to the federal government, in present value terms, than they represent in current investment value to private investors. The money from investors does not go into the project as actual equity, however. Between 20 and 30 percent of the gross amount raised from investors typically is applied to “syndication costs”—that is, paying for the services and profit of the legal, accounting, and marketing experts required to make the connection between the investors and the developers of the project. So the tax credit system delivers to the actual direct costs of a project only about half what the system costs the federal government.⁷ This feature of the system has been criticized from many quarters. Case (1991) argues that at least the government should either reduce the benefits to those closer to the minimum required or auction off these

⁷ Suppose a project has a qualifying basis of \$55,606 per unit, and the allowable tax credit percentage is 9 percent of qualifying basis. This will generate an annual tax credit of \$5,000 for 10 years, which has a present value of

valuable offerings to bid away the excess, while Stegman (1991) argues that the tax credit system could be replaced entirely by a capital grant of roughly half the amount now spent through the tax system.

Even with these high transaction costs, the low-income housing tax credit raises substantial amounts of money, with the only limit being that the rents on qualifying units be no more than 30 percent of the income of households at 60 percent of median income (or 50 percent, depending on the option chosen by the developer). Furthermore, many developers of tax credit projects attempt to make units affordable to low-income households by obtaining additional subsidies from federal, state, or local sources. Applications for tax credit allocations in 1992 assumed additional subsidies for an average of 27 percent of all units allocated nationally. This corresponds roughly to the overall percentage of units allocated in 1992 that were targeted to households with incomes below 50 percent of median (28 percent), although it is quite possible that some of these subsidies were required in addition to the tax credit even to reach households at 60 percent of median income. Nelson (1994) has criticized the tax credit program because it does not provide units affordable to those households most in need of housing assistance. Her conclusions have been questioned because they are based on an analysis of the numbers of units renting at affordable levels, regardless of who actually lives in them. However, it is clear that the tax credit program, as it has actually been implemented, has not provided as high a proportion of the units to households below 50 percent of median income as the historical rental assistance programs, including public housing, have. As table 2 indicates, the other rental assistance programs have provided 65 to 90 percent of the units to these very low income households. In any case, it is clear that subsidies beyond those implicit in the tax credit itself are necessary to enable the tax credit program to reach households with lower incomes.

The tax credit projects using the Section 515 Rural Rental Housing program illustrate one of the subsidy-layering issues. The Section 515 program provides 1 percent interest rate loans to

\$24,875 to an investor requiring a 16 percent return. If syndication costs amount to 25 percent of the amount raised (see GAO 1989), this leaves \$18,656, or roughly 30 percent of the cost of the project, including amounts for builder and developer profits and various reserve accounts that must be established to ensure the continued operation of the project. At an applicable federal rate of 5.2 percent (1992), a 10-year stream of \$5,000 tax credits has a present value to the federal government of \$38,925. The process thus has delivered to the project only 48 percent of the cost to the government of the tax credit mechanism ($18,656/38,925 = 0.48$).

allow rents to be reduced, and for reaching still lower income households, a project also can have rental assistance. The tax credit program becomes a way for Section 515 developers not only to cover the 5 percent down payment requirement but also to capture development profits up front.

This layering of subsidies and the apparent possibilities for unnecessarily high profits and fees have caused increasing congressional concern about monitoring the tax credit program (Congressional Budget Office 1992; GAO 1989, 1990a, 1990b). In the Revenue Reconciliation Act of 1989, Congress started moving toward giving responsibility to the state housing agencies that allocate the credit and requiring that they give highest priority to projects “with the highest percentage of the housing credit dollars [used] for project costs other than the cost of intermediaries” and that they grant “no more than the amount of credit required to make the project feasible.”

The most recent subsidy-layering guidelines issued by HUD indicate that the administering state housing agencies cannot allocate credit to any project with net proceeds (investor contributions less all the syndication and transaction costs) of less than 42 percent of the total tax credit allocation (that is, the 10-year sum of annual tax credits). Projects delivering more than 51 percent are exempted from the subsidy-layering review (Warren Gorham & Lamont 1994a).

The net proceeds percentage involves the combination of total syndication costs as a percentage of the total investor contributions and the effective internal rate of return the investors use in discounting the 10-year stream of tax credits. For example, 42 percent net proceeds could involve an internal rate of return of 12 percent combined with total syndication costs of 27.7 percent of investment (present value of the 10-year stream of tax credits), or a 17 percent internal rate of return combined with syndication and transaction costs of 12 percent of investment. The review exemption threshold of 51 percent net proceeds could be realized, for example, with a 12 percent internal rate of return and syndication and transaction costs of 12 percent of investment.⁸

⁸ These are calculated from a simplified version of the relationships, in which the net proceeds percentage is

$$NPP = \frac{\text{Net}}{\text{Total credit}} = \frac{\text{Net}}{10 \times \text{Annual credit}} = \frac{(1 - s) \times \text{Annual credit} \times PV(IRR, 10)}{10 \times \text{Annual credit}},$$

where *s* is the fraction of total investor payments required for syndication

Unfortunately, no comprehensive compilation has been made of the financing mechanisms used to provide mortgage credit for the tax credit projects. Some interesting data are available from an early study of the low-income tax credit (1987 and 1988) performed for HUD by ICF (1991). The following data describe projects placed in service in 1988:

1. Some 24.5 percent of tax credit units were in projects using the tax credit only, while the balance used some additional subsidy (25.2 percent used FmHA Section 515 subsidies, 14.7 percent preexisting subsidies, 3.7 percent tenant-based subsidies, 7.1 percent subsidies provided under the Section 8 Moderate Rehabilitation program, and 24.8 percent other subsidies).⁹
2. Sources of funds for the average unit, out of a total of \$44,412, were as follows: gross equity (essentially all from tax credit investors), \$12,722; loans, \$30,948; and grants, \$741.
3. Uses of funds were as follows: development costs, \$38,598; development fees, \$3,788; syndication costs, \$1,605; and residual, \$421.
4. Average estimated internal rate of return for investors was between 17 and 19 percent.

A recent HUD-sponsored study (Hebert et al. 1993) of 15 selected nonprofit projects, 12 of which were tax credit projects, found that the number of financing sources required averaged 7.8 and ranged from 5 to 11.¹⁰ Moreover, for each source that was used for more than one type of financing (predevelopment, acquisition, construction, bridge financing, permanent loan), multiple closings generally were necessary. (Stegman's 1991 review of 27 nonprofit-sponsored tax credit projects similarly found an average of 5 separate sources of financing, with one project having 15.) In the HUD-sponsored, 15-project study, the mean share of out-of-pocket (cash) costs covered by cash equity was

costs and $PV(IRR, 10)$ is the present value per dollar of annual tax credit at internal rate of return IRR , received for 10 years.

⁹ The eligibility of the Section 8 Moderate Rehabilitation program for tax credits was curtailed in the wake of perceptions of abuses and excessive developer profits (see U.S. Senate testimony in GAO 1990a).

¹⁰ Three nonprofit-sponsored projects were selected in each of five metropolitan areas (Boston; Washington, DC; Chicago; Kansas City; and San Francisco–Oakland).

28.7 percent, with the remaining 71.3 percent covered through debt financing. Eleven of the 15 projects had debt financing from a bank or private financial institution, 8 received debt funding from a state housing finance agency, and 14 got loans from the municipality, although some of these are really federal funds disbursed by the municipality, such as the Community Development Block Grants or Housing Development Action Grants (Hebert et al. 1993). It is not clear what the major sources of mortgage finance are for the for-profit tax projects.

It is clear not only that nonprofit sponsors must find a variety of financing sources, but that a considerable portion of their full development cost must be borne by noncash contributions of various kinds, such as donated property. This holds even for projects that raise equity funds through the low-income housing tax credit. The above-mentioned HUD study found that the development-period subsidies (not limited to the tax credit but including below-market construction-period interest rates, forgone developers' fees, and donated land) yielded units with average rents affordable to households under 80 percent of median income in all but two projects. On average, the noncash contributions to these projects included the following: 26.9 percent from finance or carrying charge allowances, 21.9 percent from donated developers' fees, 21.7 percent from donated developers' overhead and staff, and 19.1 percent from acquisition (donated or discount land). In 10 of the projects, the development subsidies helped make rents affordable to households under 50 percent of median. Three of the projects were able to use development subsidies to produce rents affordable to households under 30 percent of median income (Hebert et al. 1993).

Such a system, while successful in many senses, does not appear very efficient, however. As put by Stegman (1991, 363), "It simply doesn't make sense to have a national housing policy in which the deeper the targeting and the lower the income group served, the more complicated and costly it is to arrange the financing."

Affordable homeownership programs

The largest homeownership program oriented to construction of units for low-income households is the Section 502 rural homeownership program, which provides an interest subsidy to yield an effective interest rate of 1 percent on loans. This program initiated 25,700 loans in 1992 (table 3).

The embryonic HOME program may eventually provide greater support for construction of units for first-time, low-income buyers. As indicated in table 3, this program has accumulated contractual commitments for 7,000 new units since its creation in 1990. (The program also has accumulated contractual commitments for rehabilitation of approximately 25,000 rental units and another 19,000 units for homeownership.) Virtually all the HOME funds allocated to rental assistance are targeted to households with incomes under 60 percent of the median, consistent with the income targeting of the tax credit. Of HOME homeownership funds, 77 percent are targeted to households under 60 percent of the median.¹¹

While the HOME program gives participating jurisdictions wide latitude in how they configure a homeownership program, and indeed whether they have one at all, some jurisdictions may choose to model the program after a now-terminated program called Nehemiah or after any one of various programs providing for acquisition and rehabilitation of units, including those acquired by various government agencies.

The Housing and Community Development Act of 1987 created the Nehemiah program, modeled after a successful program of that name in Brooklyn¹² and named after the Jewish leader who supervised the rebuilding of the Jerusalem city walls in the 5th century B.C. The objectives of the program were to increase homeownership among low- and moderate-income households, improve neighborhoods by building at large scale, and increase employment in those neighborhoods. The program offered competitively selected nonprofit organizations federal funding of up to \$15,000 per unit to provide "soft second" mortgage loans (not requiring regular payments and with payment deferred to the time of resale) to first-time low- and moderate-income buyers. In reality, federal funds from the Community Development Block Grant program were also used to cover acquisition and development costs. Local government and private sources were also used to cover part of the costs and lower the income level that could be reached. Funding was provided in 1989, 1990, and 1991, at which point the program was canceled. The Nehemiah program was one of several zeroed out in the National Affordable Housing Act of 1990, under the presumption that its purposes were better covered through the HOME program. Of the 1,321

¹¹ Income targeting information was provided to the author by the HUD Office of Affordable Housing.

¹² The following summary is adapted from the final report of the evaluation of the federal Nehemiah program (Phipps, Heintz, and Franke 1994).

units funded in 1989, only 392 had been completed and occupied as of August 1993 (Phipps, Heintz, and Franke 1994). Thus far, the purchasers of Nehemiah housing have incomes of 44 percent of the local median income. While several of the programs are producing ownership units at modest costs, the nonprofit sponsors in several cases have found it difficult to organize and implement the program planned.

HUD has had various so-called urban homesteading programs, under which properties that had defaulted on their HUD insurance were recycled to low-income families. The current version is called HOPE 3 (for "Home Ownership for People Everywhere") and is a program for providing grants to help low- and moderate-income households purchase single-family houses that have been foreclosed and are owned by the government. The program requires that these recycled properties be made available to families with incomes no more than 80 percent of median income and with monthly carrying costs (principal, interest, taxes, and insurance) in the range of 20 to 30 percent of income. Basic figures for the program as planned are shown in table 4. It is still young enough that there has been essentially no "production" yet. Units planned for 1992 totaled 3,729. Sponsors had proposed a variety of methods for meeting the affordability requirements, ranging from price reductions to below-market-interest-rate loans or deferred-payment loans. (Sponsors may be local governments or nonprofit organizations.) Federal HOPE 3 funds account for only 56 percent of the grantee budgets; the rest is from local nonfederal matching funds or other sources, some of which may be from the federal Community Development Block Grant program.

Table 4. HUD HOPE 3 Homeownership Program

1992 Planned Units	
Nonprofit	1,570
Local government	2,159
Total	3,729
Subsidy approaches	
Sales price reduction	46%
Down payment or closing cost assistance	67%
Below-market loan	71%
Deferred-payment loan	29%
Property tax abatement	12%
Other	17%
Average cost per unit	\$45,000

Source: Preliminary data obtained from HUD program office by research contractor, Abt Associates Inc.

The Federal Home Loan Bank (FHLB) system (supporting the remaining “thrifts,” or savings and loan associations) and the Resolution Trust Corporation (RTC) also have affordable housing programs. RTC, set up by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 to deal with the insolvency of hundreds of thrifts, has become the owner of thousands of defaulted units, primarily in single-family structures. Part of this stock is earmarked for a program to provide the homes at discounted prices to low-income buyers, with the federal government making up the difference, as it does on the entire RTC operation. GAO (1994) criticized RTC for deficiencies in monitoring compliance with the low-income requirement (at least 35 percent of units set aside for low-income and very low income families) in multifamily properties.

The same 1989 legislation required the FHLB system to operate an affordable housing program. This program subsidizes the interest rate on loans or provides direct subsidies to FHLB system members engaged in long-term lending for owner-occupied and affordable rental housing targeted to households with very low, low, or moderate incomes. The subsidies to member institutions are awarded in a semiannual competition. According to a study by the Federal Housing Finance Board (1993), the affordable housing program subsidies have been used to help finance about 52,900 housing units. Of these, 69 percent were renter occupied and 31 percent were owner occupied. Very low income households are served by 60 percent of the total units. Because of the provision that allows this program to provide financing for purchase as well as for new construction and substantial rehabilitation, it is not clear how many new units have been financed under the program.

Producers of affordable housing

For decades the primary system for long-term provision of rental housing for low-income households was public housing. Even though this system has produced and manages 1.4 million units, it has come to be regarded by Congress and administrations of the last two decades as holding limited potential for further development of new units, perhaps precisely because of its size and the concentration of low-income families, many with multiple problems, that it serves. The attitude has developed that the public housing system requires support primarily to maintain its current stock and deal with the problems of its tenants. The public housing system is not commonly viewed as a viable vehicle for expanding the stock of affordable housing. A variety

of efforts are under way to develop a more flexible role for public housing agencies and to provide links with the nonprofit development and ownership community.

Interest in nonprofit sponsors for affordable housing has been stimulated, in part, by the long-term preservation concerns mentioned earlier. That is, it seems clear enough that sources of affordable housing are likely to be needed into the indefinite future, while most programs oriented to for-profit ownership (including the tax credit) envision a limited term of ownership and, implicitly, a limited period of rental assistance. Even the tax credit program now has a provision that calls for sale to a nonprofit owner unless the current owner can guarantee 30 years of operation serving the target income group. Advocates of nonprofit development and ownership also point to the wider purposes that housing must serve and to the community development objectives it can satisfy.

As the preceding discussion has illustrated, however, the actual production of affordable housing is now largely in the hands of developers using the low-income housing tax credit. Nonprofit sponsors can use the tax credit by forming a for-profit development subsidiary. Furthermore, the HOME program provides a 15 percent set-aside for nonprofit community housing development organizations. Even so, the nonprofit sector provides a relatively small fraction of affordable housing production. In a recent survey article, Walker (1993) noted that only 13 percent of recent federally supported housing units (not including public housing) have been sponsored by nonprofit developers. (A more recent report by Walker [1995] indicates that 36,200 units, or 17.2 percent of total federally assisted production, were rehabilitated or constructed by nonprofit community developers in 1990.) Walker summarizes the existing barriers to efficient production and higher volumes for the nonprofit sector: undercapitalization, high-risk developments, patchwork systems of finance, and the difficulty of demonstrating the social payoff of community development investments. He also notes that the preconditions for expansion of the nonprofit sector may have been established through the development of two large, national intermediary institutions (the Enterprise Foundation and the Local Initiatives Support Corporation). A third national intermediary institution, the Neighborhood Reinvestment Corporation, also assists community housing development organizations, chiefly with housing rehabilitation.

The state of multifamily finance

National Task Force on Financing Affordable Housing

The National Task Force on Financing Affordable Housing (1992), comprising members of public and private sector institutions, developed two basic findings and recommendations:

1. Mortgage finance, particularly for projects serving low-income families, needs greater standardization in underwriting criteria and mortgage terms and conditions as a step toward greater access to capital through the secondary mortgage market. Corollary needs are standardization in “gap financing” (subordinate loans, usually provided by the public sector) and equity requirements (that real equity, cash contributions be invested to ensure that owners have the monetary incentive to make a project succeed and to provide lenders with some security in case of default).
2. The secondary mortgage market institutions themselves, Fannie Mae and Freddie Mac, should be required to “expand their existing programs to make them more flexible and better able to accommodate subsidized projects.”

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 addressed the second point by setting specific affordable housing goals for the two government-sponsored enterprises. Section 1333, “Special Affordable Housing Goal,” for the first time requires Fannie Mae and Freddie Mac to purchase multifamily rental housing loans that benefit low-income households. To count against the goal, multifamily loans must be to projects that have low-income residents: Forty-five percent of the loans are to be for housing affordable to low-income residents (with 80 percent or less of the area’s median income), and 55 percent must meet the same effective requirements as the low-income housing tax credit (see above).

Report on housing finance by the General Accounting Office

A subsequent GAO publication, *Housing Finance: Expanding Capital for Affordable Multifamily Housing* (GAO 1993), nicely summarizes the basic government tools for making affordable housing more available:

1. Provide public housing—currently with capital grants for construction and operating subsidies to make up the

difference between operating costs and what the tenants can afford to pay.

2. Provide tenant-based subsidies that make up the difference between what the owner charges and what the tenant can afford to pay—currently the Section 8 certificate and voucher program.
3. Provide private owners with subsidies and favorable tax treatment to lower the cost of building or operating the housing in exchange for lowering rents—currently through the low-income housing tax credit; a variety of “soft second” mortgages; grants from the Community Development Block Grant program (and eventually through the HOME program), state and local governments, foundations, or religious institutions; and local tax abatements.
4. Make credit more available at fixed rates, for longer terms, and possibly at reduced costs through credit enhancements to induce private lenders to make loans and investors to buy loans by transferring default risk to the credit enhancer.¹³

One might infer from the GAO report that the first three categories are the most direct tools for making affordable housing more available and that credit availability, while essential, is still marginal to the basic subsidy issues.

Addressing the matter of credit, the GAO report suggests four types of credit enhancements that could form the basis for demonstration programs that the Federal Housing Administration (FHA), the mortgage insurance arm of HUD, was called upon to establish in the 1992 Housing and Community Development Act:

1. *Delegated processing.* FHA would delegate loan processing and origination to selected housing finance agencies and other lenders certified by “qualified financial institutions” (Fannie Mae and Freddie Mac—the large U.S. secondary mortgage market institutions established as government-sponsored enterprises—and Federal Home Loan Banks).

¹³ The GAO report notes that “credit enhancement” can be simply another form of subsidy, as the federal government can price its credit enhancements to cover expected costs or can price them below expected costs to support a public policy objective, such as facilitating the financing of affordable multifamily housing.

2. *Delegated underwriting.* FHA would delegate underwriting to more experienced housing finance agencies and selected lenders for specific types of loans and loan amounts.
3. *Primary bond insurance.* FHA would provide primary bond insurance for pools of loans issued by qualified financial institutions, with risk shared between FHA and the bond issuer.
4. *Bond or pool reinsurance.* Either a private bond insurer or a state mortgage insurance agency would provide the primary bond insurance, but FHA would provide up to 50 percent reinsurance.

All these steps are designed to improve the availability of mortgage finance for development of multifamily housing through the private capital markets. These steps might at least make the system of finance for affordable multifamily housing more rational and reduce the complexity and cost of assembling financing for these projects.

A pilot program in delegated processing was launched by HUD in December 1993.¹⁴ Housing finance agencies will enter into a risk-sharing agreement with HUD under which they will originate, underwrite, and close loans for projects requiring new construction or substantial rehabilitation. HUD's role will be to insure the loans for the full amount of the mortgage. HUD will commit to pay 100 percent of default claims for the outstanding mortgage balance, with HUD and the housing finance agency each assuming a portion of the loss in accordance with the risk-sharing agreement. Housing finance agencies assuming less than 50 percent of the risk on loans must have their underwriting standards and loan terms and conditions approved by HUD. Those assuming 50 percent or more of the risk may use their own standards without further approval from HUD.

Conclusions

This review of the U.S. experience leaves us with the sober awareness that the affordable housing gap set out at the beginning is a long way from being bridged. Whether we focus on Michael Stone's analysis that one-third of the nation's people are shelter poor or on the more than 6 million unassisted very low income renter households that pay more than half their income

¹⁴ The following description is from HUD (1993).

for housing or that live in physically inadequate housing, the current programs are not meeting the need. There are many households whose primary housing problem is the burden of housing costs; their need can be met most directly with income supplements in some form. In addition to the affordable housing gap identified in this article, the United States must also address numerous other conditions that exacerbate the housing situation of the poor: housing discrimination, restrictive zoning and building codes, lack of health care, and insufficient job counseling and day care.

What are the other, more direct impediments within the affordable housing finance system? First, the cost and inefficiency of the tax credit approach will eventually limit its use in bridging the affordable housing gap. Even if the system of raising capital for affordable housing is made more rational, the steps being taken to make mortgage finance more available will still be necessary. Except for the tax credit program, much of the current thrust of U.S. housing assistance is away from subsidized development of housing and toward household-based, portable assistance to deal with the sheer problem of housing costs relative to income. Because the United States does not have an entitlement system of housing assistance, it is unknown whether the normal operation of the private market would satisfy all housing needs if every eligible household had the necessary assistance.

In the meantime, many argue that some government-supported production is needed for purposes of neighborhood stabilization, for people with special needs (frail elderly or people with AIDS), and for cushioning low-income housing from inflationary price pressures. The critical issue is long-term sustainability of a nationwide system to provide and preserve affordable housing resources for a part of the population that the market is not serving. The issue is not primarily the types of developers (public, private for-profit, or nonprofit) but the appropriateness, magnitude, and duration of assistance. Providing long-term affordability will require ongoing subsidies, in the form of portable, tenant-based assistance or project-based subsidies. Project-based subsidies will often be needed to ensure the financial soundness of projects for the benefit of lenders and their long-term viability for the owners.

The Canadian experience described by Van Dyk (1995) points up the hazard of a simple, rational policy that is, perforce, politically vulnerable. Although Canada had developed a system in which production was supported by direct capital grants to

nonprofit development organizations in order to minimize leakage to nonbeneficiaries, and although the program had produced 650,000 units of housing, the Canadian parliament, with a single stroke, canceled this program and prohibited long-term housing subsidies of any type.

This article reaches the following major policy recommendations for affordable housing in the United States:

1. To the extent that development subsidies are needed for affordable housing production, provide this support through capital grants of some part of the development cost, as is now the policy for public housing and Section 202 housing for the elderly and handicapped. Concerns about excessive profits already exist for the low-income housing tax credit, and more and more administrative effort is being devoted to avoiding excessive costs. This effort at cost control could be applied in a capital grant program, but with much greater efficiency in allocation of funds. The chief counterargument to increased use of capital grants is that the current housing production system based on the low-income housing tax credit is producing low-income housing units and has built a constituency (including community-based developers and other nonprofits) that understands how to use it.

Capital grants would be more efficient than the tax credit arrangement, and it would be hard to argue that capital grants would require more administration or incur greater transaction costs than the low-income housing tax credit. Perhaps the fundamental political obstacle is the discomfort associated with providing capital grants directly to private, for-profit developers as opposed to public or nonprofit sponsors. On the other hand, in the two existing programs where capital grants *are* being provided directly to public or nonprofit sponsors (public housing and Section 202 senior citizen housing), current production levels are far below that of the tax credit program, and there might be opposition to grant-supported production at a substantially expanded scale. In any event, these political problems should not be regarded as insurmountable obstacles to replacing the tax credit with a capital grant. The block grants of the HOME program provide a vehicle through which local communities can expand this form of development assistance. Any form of development assistance needs to require some real cash equity from the developers and some provision for real return as an incentive to sustained delivery of high-quality housing services. The low-income housing tax credit should

not be dismantled until there is a real and working alternative. U.S. policy makers have too often written off whole programs or neighborhoods as bad before viable alternatives have been demonstrated.

2. For situations too risky or challenging for for-profit developers, build on the system of community-based developers and nonprofit sponsors and the existing system of public housing agencies to expand our capacity for development of long-term affordable housing. These entities offer opportunities for more permanent ownership arrangements that will serve low-income households for the long term.

The well-publicized failures of some public housing developments have overshadowed the latent possibilities for meeting affordable housing needs through the many public housing agencies that have successfully demonstrated development and management capabilities. These successes need to be replicated and given increased flexibility in their options for acquisition, rehabilitation, construction, forms of ownership, and management. This is not the direction of the current HUD administration or of Congress.

3. Standardize more of the elements of affordable multifamily housing finance, and reduce the number of finance sources that nonprofit developers must assemble. Under the current system, substantial resources are diverted into obtaining financing that would better go into housing and into development cost offsets. Perhaps the demonstrations being undertaken with FHA risk sharing and other devices will ultimately relieve this problem.

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