NLWJC - Kagan
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Race-Race Initiative Policy: Housing

Race Init Policy - housing
and
WR - IDAs

Paul J. Weinstein Jr.
06/01/98 05:56:29 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP

cc: Jonathan Orszag/OPD/EOP
Subject: This Saturday's Radio Address

The topic of this Saturday's radio address is supposed to be homeownership and housing (including welfare-to-work housing vouchers). This is our only chance to talk about these two important agendas, and we need this radio address. In addition, we plan to use the radio address to endorse the Coates IDA bill as well as an agreement between the National Association of Realtors (NAR). Over the past several months, HUD and NAR have been working through the details of the initiative and they are about to be finalized. Under the terms of the final agreement, NAR will develop a cultural diversity certification program which will reflect the letter and spirit of the President's One America initiative and will be subject to approval by HUD. Upon approval, HUD would permit NAR to award the use of the One America mark and logo by real estate professional who are free of fair housing violations and successfully complete the one-day training program.

DRAFT

May 30, 1998

MEMORANDUM FOR GENE SPERLING

FROM: JON ORSZAG

SUBJECT: Policy Announcements for National Homeownership Week

I believe that any remarks for Homeownership Week would (1) emphasize our accomplishments over the past five years; (2) push for our housing agenda (welfare-to-work vouchers, low-income housing tax credit expansion, "play-by-the-rules" homeownership initiative); and (3) put forward a new policy announcement. A fourth potential component of any announcement would acknowledge the efforts of Habitat for Humanity and their "House that Congres Built" effort.1

Over the past two months, we have held a number of homeownership meetings with the goal of developing newsworthy initiatives that do not spend "new money." These meetings have included representatives of HUD, Treasury, NEC, DPC, OMB, OTS, Federal Home Loan Bank, Neighborhood Reinvestment Corporation, Agriculture, and PIR (for the One America initiative). Through this process, we have developed two potential announcements for Homeownership Week: the first would be more of a fair housing and homeownership announcement; the second would be more about providing incentives to lower income Americans to become homeowners.

Option 1: One America Announcement

Last fall, HUD and NAR concluded a Memorandum of Understanding (MOU) which sets forth the broad outline of a One America housing initiative and the rights and responsibilities of the parties. One potential policy announcement is the final details of this initiative.

Over the past several months, HUD and NAR have been working through the details of the initiative and they are about to be finalized. Under the terms of the final agreement, NAR will develop a cultural diversity certification program which will reflect the letter and spirit of the President's One America initiative and will be subject to approval by HUD. Upon approval, HUD would permit NAR to award the use of the One America mark and logo by real estate professional who are free of fair housing violations and successfully complete the one-day training program.

HUD will promote the One America initiative in an advertising campaign on television, in public service announcements, speeches, interviews, in FHA advertising, and on HUD's Web page.

The agreement goes on to spell out the terms governing use of the One America mark and logo by certified real estate professionals, restrictions on its use, and circumstances requiring its surrender.

A final draft of the agreement has been approved by NAR and is in final review by HUD.

Option 2: Individual Development Accounts

As you know, Individual Development Accounts (IDAs) are a new innovative idea that the Administration has supported in the past (but never put any money towards). They help lower income American boost savings by matching each dollar the individual deposits with public (or private) funds. The match, in some cases, is as high as eight to one, even though we envision something more in line with two-four to one. The match could come from the government, non-profit, or from a for-profit entity. Withdrawals from the IDA are generally allowed for only buying a home; education and training; or starting a new business. Participation would be limited to lower American families. In general, participation is limited to those eligible for welfare or have an income below the EITC phase-out point, and have net worth below $10,000.

There is one main way that we can promote IDAs (and three more minor ways -- see below):

1. **Endorse Coats Legislation.** Sen. Coats is the lead sponsor on a 4-year, $100 million IDA demonstration program -- the Assets for Independence Act -- under which states and local agencies and/or non-profits would be funded to operate IDA programs providing a match of no less than one to one and no more than eight to one for each odllar of earned income deposited into the account. Under the Coats bill, preference in the application process would be given to entities that are able to attract pledges of substantial non-Federal -- especially private sector -- funding to serve as a match for Federal dollars. In the Senate, the co-sponsors of this legislation are: Harkin, DeWine, Abraham, Lugar, Levin, Moseley-Braun, Collins, Wellstone. In the House, the legislation is sponsored by T. Hall and co-sponsored by conservatives such as Kasich to liberals such as Olver.

You should know that the endorsement of Coats' bill would raise an issue about how we are paying for our endorsement. While $25 million for FY99 is not much money, we may raise an issue about supporting legislation and not offering to "pay for it." In the past, we have offered to "work with Congress to find appropriate offsets." We could do this in this case, but it raises this issue.

Moreover, supporting the Coats legislation makes it difficult for us to come forward with our own more comprehensive proposal in the FY2000 budget. While we will not be completely locked in, it would be any new proposal in our next budget less newsworthy.

In conjunction with any announcement on IDAs, we could also make three other announcements:

1. **FFIEC Letter to Clarify That Banks Can Receive CRA Credit for IDA Programs.** The Corporation for Entreprise Development (CFED) has been at the forefront of this issue and they believe that a definitive, and inclusive, regulatory position statement is needed to encourage financial institution participation. To that end, OTS has worked with CFED to craft a request for an interagency (FFIEC) CRA interpretation on IDAs. OCC was awaiting a formal interpretation from a major bank, which they supposedly received last week. Therefore, the regulatory agencies are prepared to issue a formal interpretation that states that IDAs, designed for the education, housing or business development benefit of low- or moderate-income individuals, serve community development purposes and would therefore be eligible for credit under the Community Reinvestment Act. This should allay concerns and facilitate partnerships among financial institutions.

2. **Letter from HUD to State and Local Areas To Clarify That HOME and CDBG Funds Can Be Used To Establish IDA Programs.** While HOME and CDBG funds can currently be used to establish IDA programs, many state and local areas do not know that this is an eligible activity. Therefore, HUD would issue a clarification letter that would state that HOME and CDBG funds can be used for IDA programs that benefit low- and moderate-income Americans.

3. **Examples of IDA Programs.** The Partners in Homeownership are also prepared to release a booklet of examples of current IDA programs. I would not suggest calling this a "best practices" booklet because we do not yet know how successful IDA programs have been. This book would solely be a book about how IDAs have been set up so far.

Race Initiative policy - housing

Paul J. Weinstein Jr. 11/25/97 02:24:26 PM

Record Type: Record

To: Jose Cerda III/OPD/EOP, Cynthia A. Rice/OPD/EOP

cc: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP

Subject: Housing mobility

--------------------- Forwarded by Paul J. Weinstein Jr./OPD/EOP on 11/25/97 02:24 PM ---------------------------

Emil E. Parker
11/25/97 12:04:02 PM

Record Type: Record

To: Michael Deich/OMB/EOP, Paul J. Weinstein Jr./OPD/EOP

cc: Jonathan Orszag/OPD/EOP

Subject: Housing mobility

MOBILE.W Attached is a draft summary of the Section 8 housing mobility and fair lending proposals we have been discussing. I will be out starting at 2:00 today and will not be returning until December 6th. Paul Leonard is also out this week. I am worried that the housing mobility package (which, unlike the fair lending items, has discretionary budget implications) may fall through the cracks in Paul's absence.

The attached paper was sent to HUD on Friday for review; Paul had a few minor comments. Today I spoke to Bill Apgar, the PD&R Assistant Secretary-designate, who concurred that the proposals as described in the memo looked good and assured me that work would continue this week.

Michael, I am not certain about the timetable for finalizing the FY 99 budget. Could I ask you and Paul W. to make a special effort to insure that the portability bonus and exception rent policy are included in the budget to the extent needed? Thank you very much.

Housing mobility
November 21, 1997

What

To enable more low-income families (white as well as minority) to move to lower-poverty areas which have, among other advantages, better job opportunities, schools and other public services. The efforts would be wholly voluntary, focusing on households with Section 8 certificates and vouchers.

Why

1. Represents a modest but significant step toward ensuring housing choice for low-income Americans of all races.

2. More effective than recent school voucher proposals as a method of enhancing school choice for poor families (white and minority).

3. Contributes to welfare reform efforts by encouraging and enabling job-ready welfare recipients with a voucher or certificate to move to areas where employment can be found.

4. Could be an avenue for highlighting the issue of housing segregation, which has proven remarkably persistent. In the thirty metropolitan areas with the largest African American populations, which account for 50 percent of the total black population, the degree of segregation changed very little between 1970 and 1990. This is particularly problematic due to the role residential location plays in determining not only quality of schooling and availability of jobs, but also, e.g., risk of crime and accumulation of wealth (through home equity in particular).

5. Could reduce the concentration of poverty (to a limited extent). While the poverty rate among African Americans declined from 35 percent in 1970 to 29 percent in 1990, the percentage of blacks living in areas of concentrated poverty (poverty rate of 40 percent or higher) increased from 14 to 17 percent. This "concentrated poverty" rate also rose for whites and Latinos. In addition, the percentage of the African American *poor* living in these concentrated poverty areas, where opportunity for educational and economic advancement is sorely lacking, rose from 26 to 34 percent. Among the white poor, the concentrated poverty rate rose from 3 to 6 percent over the same period. Section 8 voucher and certificate holders are disproportionately located in these concentrated poverty areas. Accordingly, increasing the number of Section 8 participants who move to middle-income areas could impact the concentration of poverty for both whites and minorities.

How

Remove barriers to using Section 8 vouchers for moves to lower-poverty areas. [The term "vouchers" refers to both Section 8 vouchers and certificates, since the two are extremely similar.]

1. BUILD ON HUD'S REGIONAL OPPORTUNITY COUNSELING (ROC) PROGRAM

Under the regional opportunity counseling program, public housing authorities partner with nonprofits to provide counseling to Section 8 certificate and voucher holders, to ensure that they are aware of the full range of housing options. Studies have found that when Section 8 families are ready to move, they tend to search for housing in areas with which they are familiar. Unfortunately, these areas tend to be similar, and in close physical proximity, to their original high-poverty neighborhoods. ***The mobility counseling provides these families with information about low-poverty neighborhoods they might not otherwise consider.***

The counseling also entails recruiting landlords to accept Section 8 families and, in many cases, working with churches and community leaders in predominantly white areas, to initiate a dialogue about the possible influx of minority families. The purpose of these discussions is to ***prepare the neighborhoods for potential new arrivals and thereby reduce the intensity of opposition.***
NOTE: The ROC program is not limited to minority families--white Section 8 voucher and certificate holders in ROC sites are also eligible.

HUD allocated $36.7 million for the 16 regional opportunity counseling sites in FY 1996, and the Administration requested an additional $20 million for FY 1998 (as a set-aside in the Section 8 tenant-based account) to expand the program to additional sites. The FY 1998 VA-HUD Act did not, however, include this set-aside. ***The Administration should make this additional ROC funding a priority in the FY 1999 VA-HUD appropriations process*** (another option is to request permission from the VA-HUD Appropriations subcommittee to reprogram $20 million in FY 98 funds for the same purpose).

2. ELIMINATE OBSTACLES TO AND PROVIDE INCENTIVES FOR PORTABILITY

Moving to a lower-poverty area often entails crossing public housing agency (PHA) boundaries. The receiving PHA generally bills the sending agency for the cost of the voucher (the housing assistance provided is equal to the difference between the HUD-established fair market rent for the area and 30 percent of the tenant's countable income). Eighty percent of the fee for administering the voucher is allotted to the receiving agency and 20 percent to the sending PHA. The logistical difficulties and reduction in fees serve to discourage a PHA from allowing recipients of tenant-based assistance to move outside the PHA's service area.

This package would address these obstacles in three ways. First, HUD would, as part of its management reorganization, establish a "portability clearinghouse" that would serve as a central location for processing billings across PHAs. The clearinghouse, by reducing paperwork and expediting payments, would reduce PHA resistance to moves outside its service area.

Second, PHAs would receive a bonus based on the number of Section 8 participants moving to lower-poverty areas. The bonus could apply to moves both within and outside the PHA's service area.

Third, PHAs would be encouraged to request "exception rents" (above the fair market rent, which is set at the 40th percentile of area rents) when needed to give voucher holders access to more expensive, generally suburban housing markets. HUD would consider and approve these requests on an expedited basis.

3. HOMEOWNERSHIP/EMPOWERMENT VOUCHER INITIATIVE

Under this proposal (which was submitted earlier as part of the Administration's public housing reform bill) Section 8 certificates and vouchers could be used to purchase, rather than only to rent, housing. The Section 8 assistance payment would generally be set, as with rental housing, at the difference between the payment standard (which cannot exceed the fair market rent) and 30 percent of the family's net income. This housing benefit, however, would go toward a mortgage payment rather than monthly rent. To qualify for the program, a family would generally need to have income from employment.

Freddie Mac has already agreed to purchase up to 2,000 of these Section 8 voucher mortgages from lenders--secondary market participation is essential to reassure and therefore recruit lenders. The down payment for these mortgages would be set at 3 percent, to allow low and very-low income families to participate. Moreover, for purposes of making the down payment, the local PHA would help the family secure loans or grants to supplement the household's resources.

While not strictly a mobility proposal, the homeownership voucher initiative could still facilitate moves to lower-poverty areas, to the extent that most of the housing in these areas is owner-occupied rather than rental. Under this proposal, Section 8 voucher holders would be able to choose from a wider range of properties, especially in middle-income areas. Judging from his comments on the list of race initiative proposals, the President is particularly enthusiastic about homeownership vouchers. The Senate-passed public housing bill includes homeownership voucher language consistent with the Administration proposal; the version in the House-passed bill is at best barely acceptable.

Fair lending
November 21, 1997

What

1) To obtain information needed to determine the extent of discrimination in home mortgage and small business lending; and 2) to develop and implement innovative methods of detecting and deterring such discrimination.

Why

One of the major purposes of the race initiative is to establish a baseline on race relations; i.e., where we are on race. The extent of small business and mortgage lending discrimination is a critical element of this baseline.

How

1. **The President will publicly urge the Federal Reserve Board to require banks and thrifts to report race, income and gender data as part of the CRA small business loan reporting provisions.**

Background. Large banks and thrifts are currently required under CRA to report data on small business loans. They are not, however, required to report the race, income and gender data of these loan applicants. Consequently, it is virtually impossible to use CRA data to accurately determine the extent of small business lending discrimination.

The Federal Financial Institutions Examination Council (FFIEC), which is composed of the Federal banking regulators (Federal Reserve, FDIC, Office of the Comptroller of the Currency, Office of Thrift Supervision and the National Credit Union Administration) recently released the 1996 small business and small farm lending data. According to the FFIEC, the distribution of loans across census tracts grouped by income (low, moderate, etc.) mirrored the distribution of population across those categories of tracts. For example, low-income areas include 4.9 percent of the U.S. population and received 5.6 percent of new small business lending. Without data on race, however, it is impossible to determine, for example, how lending to African American small businesses in low-income areas compares with lending to small white firms in such areas.

The Federal Reserve, which has jurisdiction over the relevant regulation (Regulation B, which implements the Equal Credit Opportunity Act), is resisting requests to require collection of this data. Moreover, the Fed is apparently maintaining that it lacks the authority even to *allow* other regulators (e.g., OCC, OTS) to make reporting of this data *voluntary* for their regulated institutions.

2. **The President will call on the Federal Reserve and the FDIC to require their regulated banks to report the reasons for denial of each mortgage loan application (OCC and OTS already do so).**

The 1996 HMDA data are much less encouraging than previous years' numbers. Conventional (non-government backed) lending to African Americans fell by 1.5 percent, and conventional loans to Hispanics essentially remained flat (0.5 percent increase); non-government backed loans to whites rose by 6.7 percent. The decrease from 1995 to 1996 in the number of conventional loans made to African Americans is in sharp contrast to increases of 9.7 percent from 1994 to 1995 and a whopping 54.7 percent from 1993 to 1994.

Denial rates rose across the board, with the rate for African Americans rising from 40.5 percent in 1995 to 48.8 percent in 1996, while the rejection rate for whites increased from 20.6 to 24.1 percent. Differences in income explain some of the variation, but whites (and Asians) experienced lower rates of denial within each income group.

Information on reasons for denial would make it considerably easier to determine the extent to which troubling HMDA numbers may be due to discrimination as opposed to other factors (e.g., blacks are disproportionately located in areas with relatively little lending activity).

3. **The FFIEC will conduct an analysis and report back to the President within one year with recommendations as to how automated credit scoring systems can be used to enhance rather than reduce credit available to low-income and minority borrowers.**

Secondary market underwriters purchase mortgage loans originated elsewhere and package them into mortgage-backed securities (although Fannie Mae and Freddie Mac, leading secondary market participants, also hold such loans in their portfolios). These secondary market purchasers generally use automated credit scoring systems in their buying decisions. The mortgage lenders accordingly have a strong incentive to use these systems as well, to ensure that their loans are attractive on the secondary market. Since African Americans on average have lower levels of income and wealth than whites, the spread of credit scoring systems may be adversely affecting mortgage lending to this group. Credit scoring systems are apparently becoming more common in small business and consumer lending as well.

4. **Develop and implement methods of pre-application testing, to detect discrimination that occurs before an application is made (e.g. discouraging a prospective minority home buyer from applying).**

Background

Definitions. The segregation index represents the percentage of all African Americans in a metropolitan area who would need to move to achieve a nonsegregated distribution, i.e., each census tract reflecting the composition of the metropolitan area as a whole. A segregation index of 50 is considered fairly moderate, whereas 70 represents a high degree of residential segregation. Another, perhaps more intuitively comprehensible measure, is isolation--the percentage of blacks living in the census tract of the average African American. This variable measures the extent to which African Americans live exclusively among other African Americans.

Extent of Racial Residential Segregation/ Progress Since 1970. A comparison of residential segregation in the thirty metropolitan areas with the largest African American populations (which account for 50 percent of the total black population) reveals little or no progress toward integration between 1970 and 1980, with extraordinary levels of racial isolation persisting.

City	Black Isolation: 1970	Black Isolation: 1980
Chicago	85.5	82.8
Detroit	75.9	77.3
Los Angeles	70.3	60.4
New York	58.8	62.7
San Francisco	56.0	51.1
Atlanta	78.0	74.8
Miami	75.2	64.2
Washington, D.C.	77.2	68.0
Average, North	68.7	66.1
Average, South	69.3	63.5

As shown above, the average African American in Chicago in 1980 lived in a community that was 83 percent black. Even in San Francisco, one of the least segregated of the major metropolitan areas, and one that showed modest progress, the average African American still lived in a predominantly black neighborhood (despite the fact that African Americans made up only 11 percent of the City's population). While there were modest declines in a number of cities, particularly in the South, in others, such as New York and Detroit, the racial isolation index actually rose over the period.

Equally modest progress was made between 1980 and 1990, as shown by the following examination of changes in the segregation (not isolation) index from 1970 to 1990.

City	Segregation Index: 1970	Segregation Index: 1980	Segregation Index: 1990
Chicago	91.9	87.8	85.8
Cleveland	90.8	87.5	85.1
Detroit	88.4	86.7	87.6
Los Angeles	91.0	81.1	73.1
New York	81.0	82.0	82.2
San Francisco	80.1	71.7	66.8
Atlanta	82.1	78.5	67.8
Miami	85.1	77.8	71.8
Washington, D.C.	81.1	70.1	66.1
Average, North	84.5	80.1	77.8
Average, South	75.3	68.3	66.5