

Housing

Research News

Vol. 3 • No. 1

Office of Housing Research

February 1995

Federal Plan to Address Homelessness Recognizes Size, Complexity of Problem

by Dennis P. Culhane

The Clinton administration's plan to end homelessness, *Priority Home! The Federal Plan to Break the Cycle of Homelessness*, begins on a strong foundation of the most recent research in the field. In arguing for the severity of the homelessness crisis, the administration cites both the estimates of Martha Burt at the Urban Institute that 600,000 people are homeless on any given day as well as the results of new research suggesting that as many as 7 million Americans are homeless at some point during a five-year period (see *Housing Policy Debate* volume 2, issue 3, for a discussion of single-night counts and *Housing Policy Debate* volume 5, issue 2, for the new longitudinal evidence).

This research suggests that at least two major subgroups exist among the homeless: a relatively small population of long-term homeless who are more likely to be disabled by mental disorders and substance abuse, and a much larger, previously underestimated population of precariously housed individuals who experience short-term or intermittent periods of homelessness.

The plan argues for reorganizing services for the long-term homeless into a "continuum of care" emphasizing transitional services followed by expanded opportunities for perma-

nent housing. This reorganization, which has its roots in previous initiatives such as the Shelter Plus Care program, must be expanded to assure enough permanent housing to eliminate the backlog of people in transitional housing. To give momentum to this reorganization, the administration proposes doubling the funding for the Stewart B. McKinney Homeless Assistance Act and consolidating its programs into a single block grant to localities.

Localities would be required to design a specific process, which would include creating a planning board with stakeholder participation, to identify gaps in their existing continuum. Questions will undoubtedly arise in some localities as to what entity is equipped to oversee the contracting and management required to administer the grant, particularly given the openly anti-homeless posture of some local governments. Some may also wonder whether the federal leadership is giving localities too much discretion in choosing a policy approach. Nevertheless, these proposals could result in a more coherently organized and improved system of care for the long-term homeless with more opportunities for permanent and supported housing.

The more difficult challenge, however, lies in addressing the problems of the short-term homeless. To reduce temporary and intermittent homelessness (and the long-term homelessness that often results),

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The Need For Leadership On the Homeless Issue

by Jim Johnson

The plight of the homeless is of great concern to all Americans. Leadership in developing innovative solutions to this tragedy is needed. As well, a better understanding of the nature of homelessness and the characteristics of the people who suffer its consequences is also required. With this knowledge, federal, state, and local governments, the private sector, and nonprofit organizations can design more effective ways to provide shelter and assistance to the homeless people.

New demographic research published by the Fannie Mae Office of Housing Research provides the kind of information we need. It suggests that over time the homeless population may be three times larger than previous estimates for a specific point in time. It also suggests that working Americans make up a higher proportion of the homeless than previous studies indicated.

As a nation, we must confront this problem. Without adequate housing and services, families and our communities face limited opportunities for growth and prosperity. Secretary Henry Cisneros of the U.S. Department of Housing and Urban Development has made helping the homeless the department's number one priority. He has recommended new initiatives to break the cycle of homelessness. Congress also has recognized the need for reform and has moved to reorganize homeless assistance programs to more efficiently serve local needs.

Fannie Mae also is committed to helping the homeless, in part by providing housing and homeownership opportunities to low- and moderate-income families. For example, we formed a partnership with the Enterprise Foundation to finance the development of more than 30,500 units of affordable multifamily rental housing nationwide.

As our nation moves forward in addressing the needs of the homeless, let us be guided by a vision of our communities where safe, affordable housing is available to all.

Jim Johnson is Chairman and Chief Executive Officer of Fannie Mae.



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Housing Research News is published by the Fannie Mae Office of Housing Research.

The opinions expressed in this publication do not necessarily represent the views of the editor, Fannie Mae, or its officers.

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Housing Research News

Office of Housing Research

Fannie Mae

3900 Wisconsin Avenue NW

Washington, DC 20016-2899

(202) 752-7761

ISSN 1071-8508

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Federal Plan

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the administration's plan calls for more preventive measures. Because specific prevention programs are by their very nature difficult to target, the plan relies on broader structural reforms to attack the root causes of homelessness. These include universal health insurance; the job training, placement, and child care included in the administration's welfare reform proposal; an expansion of the earned income tax credit; and further study of a tax credit to expand subsidized housing for low-income households.

Unfortunately, because the welfare and health care reform initiatives were developed independently of the federal homelessness plan, they do not always support the homelessness prevention effort. For instance, the administration's proposed minimum health care benefit package would place a limit of 60 days on inpatient and residential treatment (combined) for people with mental health and substance use disorders, a period too short to deal effectively with many homeless persons' acute problems. The welfare reform initiatives also propose a similarly counterproductive time limit on welfare receipt and a cap on states' use of emergency assistance grants for eviction prevention.

The uncertain future for passage of these reforms makes them an unsteady foundation for a homelessness prevention strategy. Moreover, the administration's call for a modest increase in new HUD subsidies and the offsetting of some increases in McKinney funds by cuts in other housing assistance programs shows that much remains to be done.

The Clinton administration's homelessness plan represents a departure from past federal efforts in recognizing the scope, complexity, and structural causes of homelessness. Most importantly, it provides a much improved conceptual framework for the design of future efforts to reduce homelessness, particularly the recognition that mainstream programs and policies must be enlisted in this fight to avoid expanding the emergency housing system with an unnecessary health and welfare bureaucracy of its own.

Just attempting to bring together services, housing, health care, and economic development, as this plan does, is commendable. Unfortunately, the plan's analysis and vision exceed the scope of the proposed remedies. But hopefully, in the long term, the plan will help the federal government shift its direction and heighten its priority for homelessness prevention policies in the years to come.

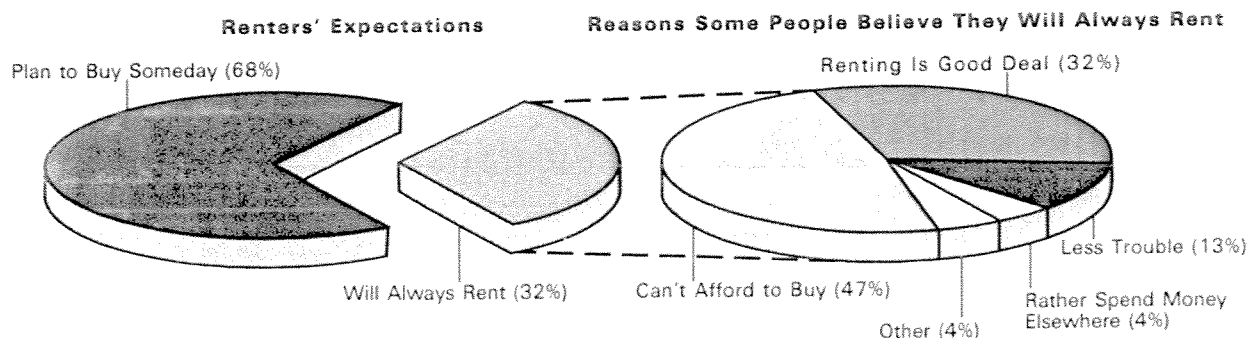
The federal government must insure that when housing is provided to the homeless there is an accompanying array of supportive services. There needs to be a coordination of housing with job training, health care, child care, mental health care, substance abuse treatment, and other services necessary to assist homeless persons.

—Rep. Henry Gonzalez (D-Tex.)

as quoted in Priority Home! The Federal Plan to Break the Cycle of Homelessness

Dennis P. Culhane is a Research Assistant Professor of Psychology at the University of Pennsylvania and a Senior Fellow at the Leonard Davis Institute for Health Economics.

Insight Do Renters Want to Become Homeowners?



Housing and the Federal Homeless Plan

by Andrew Cuomo



America's homeless problem grew dramatically during the 1980s. Our cities' streets, parks, and other public places became homes of last resort to thousands of men, women, and children with no other place to rest. The indi-

vidual tragedies of the homeless have increased tremendously, forming a "silent earthquake" that has shaken the foundations of our communities.

On May 17, the Department of Housing and Urban Development (HUD) Secretary Henry Cisneros released an innovative proposal to dramatically change the federal government's approach to homelessness. The plan, *Priority: Home! The Federal Plan to Break the Cycle of Homelessness* (the federal plan), recognizes the full extent and nature of homelessness in America and offers a series of dramatic initiatives to break the cycle of existing homelessness and prevent future homelessness. It recommends doubling HUD's homeless assistance budget from \$823 million to \$1.7 billion and reorganizing HUD's Stewart B. McKinney Act homeless programs on a large scale.

By designating homelessness as HUD's number one priority, Secretary Cisneros is committed to addressing the problems and needs that render people homeless in the first place, rather than simply focusing on providing shelter services. The Secretary believes the ultimate solution to homelessness must include a long-term strategy to address two broad categories of problems: crisis poverty and chronic disability.

People living in crisis poverty become homeless due to transient or episodic disruptions in their lives. These people's lives are routinely marked by hardship, and their persistent poverty can turn unforeseen crises and even minor setbacks into bouts of homelessness.

For those homeless men and women with chronic disabilities, homelessness can appear to be a way of life. Although they make up a minority of the homeless population, it is this group that is most visible and tends to dominate the public's image of homelessness.

The federal plan provides startling evidence of the severity and character of the homelessness problem. It notes that approximately 600,000 individuals are homeless on any given night but recognizes that such "point-in-time" or "snapshot" estimates do not accurately illustrate the depth and magnitude of homelessness in America.

A nationwide survey of more than 1,500 individuals by Bruce Link of Columbia University estimates that about 7 million Americans may have experienced homelessness at some point in the late 1980s. Research by Dennis Culhane of the University of Pennsylvania also suggests that the homeless are not a homogeneous group of individuals who suffer from mental illnesses and/or substance abuse and are typically homeless for extended stretches of time. His research points to the existence of a much larger group of individuals who have episodic, short-term bouts of homelessness, a group very likely suffering from crisis poverty.

Growing Poverty and Inadequate Affordable Housing

During the 1980s, growing poverty mixed tragically with the significant decline in the amount of affordable housing. Despite the economic expansion in the 1980s—the longest since World War II—the poverty rate at the decade's end differed very little from 1981. In 1992, 37 million people in our nation, or 14.5 percent of the population, lived in poverty, up 5 million from 1989.

Moreover, the gap between affordable housing need and supply continued to grow. Between 1979 and 1989, the number of unassisted very low income renters either paying more than one-half of their income for rent or living in substandard housing increased from 3.6 to 5.1 million. For extremely low income renters—those who are close to or below the poverty line—the 1980s saw the affordable unit shortfall increase by 1.4 million. In addition, the number of single-room occupancy (SRO) hotels

dropped drastically in the last 30 years, creating a large loss of very low rent units.

In that period, the federal government responded inadequately to the increased poverty and lack of adequate affordable housing opportunities, triggering the present homelessness crisis. The number of additional households receiving HUD assistance dropped from over 250,000 annually during the Carter administration to less than 100,000 annually in the 1980s. In a similar vein, HUD's 1994 budget authority was only \$26 billion, which pales in comparison to the \$65 billion (adjusted for inflation) that HUD received in 1980. By 1991, only 25 percent of eligible, very low income renters received rental assistance.

Providing Housing as Part of the Solution

The above analysis strongly suggests that permanent housing must be part of the solution to homelessness. The federal plan describes innovative financing techniques that HUD is exploring in partnerships with different housing agencies. These initiatives would enhance HUD's ability to leverage federal resources for McKinney Act homeless assistance programs.

Housing for poor and homeless families should also be linked to employment opportunities. An important cause of poverty is the lack of access to low- and semi-skilled jobs. Two strategies are being implemented to alleviate this problem. The first involves moving jobs to people through the president's Empowerment Zone initiative. The second is a mobility strategy, whereby poor people relocate to existing job centers through the administration's Housing Choice and Community Investment Act of 1994.

To address the HUD budget cuts of the 1980s, the federal plan recommends providing precariously housed families access to permanent housing opportunities. At the same time, the plan advocates vigorous enforcement of fair housing laws to ensure freedom of choice in residential location.

Better Delivery of Homeless Assistance

More affordable housing alone will not address the current homelessness problem. Thus, HUD has formed partnerships with various localities and nonprofit agencies to develop a comprehensive "continuum of care" system. There are three

fundamental components of such a system. The first is an emergency shelter/assessment effort to offer immediate shelter and identify an individual's or family's needs. The second consists of supplying transitional housing and necessary social services, including substance abuse treatment, short-term mental health services, and independent living skills. The third is to provide permanent housing or supportive housing arrangements. While not all homeless individuals and families in a community will need all three components, they must be coordinated within the community to be successful.

Secretary Cisneros also favors reforming HUD's McKinney Act programs. HUD administers more than 60 percent of all targeted homeless assistance funding. This assistance, however, is provided through six different categorical grant programs, causing unnecessary overlaps in paperwork and project development. To rectify this problem, Secretary Cisneros has proposed reorganizing HUD's six McKinney Act programs into a single grant to states and localities. Under this streamlined system, local governments, urban counties, and states would be eligible for a formula grant based on need. Nonprofit organizations will be guaranteed involvement in the planning process and allocated at least 51 percent of these funds.

Conclusion

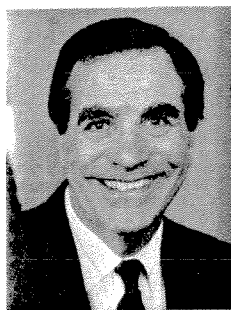
The Clinton administration realizes budgetary and political realities make it difficult to address all homeless problems immediately, yet recognizes the need for a short-term increase in funding and a long-term agenda to eliminate homelessness. That agenda includes promoting economic development, providing job training for the poor, reforming the welfare system, providing health care security for every American, and dramatically improving housing and community development efforts.

The homelessness crisis was not created in a day, and will not disappear in a day. Nonetheless, the new federal plan offers a road map for America to find its way to a more just, more humane future. The time to start on this road is now. ■

Andrew Cuomo is the Assistant Secretary for Community Planning and Development at the U.S. Department of Housing and Urban Development.

Federal Homeless Assistance and HUD McKinney Reorganization

by Bruce F. Vento



During 1993, I chaired a special task force appointed by then House of Representatives Speaker Thomas Foley at the request of President Clinton. The Speaker's Task Force spent a year examining new and past initiatives to deal with

the problems of homelessness. We looked at the factors that many argue are the root causes of homelessness—lack of affordable housing, health care, mental health care, drug treatment, and job training; underemployment; demographic and social trends; and the absence of safety nets for many Americans—and tried to understand the linkages among them.

In reviewing new research on homelessness, the task force became aware of a more dynamic picture that underscores poverty as a primary cause of homelessness. This led the task force to recommend a new policy direction to restructure and reinvigorate federal policies and programs for the homeless. No longer could America simply warehouse the homeless or rely solely on the short-term, emergency response of the Stewart B. McKinney Homeless Assistance Act programs to solve our problems. Federal policy needed to tackle homelessness in a much broader social and structural context.

Recognizing the need to address the problems of poverty, crime, affordable housing, quality education, and the lack of jobs, the task force recommended combining better delivery of a broad range of social programs—such as Social Security, food stamps, housing assistance, Medicaid, emergency assistance, and certain veterans programs—with specific changes to the McKinney Act programs. We sought to consolidate and simplify the administration of the McKinney programs, specifically those at

the Department of Housing and Urban Development (HUD). The proposed changes seek to reduce homelessness through better prevention, intervention, and service delivery. It is gratifying to see that the task force stimulated renewed interest in this issue by the Clinton administration. Secretary Henry Cisneros and the administration have proposed a radical restructuring of current HUD homelessness programs in the federal plan, *Priority Home!* In the past, reorganization has often been an excuse for the federal government to do less. Refreshingly in this case, the administration is effectively advocating new dollars and commitments to meet the needs of the homeless.

Significantly, in both the housing reauthorization bill (H.R. 3838) and the McKinney Reauthorization Act (H.R. 4578), the House of Representatives has responded to the task force and the federal plan. After many years of debate in committee, the House approved a formula allocation for the HUD McKinney Act programs and proposed to consolidate them, including programs such as Emergency Shelter Grants, Supportive Housing, Safe Havens, and certain provisions of Shelter Plus Care. The Section 8 Single Room Occupancy program, which last year provided some 2,000 new units nationwide, will be maintained as a separate program to ensure an adequate level of new housing production.

Consolidation of these programs will anchor comprehensive community-wide planning efforts by providing a long-term steady flow of federal funding and support. The legislation creates comprehensive local and state planning for homelessness and requires meaningful participation by nonprofit organizations on the front lines of the response to homelessness. It also seeks citizen participation via Homeless Assistance Planning Boards (HAPBs).

The House concurred with the recommendations of the administration and others that the majority of HAPB board members be homeless advocates, providers of homeless assistance, and, most importantly, the homeless themselves, including veterans, heads of household with children, substance abusers and the mentally ill. The House-passed legislation also incorporates the administration's goal of consolidating the planning and application processes for several major HUD programs at once to enable localities to plan a more comprehensive

homelessness effort as part of a larger housing and community development strategy.

The more than 300 grant recipients anticipated by the proposed law will set up HAPBs and other citizen participation mechanisms to plan and execute activities under the new homeless flexible grant program. The improved local planning and citizen participation framework will help ensure an integrated response to homelessness at the local, state, and federal levels; improved use of all resources to prevent homelessness; and increased community acceptance of efforts to aid the homeless population.

I am often reminded and guided by the quote of Minnesota's Hubert H. Humphrey: "The moral test

of government is how that government treats those who are in the dawn of life, the children; those who are in the twilight of life, the elderly; and those who are in the shadows of life—the sick, the needy, and the handicapped." We must make the difference for those who are truly in the shadows of life, and challenge ourselves to see, not ignore, the plight of the homeless. This new federal policy provides the necessary tools to redouble our efforts for the most vulnerable of our society. ■

Rep. Bruce Vento (D-Minn.) is a ten-term member of the U.S. House of Representatives who serves on the Banking and Financial Services committee.

Exploring A New Concept in Multifamily Development

by Stephen Kendall and Ellis Leslie

A new approach to multifamily development known as "Open Building" is gaining attention because of its significant potential to reduce development costs, increase affordability, and provide more flexible, market-oriented housing options.

The conventional view is that a building and its dwelling units are largely inseparable. The Open Building concept distinguishes the layout and equipment of each dwelling from other units and the building itself. This is a better way to build, yielding dramatic improvements in new construction or renovation while allowing customization of units.

In the Open Building approach, each unit is rapidly outfitted with an "infill system" (prepared off-site by a specialized vendor and installed in 5-10 days) consisting of non-bearing walls, piping and cabling, heating and cooling equipment, cabinets, and fixtures. Each unit's power, water, and sewer lines are connected independently to the base building's systems. For both rehabilitation and new construction this approach—

similar to the way commercial construction is organized—offers unparalleled decision flexibility, efficiency, and consumer choice on unit layout and cost.

More than 2,500 housing units have been developed in Open Building projects in the Netherlands, China, Japan, France, and Finland. The potential application of Open Building in the U.S. market was the topic of a workshop hosted by the Fannie Mae Office of Housing Research in cooperation with Technology+Economics, a building construction consulting firm. Participants included developers, building industry associations, material manufacturers and suppliers, design firms, government agencies, and financial institutions.

According to John Habraken, originator of the Open Building concept and former head of the MIT Architecture Department, the use of computer technology and flexible manufacturing methods allows rapid production and installation of custom-designed infill or "fit-out" packages at an installed cost that is no more than that of conventionally built projects.

Mark McBride, a specialist in multifamily development at NationsBank, says "Open Building could greatly streamline the process of developing multifamily housing in the U.S. by reducing the number of actors involved, the conflicts between them, and the

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Housing Policy Debate **Volume 5, Issue 4**

The following articles appear in *Housing Policy Debate*, volume 5, issue 4.

Whose Shortage of Affordable Housing?

by Kathryn P. Nelson, U.S. Department of Housing and Urban Development

Comments by Michael E. Stone, University of Massachusetts at Boston and Marc T. Smith, University of Florida

A key perception motivating recent housing legislation and policy debate is that growing shortfalls of affordable rental housing necessitate increasing the supply. Congress cited these shortfalls as justification for today's major supply programs, HOME and the Low Income Housing Tax Credit (LIHTC).

Kathryn Nelson examines affordable rental housing shortfalls to assess whether they are addressed by HOME and the LIHTC. She compares numbers of affordable units to renters along a continuum of incomes using definitions of affordability and household income consistent with major federal housing programs, and thereby improves upon previous analyses. She finds that there were sizeable *surpluses* during the 1980s in the rent ranges most likely for HOME and LIHTC units receiving no additional subsidies. By contrast, *shortages* were severe only at rents affordable to extremely low income households, those below 30 percent of their area's median income. Nelson suggests that supply programs are not widely needed and that tenant-based assistance should receive greater emphasis in federal low-income housing policy.

While agreeing that HOME and LIHTC do not address the affordability needs of extremely low income households, Michael Stone disagrees that current tenant-based assistance programs are the best alternative. He also raises issues concerning Nelson's analysis, including difficulties in assessing need by comparing renters with units *potentially* "affordable" to them and in using HUD-adjusted area median family income. Stone also contends

that the 30-percent-of-income standard is an unrealistic measure of affordability and discusses his shelter poverty approach as an alternative.

Marc Smith uses empirical evidence from Florida to support Nelson's contention that most LIHTC units have rents unaffordable to extremely low income households. He also argues that the LIHTC program design encourages the location of projects in higher income areas. He calls for a supply program that gives local officials greater control over project location and the flexibility to locate affordable housing near job growth, creates mixed-income communities, and expands socioeconomic opportunities for low-income households.

The Role of Limited Equity Cooperatives in Providing Affordable Housing

by Thomas J. Miceli, Gerald W. Sazama, and C. F. Sirmans, University of Connecticut

Limited Equity Cooperatives (LECs) are a form of affordable housing in which resident-members exercise considerable control over their housing environment, primarily through self-management and selection of members. LECs differ from traditional housing cooperatives in that the purchase price of a membership share and the rate of its appreciation are limited to maintain affordability. As of 1991, there were over 200,000 LEC units in the U.S.

Using an economic model of the user cost of housing, Thomas Miceli, Gerald Sazama, and C. F. Sirmans' article examines LECs as one option for overcoming the sometimes severe negative externalities (e.g., excessive noise, abuse of common facilities, inefficient utility usage) associated with multi-unit rental dwellings. The authors argue that LECs can preserve affordability by reducing these externalities without imposing the costs of a high level of management on low-income residents. They contend that LECs have the potential to play an expanded role as one component of a multi-faceted publicly assisted housing policy. Based on their analysis, the authors make recommendations regarding the structure of a federally sponsored LEC program, draw implications for affordable housing policies in general, and suggest areas for future empirical research.

What Are Renters Really Like?: Results From a National Survey

by David P. Varady, School of Planning, University of Cincinnati, and Barbara J. Lipman, Former Director, Housing Program Analysis, National Association of Realtors

For half a century, a principal goal of U.S. housing policy has been to increase homeownership. Although the primary target of federal homeownership policy has been moderate- and middle-income home buyers, programs such as the Section 235 program, the Section 502 program, and experiments with the sale of public housing have attempted to foster lower income homeownership. For such efforts to succeed, policymakers need information on the characteristics of renters, especially their attitudes toward homeownership.

David Varady and Barbara Lipman examine the feasibility of identifying distinctive renter subgroups based on subjective attitudinal data and objective demographic characteristics. The authors applied a combination of factor and cluster analysis to a 1991 national survey of almost 2,000 renters. Discriminant analysis was used to compare the renter subgroups. Six clusters emerged from the analysis: (1) Families Moving Up the Housing Ladder (17 percent of the total), (2) Lifestyle Renters (21 percent), (3) College Graduates Starting Out (26 percent), (4) Black Renters (15 percent), (5) Elderly Life Cycle Renters (10 percent), and (6) Struggling Blue Collar Workers (11 percent). The authors argue that clusters one, four, and six may be suitable for targeted homeownership assistance programs.

Some Possible Directions for Research on Multifamily Housing

by James R. Follain, Syracuse University

Economics literature on housing markets and policy has not emphasized multifamily housing issues. A growing demand for this information has highlighted this critical information gap. In this article James Follain highlights areas in which this information gap is most acute and proposes several key directions for future multifamily housing research. Follain suggests that multifamily housing research should examine: factors affecting supply, financing methods, impact of tax policy on residen-

tial rents, ways to detect financial distress in federally insured properties, and the performance of nonprofit organizations in providing affordable multifamily housing. Recently released data from the 1991 Survey of Residential Finance, HUD's planned 1995 Landlord Survey, and the newly founded Multifamily Housing Institute could play key roles in studying these questions. ■

Exploring A New Concept

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time required to accomplish their tasks, thus lowering the cost of both construction and permanent financing." By lowering the cost of multifamily construction and rehabilitation, Open Building could help meet a key public policy goal to make homeownership more affordable.

This approach may also prove beneficial for application to public housing, with the potential to make rehabilitation less costly and better matched to user requirements. With public housing modernization needs estimated at billions of dollars annually, finding cost-effective approaches is clearly a priority.

Open Building can accommodate a wide variety of household types in a single development. It eliminates the need for uniformity to control costs, giving developers far greater latitude in unit mix and layout decisions, making it easier to mix income and household types in one building. Large buildings can be upgraded unit-by-unit and gradually repositioned in the market. Vacant units can be renewed and adapted without disruption of other units or the accompanying loss of revenue. This advantage could prove crucial to minimizing the long-run financial risk of a multifamily development, thus maximizing its affordability to tenants.

Workshop participants proposed formation of an organization to promote and evaluate demonstration projects to show how Open Building could deliver benefits by better matching developing housing demand and supply patterns in this country. ■

Stephen Kendall is Associate Professor of Interior Design at Marymount University and a principal of Technology+Economics. Ellis Leslie is a Senior Research Analyst with the Fannie Mae Office of Housing Research.

Journal of Housing Research, **Volume 5, Issue 1**

The following articles appear in the *Journal of Housing Research* volume 5, issue 1.

Hedonic Mortgages

by Peter Chinloy, The American University, and Isaac F. Megbolugbe, Fannie Mae

Peter Chinloy and Isaac Megbolugbe introduce a hedonic mortgage. Based on the concept of a hedonic quantity index that holds quality constant for a house or consumer durable, a hedonic mortgage holds quality constant across the characteristics of a loan. A mortgage is a package of characteristics that include a bond, a default insurance portfolio, and a prepayment insurance portfolio. The inability to substitute between default and prepayment insurance has implications when borrowers differ in characteristics. For example, low-income and minority borrowers may exhibit characteristics that make them less likely to prepay and more likely to default. The inability to reallocate prepayment insurance to default insurance means that such borrowers may be denied loans more often than if substitution were possible.

Ironically, perfect substitutability of this type is available to investors in mortgage securities. The markets for collateralized mortgage obligations and real estate mortgage investment conduits (REMICs) operate by separating the hedonic components of a mortgage and pricing them for sale as individual securities. As a repackaged aggregate of the characteristics available through securitization, a hedonic mortgage would provide better service to liquidity-constrained low-income and minority borrowers, who would be able to purchase more default insurance, thereby increasing their ability to obtain mortgage financing.

The Chicago Prototype Housing Market Model with Tenure Choice

by Alex Anas, State University of New York at Buffalo, and Richard J. Arnott, Boston College

In an extension of their earlier work, Alex Anas and Richard Arnott estimate the demand and supply

submodels of the Chicago Prototype Housing Market Model (CPHMM), a policy-oriented dynamic equilibrium simulation model of the metropolitan housing market. Using the model, the authors analyze and compare the effects of demand-side and supply-side policies for Chicago, Houston, Pittsburgh, and San Diego. On the demand side, Anas and Arnott focus on a housing allowance designed to improve the housing consumption of low-income households. On the supply side, they focus on a construction subsidy for large suburban single-family units to induce stock expansion.

Their analysis compares the market effects, benefits, and benefit-cost ratios of the two policies across the four MSAs. They find that the construction subsidy is less beneficial to consumers than the rent subsidy. For both policies, however, the total benefits measure (incorporating consumer benefits, net government revenue changes, changes in values, and subsidy costs) was negative. The simulations test the policy capabilities of the CPHMM and illustrate the model's usefulness in analyzing housing policies at the metropolitan level.

Racial Homeownership Patterns, the Mortgage Market, and Public Policy

by Henry Buist, Isaac F. Megbolugbe, and Tina R. Trent, Fannie Mae

With African Americans 58 percent less likely to own their homes than whites and more than twice as likely to be rejected for a conventional mortgage loan, the racial disparity in homeownership rates has generated considerable public policy attention. The role of mortgage underwriting policies in contributing to this disparity has motivated regulations designed to encourage mortgage lending in low- and moderate-income areas.

Henry Buist, Isaac Megbolugbe, and Tina Trent follow the regulations and use metropolitan areas as the organizing unit to assess how the mortgage market influences homeownership rates for four racial groups. They find that the impact of mortgage market variables on homeownership differed widely among the races, suggesting that regulations may produce unintended consequences for different groups of targeted beneficiaries. In light of recent attention to the Home Mortgage Disclosure Act, one interesting result of the analysis is that increases in

mortgage rejection rates for African Americans tended to increase homeownership, perhaps signifying that lenders in some areas may be more effective in bringing marginal loan applicants into the housing finance system.

Immigration and Housing Tenure Choice in Australia

by Steven C. Bourassa, Australian National University

Steven Bourassa compares the housing tenure choices of the Australian-born population with those of 10 major immigrant groups in Sydney and Melbourne. He uses an economic and demographic model of housing tenure choice to decompose differences in ownership rates into endowment and residual effects. Endowment effects are due to factors such as income or time spent in Australia while residual effects are the result of behavioral differences or parameters not accounted for in the model.

Bourassa finds that endowments account for virtually all of the differences in ownership rates for seven of the 10 immigrant groups. Residual differences are significant for the remaining three groups, but in each case the effect was positive, increasing the immigrant group's homeownership rate. Bourassa finds that after controlling for differences in endowments, the tenure choice behavior of immigrants is essentially the same as that of Australian-born residents.

Microsimulation Modeling as a Policy Tool: Application to HUD-Insured Multifamily Rental Housing

by James E. Wallace, Abt Associates, Inc.

The U.S. Department of Housing and Urban Development (HUD) holds or insures mortgages for more than 13,000 rental properties. These obligations represent a major contingent liability of the federal government as well as a major housing resource for low-income families. In addition to \$34 billion in insured principal, the federal government is currently obligated to billions of dollars in Section 8 rental assistance and other housing programs. The complex array of HUD programs and rules combined with owner behavior makes it difficult to

estimate the future of these properties and the ultimate financial exposure of the federal government.

James Wallace develops a policy analysis tool by using a perfect-foresight microsimulation accounting model applied to property-specific data. The model projects the current budget exposure of the government under both existing program rules and alternative scenarios. The simulation model takes into account both the HUD program rules and owner behavior and encompasses changes in the availability of federal funds as well as owner decisions regarding property operations, repairs, and disposition. The model identifies owner choices, summarizes the property status over a 20-year horizon, and tabulates federal government costs. It provides an analytic tool for exploring the implications of various budgetary assumptions and choices in implementing program rules.

Are Depository Institutions and Mortgage Bankers Different? Evidence from the South Florida Market

by John D. Benjamin, The American University, Andrea J. Heuson, University of Miami, and C. F. Sirmans, University of Connecticut

John Benjamin, Andrea Heuson, and C.F. Sirmans present the results of an in-depth survey of residential mortgage market lenders that sheds light on primary market underwriting practices. The survey covers the origination strategies, origination process and servicing practices, rate setting determinants, loan sales, and hedging strategies of both depository institutions and mortgage bankers.

The analysis presented by Benjamin, Heuson, and Sirmans indicates that in the deregulated lending environment of the 1990s, the two dominant types of mortgage lenders differ in their primary market underwriting, servicing, and hedging practices. For example, the survey revealed that reselling fixed- and adjustable-rate mortgages to the secondary market is the primary origination strategy of significantly more mortgage bankers than depository institutions. By contrast, significantly more depository institutions than mortgage bankers indicated that their primary strategy for adjustable rate mortgages is to hold the mortgages in portfolio. These insights into primary mortgage market lending can promote more informed real estate lending decisions and more knowledgeable secondary market securitizations.



Understanding the Homeless Problem

Addressing the homelessness issue in this country requires action on the part of federal, state, and local governments as well as the private sector and nonprofit organizations. The efforts to find effective solutions, however, require a thorough understanding of the problem.

In 1994, the Office of Housing Research published in *Housing Policy Debate* new demographic research on the homeless population. Using unduplicated shelter admission rates from New York City and Philadelphia, Dennis Culhane of the University of Pennsylvania showed that estimates of the homeless population are significantly higher when they are surveyed over time rather than counted in one night.

These findings are cited in the federal plan to address homelessness, *Priority Home! The Federal Plan to Break the Cycle of Homelessness*, which this

issue of *Housing Research News* examines. In the cover article, Culhane explores the viability of the administration's plan, while Department of Housing and Urban Development Assistant Secretary Andrew Cuomo explains its rationale and intended outcomes. Rep. Bruce Vento (D-Minn.), offers an update on congressional action to reorganize the federal homeless assistance programs.

In the Perspectives column, Fannie Mae Chairman and Chief Executive Officer Jim Johnson recognizes that the homelessness crisis in America requires leadership and innovative solutions to bring growth and development to our communities.

Also in this issue, Stephen Kendall and Ellis Leslie discuss a new concept in multifamily development called "Open Building," which separates individual units from the building shell. This approach has significant implications for the U.S. housing market, offering consumers more flexibility, efficiency, and affordability than conventional multifamily development.

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