HUD Reinvention:
From Blueprint to Action

SUMMARY

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

March 1995

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Introduction

Publication of *HUD's Reinvention: From Blueprint to Action* marks another step in the reinvention of the Department of Housing and Urban Development to serve the American people more efficiently and effectively. This reinvention constitutes the most fundamental and sweeping restructuring of HUD in its 30 years of existence.

HUD supports hundreds of cities and communities in transition to the competitive new economy. It enables millions of low- and moderate-income, wage-earning households to rent or buy homes. It helps to shelter hundreds of thousands of homeless, frail elderly, and disabled persons.

Yet calls are heard in Congress to dismantle HUD as an expensive bureaucratic failure. HUD recognizes that the Department is in need to reinvention. It had allowed itself to evolve into a bureaucracy far more attentive to process than to results, characterized by an uncritical loyalty to nonperforming programs and insufficient trust in the initiatives of local leaders. Failed policies had contributed to concentrations of poor families in inner-city neighborhoods.

HUD's Mission Is Important to America

HUD's mission is to help cities prepare for the future, bring housing and homeownership to millions of citizens, and protect poor and vulnerable populations.

HUD Helps Cities Prepare for the Future

Cities lead the powerful economic regions of the United States. In 1990, metropolitan regions were home to more than 77 percent of Americans and more than 83 percent of the country's jobs. Central cities contain more than 30 percent of the Nation's people and more than 40 percent of its jobs. Cities drive the economies of metropolitan areas that are the building blocks of national economic growth. Healthy cities and communities build up -- and distressed ones drag down -- the economies of surrounding suburbs and regions.

In cities all across America, HUD enables State and local governments, businesses, nonprofit agencies, and residents to create communities of opportunity where they can prepare for and find jobs, raise families, and contribute to the larger metropolitan economy.

HUD Brings Housing and Homeownership to Millions of Citizens

Millions of wage-earning households cannot afford decent-quality housing without government assistance. Between 1989 and 1993, the number of very low-income renters with acute housing needs -- those paying more than 50 percent of income for rent or living in severely substandard housing -- rose by 700,000, from 4.9 million to 5.6 million, not including those actually homeless. Families with children are the fastest growing population facing acute housing problems. HUD provides housing assistance to millions of low-income families, including many low-wage workers whose contribution to the economy is essential.

Surveys indicate that 86 percent of all adults prefer to own a home, and two-thirds of all renters would buy a home if they could afford one. Homeownership helps build financial security, strengthens families and promotes citizenship, fosters individual commitment to community, and stimulates economic growth and generates jobs. Housing accounts for 5 percent of the Gross Domestic Product and nearly one-third of gross private domestic investment. Every 100,000 new units of housing creates 170,000 jobs.

But recent trends in homeownership have not been encouraging. From the end of World War II to 1980, homeownership rates rose steadily, peaking at 65.6 percent in 1980. After 1980, the overall ownership rate declined. The rate began rising once again in 1993, but the current homeownership rate is still well below its historic peak.

HUD has helped to bring homeownership to million of families who would not otherwise been able to afford it. President Clinton has directed the new HUD to launch and all-out effort to restore homeownership rates to their previous peaks -- and to exceed those rates -- by the year 2000.

Finally, the Federal Government must work relentlessly to eliminate discrimination from housing and credit markets. Housing discrimination and segregation deny minority families full and free choice about where to live and deny minority neighborhoods the services and resources they need to thrive and grow. The idea of fairness is a unifying theme for HUD's work. Nothing else can work if the essential ingredient of fairness is not there.

HUD Protects Poor and Vulnerable Populations

The private market alone will not meet the basic housing needs of homeless, frail elderly, and disabled people and those suffering from the ravages of HIV/AIDS, because that housing must be linked to specialized services.

The shortened life expectancy of persons living with HIV/AIDS and their specialized service requirements together create an immediate need for housing. In Dallas, one service provider has served over 500 clients with HIV/AIDS. Of 542 clients who qualified for Section 8 housing, only 1 ever lived long enough to receive Section 8 assistance.

Elderly and disabled people often have a whole spectrum of housing needs. Over the past two decades, HUD has helped to create a variety of flexible, community-based housing solutions with special design features for those with special needs. Housing programs now successfully serve the elderly, for example, many of whom are able to stay at home, enabling others to move into elder communities that can meet their increasing physical and other needs.

Homelessness is the most severe manifestation of the Nation's housing problems. The homeless population is now estimated at 600,000 on any given night; an estimated 7 million persons have been homeless at least once over the past 5 years. The needs of the homeless are greater than charity or local governments can afford. The Federal Government must support local systems to provide a continuum of care for the homeless to offer them a way off the streets and into society's mainstream.

Reinvention: A New HUD With Lower Costs and Better Performance

HUD's mission, then, is critical to the lives of millions of Americans. It is also critical, however, that HUD carry out that mission efficiently and effectively. In the legislative action plan released today, HUD responds to the clear desire of the American people to create a government that "works better and costs less."

The reinvention of HUD flows from the work of the National Performance Review, the most sweeping and ambitious effort to revitalize the Federal Government in half a century. Under the leadership of Vice President Al Gore, the NPR correctly found that HUD's most pressing problems and greatest opportunities were in improving management of the public housing program and in asset management of the HUD-held inventory and property disposition.

On December 19, 1994, President Clinton and Vice President Gore announced that the Department was launching a vigorous effort to reinvent itself to address these problems. HUD released a blueprint for the reinvention that framed the challenges facing the Department and established the principles on which reinvention would be based.

With publication of *HUD's Reinvention: From Blueprint to Action*, the Department moves into action by issuing a description of the legislative plan for its reinvention. This document summarizes the next step in the evolution from the old HUD to the new.

The Legislative Plan to Reinvent HUD

The reinvention plan is based on these seven principles:

- Low- and moderate-income families should have greater power to make decisions about their lives, and government should support their quest for self-sufficiency; HUD and its grant recipients will respect individual choices, most notably by issuing vouchers and certificates to enable residents of public and assisted housing to find the best shelter they can; and HUD will promote the primacy of work and individual responsibility.

- Decisionmakers at the neighborhood, local, and State levels should have maximum flexibility to design and utilize Federal resources, consistent with national objectives.

- Representatives of the community must have an opportunity to inform decisions through a comprehensive consolidated planning process.

- More families must be able to buy their own homes because homeownership is critical to creating and nurturing the fabric of a community, the conditions for healthy family life, and the long-term economic well-being of the Nation.

- Recipients of Federal resources, whether individuals, localities, or States, should be obliged to meet certain responsibilities in return for Federal assistance.

- The Federal Government has an essential and appropriate role in upholding national ideals that may be difficult to sustain locally, especially in regard to fair housing goals.

- HUD resources should be used to end the physical and social isolation of low-income populations by encouraging linkages between distressed communities and regional housing and labor markets.

I. Consolidate HUD Programs into Three Performance Funds

The proposed legislation will radically overhaul the current program structure and transform the Federal relationship with America's communities. HUD proposes to consolidate 60 major HUD programs into three performance-based funds -- a Community Opportunity Fund, an Affordable Housing Fund, and a Housing Certificate Fund.

This consolidation will sweep away the clutter of separate application procedures, rules and regulations that accumulated at HUD over the past 30 years, as programs were piled on top of programs. And it will free cities and States to solve their own housing and community development problems in their own ways.

(Note: HUD's Inspector General has identified up to 240 total HUD activities -- a hodge-podge of active and inactive programs, set-asides, technical assistance funds, eligible activities, regulatory functions, and insurance authorities. HUD's reinvention plan is comprehensive and will address each activity identified by the Inspector General.)

Community Opportunity Fund

The Community Opportunity Fund (COF) will consolidate a wide range of program activities and initiatives, including: the existing Community Development Block Grant (CDBG) program, together with its loan guarantee (Section 108) feature; the Economic Development Initiative; Leveraged Investment for Tomorrow (LIFT); the Community Viability Fund; the Colonias Assistance program; and the array of activities funded under Section 107 of the Housing and Community Development Act of 1974 (Special Purpose Grants).

This proposal borrows the strongest and most widely supported element from current CDBG programs and uses it as the basic structure for incorporating additional programs and instilling a strengthened job creation emphasis. Combining the existing CDBG program with that emphasis, along with a new bonus pool, has the advantage of building on what works while making the fund an even more effective tool for economic empowerment. The CDBG program already offers substantial flexibility to grantees; relatively little change is needed for that purpose. This proposal does, however, continue the current efforts to streamline CDBG by clarifying the definition of eligible activities addressing job creation and industrially contaminated urban sites ("brownfields"). Its job creation emphasis can also provide an added tool for localities' efforts to generate jobs for people on welfare.

Under COF, HUD will establish national goals and objectives, while localities will determine how to achieve them. Under this new performance partnership, local performance will be geared toward achieving a series of performance goals in which the Federal Government provides the categories of performance while the locality sets the goals to be achieved in each category. These local performance measures will be created through a locally initiated Consolidated Plan process reflecting the specific needs and priorities of particular communities.

Localities that meet their performance goals will be eligible to compete for awards from a Performance Bonus pool. Bonus funds will be used for specific job-creation projects to revitalize low-income residential neighborhoods and to clean up "brownfields." Special consideration will be given to projects that link low-income residents of distressed areas with job opportunities that enable them to enter the mainstream regional economy.

Under this proposal, States will gain added flexibility in how they spend their funds. States will also be allowed to carry out activities themselves in non-entitled areas. States can thus focus efforts on rural and undeveloped areas that may lack the capacity to carry out activities on their own. States could, at their option, also contract directly with other entities to carry out the needed activities, including regional planning or development bodies.

CDBG funds will continue to be allocated to States and localities based on need, with the existing allocation of 70 percent of funds to entitlement cities and 30 percent to States retained. A total of 1.5 percent of funds will be set aside for Native American Nations.

The proposal retains the existing CDBG requirement that activities meet national objectives of at least 70 percent of funds benefiting low- and moderate-income persons, addressing slums and blight, and meeting urgent needs. The current CDBG targeting practice, in which an average of 90 percent of funds benefit low- and moderate-income persons, is expected to continue.

Affordable Housing Fund

The Affordable Housing Fund (AHF) will, consistent with the need to provide localities flexibility in using government programs, consolidate funding for a wide range of independent programs, including the HOME Program, the Section 202 and 811 programs for the elderly and disabled, the National Homeownership Fund, Housing Counseling, HOPE Grants, and Lead-Based Paint Hazard Reduction. The six existing HUD Stewart B. McKinney Homeless Assistance Act programs for the homeless will be consolidated into a single Homeless Assistance Fund in FY 1996, and will merge into the AHF in the year 2000, as further described in the Homeless Assistance Fund section.

The HOME Program -- which is already accessed through the Consolidated Plan by more than 500 participating jurisdictions, including States and localities --will serve as the framework around which the AHF is constructed, thereby incorporating its existing statutory protections. Using the HOME Program as the basis will permit a speedy transition as localities will not have to learn to administer a new Federal program. AHF will also build on the existing relationships among the Federal, State, and local governments, nonprofits and private industry to leverage additional resources for affordable housing.

Through program consolidation, AHF will replace the current mix of competitive and formula-based programs that have distributed funds in an uncoordinated fashion to a mixture of local governments, nonprofits, and other recipients. AHF grant allocations will follow the existing HOME formula, which distributes funds to States (40 percent) and localities (60 percent) on the basis of need. This approach will provide States and localities with a predictable stream of resources so that they can rationally plan and implement affordable housing initiatives, and achieve their objectives, in a comprehensive fashion.

In addition, eligible activities under AHF will include:

- **Supportive Services** -- authorize grantees to fund supportive services for the frail elderly or at-risk elderly, subject to current Section 202 conditions.
- **Service Coordinators** -- will cover current Section 202 program costs of service coordinators.
- **Housing Counseling** -- support information and counseling services to renters and potential homebuyers and community housing counseling programs.
- **Public Housing Modernization** -- support this activity after the transition of public housing to tenant-based assistance.
- **Project-Based Rental Assistance and Operating Subsidies** -- retain current HOME provisions permitting project-based rental assistance for activities currently carried out under Sections 202 and 811.

To add flexibility and increase homeownership opportunities, AHF will establish a loan guarantee program similar to the Section 108 authority for the CDBG program. This authority will give jurisdictions an additional source of financing for large-scale housing and homeownership tract development. This financing will be secured by the jurisdiction's current and future AHF funds and other security.

To ensure that the needs of vulnerable populations are adequately addressed with federal resources, AHF will generally maintain the existing limitations in the HOME program on rents and income targeting. Thus, the existing HOME requirement that funds be used to benefit families with incomes below 80 percent of area median income will be continued. In addition, AHF will adopt the requirement for rental housing that 90 percent of the families have incomes below 60 percent of median and 20 percent of the units in projects be occupied by families below 50 percent of median income. To stimulate neighborhood revitalization and reduction of low-income concentration, localities will be authorized to use a limited portion of AHF funds for families up to 115 percent of median income in designated low-income areas, such as qualified census tracts as defined for purposes of the Federal low-income housing tax credit.

To retain and strengthen the delivery infrastructure, AHF will establish a set-aside of 30 percent for all types of nonprofits, including traditional sponsors of elderly and disabled housing and community-based organizations, to carry out eligible AHF activities. PHAs will also be eligible to receive funding from localities under this set-aside. One-half of this amount, or 15 percent of each jurisdiction's allocation, must be applied to community-based private nonprofit organizations.

Homeless Assistance Fund

The Homeless Assistance Fund (HAF) will consolidate the Emergency Shelter Grants (ESG), Supportive Housing, Shelter Plus Care, Section 8 Moderate Rehabilitation (SRO), Safe Havens/Rural Assistance, and the Innovative Homeless Initiatives Demonstration Program into a single performance fund (HAF), distributed to States and localities through a needs-based formula.

This consolidated fund will address several key problems that plague community efforts to address homelessness. The current separate grant programs require providers of housing and services to apply to discrete programs for particular needs. Each categorical program has its own funding cycle -- application process, set of rules, criteria, and reporting requirements -- which increases process and paperwork and hampers project development and implementation.

Under this proposal, funds will be provided to localities through a formula that will generally follow the current ESG formula, except that 75 percent of the funds will be allocated to cities and counties and 25 percent will be reserved for States for use in areas outside of cities and counties receiving direct formula allocations. A "hold-harmless" provision will ensure that communities that received ESG in 1993 and onward will continue to qualify for direct formula allocations. In addition, formula allocation communities will receive at least the average amount they received from HUD's McKinney programs each year between 1987 and 1993. This will provide localities with the flexibility to establish continuum of care strategies and with the resources to help implement those strategies. The Secretary will allocate 1.5 percent and 0.20 percent for Native American Nations and Insular Areas, respectively.

To facilitate comprehensive, effective, and coordinated approaches to homelessness, the proposal will require broad community participation in developing and implementing the strategy. Each recipient will be required to establish a local board to govern and evaluate the program; States will create an advisory board with similar responsibilities. Each recipient will be required to make available at least 51 percent of its annual grant to private nonprofit organizations for homeless assistance.

Ten percent of the overall HAF formula allocation will be used to create a bonus pool for excellent performance. The Secretary can also decrease the amount of a formula grant to a locality or State based on a review of the application and comments received from the community or as a result of the annual performance review and audit under the requirements of the fund. Alternatively, the Secretary could either (a) distribute the grant amounts by competition in that jurisdiction or (b) designate the State or a local private nonprofit organization to administer the grant amounts in that jurisdiction. Recipients will be subject to a maintenance-of-effort provision as well as a 25 percent match requirement for grants made available under the HAF, with appropriate match reduction waivers by the Secretary in cases of fiscal distress.

Under the proposal, the Housing Opportunities for Persons with AIDS (HOPWA) program will continue in effect. Congress created HOPWA in 1992 to provide communities with a tool that addresses the undeniable housing crisis. Under the proposed legislation, a locality's Consolidated Plan serves as the application, planning, and reporting mechanism for formula-distributed HOPWA funds, thereby providing a vehicle for coordinating HOPWA and other affordable housing efforts.

The HOPWA program will continue to operate as a separate program until 1998, when it will become part of AHF, with any appropriate modifications to performance measures or the formula distribution made to reflect the consolidation at that time. This 2-year transition for HOPWA is needed to ensure that newly supported AIDS housing efforts have sufficient time to strengthen their operations and increase their integration within other community housing and development efforts.

Housing Certificate Fund

The proposal will consolidate the existing voucher and certificate programs and replace other project-based assisted housing programs, including: Section 8 New Construction and Substantial Rehabilitation; Loan Management Set-Aside, Property Disposition, and Preservation; Rental Assistance; and Rent Supplement programs. As contracts expire on existing project-based programs and as public housing is transformed from a project-based system, HCF will become the vehicle for providing portable subsidies for low-income Americans. The HCF will be targeted to households with incomes up to 50 percent of area median income, and subsidies will be calculated on the basis of HUD-determined Fair Market Rents (FMRs), set at the 40th percentile of rents for standard quality, recently occupied units in the local market area.

The new approach will encourage and reward work and other self-sufficiency efforts. It will allow PHAs to issue up to half of their certificates to working or work-ready families in preference to other qualified households. And it will require non-working, able-bodied assistance recipients to perform community work. Up to 10 percent of incremental and turnover certificates may be set aside for households from special-purpose waiting lists, such as graduates of transitional housing programs for the homeless or participants in welfare to work programs.

The HCF will also enable and encourage households who are equipped to make the transition from assisted housing to homeownership. All families will be permitted to use their certificates to become homeowners instead of paying rent. In addition, PHAs will have the flexibility to use their special-purpose waiting lists in connection with homeownership programs (within the overall 10 percent cap on the use of special-purpose waiting lists). Note that participants drawn from a special-purpose waiting list for homeownership could have incomes up to 60 percent of area median income, higher than the income ceiling for the basic HCF program.

To encourage greater landlord participation, certain burdensome requirements will be eliminated:

- The "take-one, take-all" requirement (where a landlord accepting one applicant must accept all qualified applicants) will be dropped.

- The prohibition against lease termination for reasons other than good cause or verified business reasons will be eliminated. Families living in public or assisted housing at the time of the transition will continue to be covered by this prohibition as long as they continue to live in these projects.

- The requirement that residents receive 90 days' notice before lease termination for business reasons will also be eliminated.

- Landlords will be permitted and encouraged to screen certificate holders on the basis of performance-based standards of occupancy, as long as the screening complies with fair housing laws.

- Families evicted from their units for serious lease violations will also lose their certificates.

Localities will enjoy significant flexibility in administering their programs. Each PHA will be required to develop a strategy for the local utilization of HCF resources, and this strategy will be incorporated into the Consolidated Plan for the locality (or State).

Qualified PHAs will administer the HCF program. PHAs will receive an administrative fee that will no longer be tied directly to Fair Market Rents (FMRs) but will reimburse PHAs fairly for services they provide. When PHAs both administer the HCF and own units, local jurisdictions will perform unit inspections and rent determinations to avoid conflicts of interest.

Incremental certificates, some recapture of turnover certificates, and certificates for families living in public housing and assisted multifamily projects will be allocated based on the magnitude of housing needs in communities. Amendments under the Sections 8, 202, and 811 programs will be funded separately. A $25 million annual set-aside will provide technical assistance to resident associations and resident management corporations to serve families in former public housing developments that have been converted to tenant-based assistance.

The current project-based housing assistance system prevents low-income people from freely choosing where to live. The HCF proposal will offer eligible families real choice and opportunity to escape from concentrations of poverty:

- A single, standardized application will mean applicants need not fill out separate forms to apply for assistance in different jurisdictions. Eligible households will be permitted to apply for housing assistance in any jurisdiction they wish, and must be treated the same as similarly situated applicants who already live in that jurisdiction.

- Recipients of assistance can use their certificates for any decent-quality housing, regardless of its rent level, the jurisdiction, or where they lived when they first received the assistance.

- One performance standard for awarding bonus funds will reflect success in marketing the program broadly to landlords and in helping families locate housing in areas of low poverty.

- In high-poverty urban areas, PHAs must subcontract with qualified mobility-counseling agencies for landlord outreach, family counseling, housing search assistance, and other activities that maximize opportunities for assisted families to move to low-poverty areas.

- HUD will require cities with severe concentrations of poverty to use a specified portion of the PHA's certificates for families with children to move from high-poverty to low-poverty areas.,

- PHAs that participate in metro-wide mobility plans will be eligible for bonus allocations of certificate funds as well as for the flexibility to use 10 percent of certificates for special waiting lists and to transfer 15 percent of certificate funds to the AHF.

Under HCF, increased family choice will be accompanied by these tenant responsibilities:

- Low-income families will no longer be able to use their subsidy in another unit if they are evicted for serious lease violations.

- Landlords will be encouraged to require families to comply with basic admissions requirements. Families could be denied a unit based on previous behavior such as not paying rent, engaging in criminal activity, using or selling drugs, etc. HUD will, however, be required to help families with potential fair housing complaints if such standards are used in a manner that discriminates illegally under the Fair Housing Act.

- Program participants will be required to contribute a minimum of 8 hours per month in work within their community. Exemptions cover elderly or severely disabled persons or those who already meet welfare program work requirements.

- Tenants will receive a reduction in their contribution to rent if they select housing that rents for less than the FMR, which will encourage tenants to search for and negotiate the best rent bargains they can, and will help prevent rents from automatically rising to the FMR.

II. Transform Public Housing

The second component of reinvention is a dramatic transformation of public housing. Since 1937, the Federal Government has invested some $90 billion in the public housing inventory. The legacy of this investment is mixed.

Public housing provides a stable supply of rental housing that is affordable to families with very low incomes. Approximately 1.3 million households live in public housing developments operated by some 3,400 public housing authorities (PHAs). Approximately 45 percent of these households are families with children, 35 percent are elderly, and another 10 percent are disabled.

For these households, public housing provides a real, tangible response to the failure of the private market to provide sufficient housing at affordable rents. In some communities, public housing accounts for as much as 15 percent of all rental housing and a much higher percentage of the low-rent stock (i.e. carries rents of $350 per month or less that are affordable to low-income families).

Despite serving this critical function, the current public housing system is plagued by a series of deeply rooted and systemic problems. These problems exist in projects of national infamy -- Robert Taylor Homes in Chicago, Desire in New Orleans -- as well as in hundreds of small-scale developments. They exist in the 100-odd public housing agencies that have severe management deficiencies as well as in the overwhelming number of agencies that operate efficiently. Change, therefore, must be far-reaching and comprehensive if it is to be successful.

The reinvention proposal for public housing is simple yet profound. Where the current system funds bureaucracies, we will fund people. Where the current system gives public housing agencies capital and operating subsidies to maintain projects, we will give families rental certificates -- modeled on the Section 8 program and pegged to the local cost of decent housing -- that could be used in public housing or a private apartment of their own choice. Where the current system relies on a complex, complicated array of rules and regulations to oversee the performance of agencies, HUD will now rely on families to decide whether management has performed well.

The reinvention proposal envisions an orderly and prudent transition to prepare agencies and residents for the shift to a market environment. Small PHAs will convert to the certificate model by the end of 3 years. For larger PHAs, a 6-year, three-stage transition is envisioned during which good public housing will be made marketable and nonviable stock will be demolished. For the larger PHAs, the three stages envisioned are: deregulation and program consolidation, market-based rents with project-based assistance, and market-based rents with tenant-based assistance.

Stage 1: <u>Deregulation and Program Consolidation</u>

The first stage of the transformation will ensure that PHAs have the ability to demolish the worst public housing developments (the 80,000 to 100,000 units that are severely distressed, plus those that are so poorly located that they have no hope of charging market rents high enough to cover costs even after the development is rehabilitated and the PHA's operations are deregulated and streamlined. The PHA will develop a strategic plan, linked to the locality's Consolidated Plan, that will determine the role former public housing buildings should play in the overall local stock of affordable housing and will guide the PHA's investment decisions during the transition.

All existing public housing categorical grants will be combined into two flexible funds -- one for capital and management improvement needs and one for operating expenses.

<u>Capital Fund</u>

The Capital Fund will be modeled after the current comprehensive grant program. It will permit PHAs to bring as much as possible of their housing stock up to a standard that will attract and keep tenants at market rents that will cover ongoing costs. The Capital Fund will also be used for building replacement housing. Eligible activities will include those currently eligible under modernization programs (both the Comprehensive Grant Program and the Comprehensive Improvement Assistance Program), under programs for distressed public housing developments (major reconstruction of obsolete projects and the HOPE VI program), and activities of the Family Investment Centers program.

In preparing a development-by-development strategic plan for competing in the market, PHAs will be required to meet with all the local stakeholders -- residents, elected officials, neighbors, and others. The strategic plan will identify projects to be demolished, the schedule for rehabilitation and transition for projects to be retained, the uses of the Capital Fund for management improvements and resident programs, and funding sources outside the Capital Fund that will be tapped for needed work. The strategic plan summary will become a part of the locality's Consolidated Plan.

The Capital Fund will use elements from the allocation formula of the Comprehensive Grant Program. However, because this consolidated program incorporates special programs designed to address the severe backlog of needs of distressed projects at some PHAs, the proposal will change the current 50/50 weighting of backlog versus accrual of need to one that is more heavily weighted on backlog. The current competitive Comprehensive Improvement Assistance Program for small PHAs (fewer than 250 units) will be replaced with a formula stream of capital funding in order to permit these authorities to plan in a coordinated fashion.

The proposal will increase PHA flexibility to operate, manage, and rehabilitate their stock. These changes include:

- Under a new, less stringent test, demolitions will be permitted for buildings that will not be self-sustaining from market-based rents.
- Existing statutory one-for-one replacement requirements will be repealed.
- PHAs will no longer be required to repay any outstanding bonds from past capital debt of the project. However, PHAs will continue to be required to use sales proceeds for low-income housing.
- PHAs will no longer be required to meet Federal <u>and</u> State or local procurement requirements. Rather, a Federal pre-emption during transition will permit PHAs to move quickly to make their stock ready for market competition.

- Existing lead-based paint requirements will conform to those proposed by the lead-based paint advisory committee for private rental housing.

PHAs will continue to be subject to the revised Public Housing Management Assessment Program (PHMAP) indicators, which will be used to rate all PHAs at least annually as well as to identify troubled agencies. Where troubled agencies are identified, localities will be required to address in their Consolidated Plan how they intend to assist in recovery efforts.

Furthermore, the proposal will establish a benchmark of one year during which troubled PHAs must either improve or HUD will be required to find that the PHA has breached its contract with the Federal Government. If a breach is declared, HUD must administer the PHA, appoint another entity as conservator, or seek a court-ordered receivership.

Subjecting PHAs to market discipline will require informed and engaged residents who understand their choices. At the same time, former public housing developments will be more attractive to tenants, both subsidized and unsubsidized, if they have well-organized and active resident associations. Therefore, the greater of $25 million or one half of 1 percent of the Capital Fund appropriation be provided competitively to resident organizations for activities currently eligible under the Tenant Opportunities Program.

Operating Fund and Occupancy Standards

The Operating Fund will consolidate funding for anti-crime activities, service coordinators for residents who are elderly or disabled, and the existing operating subsidy fund. All existing eligible uses under these funds, plus expanded anti-crime activities, will be permitted. The existing Performance Funding System allocation formula will be modified to include components reflecting these new activities.

PHAs must have the flexibility to begin to attract a broader range of families in order to be ready to compete for subsidized families who can use their certificates elsewhere, as well as unsubsidized families who will pay market rents. Therefore, during the first stage of the transition, PHAs will be permitted to adopt ceiling rents that reflect the market value of the housing and to permit families to pay those rents when 30 percent of the family's income would be higher.

To further encourage somewhat higher-income families to move into public housing and to encourage working families to stay in public housing as their incomes grow, PHAs will also be permitted to make adjustments to the income on which rent is calculated (for example, disregarding items such as payroll taxes). However, PHAs that choose lower ceiling rents or larger income disregards than those permitted by current law will not receive additional subsidy from the Operating Fund if lower rents charged are not offset by higher resident incomes.

Tenant rights must be matched with responsibilities. During the transition, PHAs that implement ceiling rents and earnings disregards will encourage more families to work. In addition, family members will receive job opportunities through application of the Section 3 requirements for expenditures under the Capital Fund during the transition period and as long as it takes for any work started with those funds to be completed.

Families will be obliged under their lease to perform 8 hours per month of community work. Exemptions from this requirement will apply to the elderly, the severely disabled, or families meeting work requirements under welfare or food stamps programs. PHAs can charge a minimum rent, so long as that minimum does not exceed 30 percent of SSI for individuals or Aid to Families with Dependent Children (AFDC) for families.

For States that provide due process legal proceedings for lease terminations (the vast majority of States), the HUD-imposed mandatory grievance procedures will be changed. A streamlined, one-step grievance procedure will be mandated for disputes between the PHA or Resident Management Corporation and residents. The procedure will not be available to residents whose leases are being terminated for criminal activity or actions that pose a threat to the lives, health, safety or property of other residents or the PHA or RMC. For states without due process procedures, the current grievance procedures will remain in effect.

Protection of Vulnerable Populations

PHAs must begin marketing their housing to a broader range of families in order to be in a position to compete for tenants at the end of the transition. However, it is also important to preserve access to the public housing stock, and to the certificates that will be issued to families at the end of the transition, for vulnerable populations. The following provisions balance these considerations:

- During the transition, the income eligibility rules that apply to the Housing Certificate Fund -- 50 percent of area median income except for families in special homeownership programs -- will apply to public housing as well. This will supplant the current public housing admissions rules, in which some newly admitted families can have incomes between 50 and 80 percent of area median income. However, the more flexible system of preferences established for certificates will also apply to public housing and will permit PHAs:

-- To define acute housing needs with reference to the local Comprehensive Plan rather than automatically using the current system of federal preferences that focusses on those with severe rent burdens (generally the poorest families);

-- For up to 50 percent of families admitted to public housing, choose families moving towards economic independence ahead of other families.

- Lease protections, including the ability to evict only for good cause, will continue during the transition. These protections will remain in effect after the transition for families who continue to live in their former public housing units.

- Federal restrictions will continue to apply, both during and after the transition, to the sale of public housing buildings or land on which public housing once stood. All such sales must be approved by the Secretary. This, along with continued lease protections, will ensure that the move to tenant-based assistance does not result in the displacement of very low-income individuals and families from the best public housing sites.

- Very low-income elderly and disabled populations will receive special preferences for occupancy in buildings for the elderly, disabled, or mixed populations. This will ensure that the very low-income elderly are not replaced by higher income elderly persons.

Stage 2: Market-based rents with Project-based Assistance

Under this stage, PHAs no longer will receive assistance under the Capital Fund or the Operating Fund. Instead, they will receive certificates from the new Housing Certificate Fund. These certificates will provide a level of subsidy based on the market value of the housing (not to exceed the Fair Market Rent used for the Housing Certificate Program), rather than on the needs-based formulas used for the Capital and Operating Funds. In order to give PHAs time to adjust to charging market-based rents and to permit the completion of rehabilitation work making the housing more marketable, during this stage of the transition subsidies will still be linked to the public housing unit. Families will not be able to take their certificate and move elsewhere. This project-based assistance will only be available for occupied units of standard quality.

Stage 3: Market-based Rents with Tenant-based Assistance

During this stage, the Nation's public housing program will be replaced by a tenant-based subsidy system operated through the Housing Certificate Fund. PHAs will be landlords in the true market sense, and PHA units will represent one of the housing options available to low- and moderate-income Americans.

Certificates allocated for subsidizing public housing units under Stage 2 will continue, but they will now be attached to the family rather than to the public housing unit. The family will be free either to stay in public housing or to move to other housing qualifying under the rules of the Housing Certificate Program.

- Residents who choose to move out of public housing will be permitted to use their certificates in any locality, regardless of where they lived when they received the assistance.

- Families will receive a financial reward for renting lower-cost units, including former public housing units, if those units pass the housing quality standards and meet the family's needs. This "shopping incentive" will be important in enabling public housing located in modest neighborhoods and built to design standards of an earlier era to compete with other rental housing that may be available to families with certificates. The shopping incentive will be a reduction in the family share of rent calculated by the percentage that the unit rent is less than the FMR.

- Former public housing residents using certificates, whether in public housing or in other parts of the rental housing market, will be required to contribute a minimum of eight hours per month of community work, with appropriate exceptions for families for whom this requirement would be redundant or unreasonably burdensome.

The goal for the transition from public housing to tenant-based assistance is 3 years. The timetable permits a speedy transition to a market-based system for most public housing units, while providing flexibility to larger PHAs that may need time to improve their housing stock to compete in the market.

Minium Percent of Units With:	1998	1999	2000	2001	2002
Market-based rents	37%	37%	71%	100%	100%
Tenant-based subsidies	—	37%	37%	71%	100%

At each stage in this transition, the public housing system will be significantly improved from the current situation. For example, as soon as 1998 well over one-third of the public housing stock will be operating on the basis of rents determined by the competitive market rents of the housing rather than on the basis of administratively determined Federal subsidies. By 1999, more than one-third of current public housing residents will have real choice to live in housing that best suits their needs.

1995 Proposed statutory changes are enacted, permitting PHAs to demolish worst units and rehabilitate others in order to transition to market (Stage I).

1998 All PHAs with fewer than 100 units and at least one third of the units in PHAs with more than 100 units move to project-based certificates with market rents (Stage II).

1999 The units that were project-based in 1998 become tenant-based (Stage III).

2000 All PHAs with 100-250 units and at least a second third of the remaining units move to project-based certificates with market rents.

2001 The units that were project-based in 2000 become tenant-based (Stage III). The remaining third of units in housing authorities with 250 or more units move to project-based certificates.

2002 *All* former public housing units are converted to tenant-based assistance (Stage III).

Native American Program Reform and Consolidation

For many years Native American communities have been the beneficiaries of Federal housing and community development programs. These programs have largely not been designed to meet the special needs and circumstances of Native American communities. Native American Tribes are sovereign nations that have a legal and political trust relationship with the Federal government -- a relationship that is very different from the relationship the Federal government has with State and local governments.

Native American housing conditions are some of the worst in America. Unemployment rates are very high and economic opportunities are few. Native American communities are hampered in their ability to attract private capital in large measure because of a lack of a modern financial, legal, and physical infrastructure.

While many larger Native American Nations take advantage of HUD's programs, the vast majority of Tribes are smaller and lack the capacity to do so. The nature, timing, and administration of these diverse programs inhibit comprehensive planning. Under the current structure, most HUD programs are accessible to Native Americans only through competitions, making it difficult for smaller communities to successfully secure funding.

Funds will be set aside for Native Americans under the Affordable Housing Fund (AHF) and Community Opportunity Fund (COF) and these funds will be administered on a formula basis. Funds under both AHF and COF represent a significant increase from prior years, reflecting this Administration's desire to greatly increase available affordable housing and modern infrastructure in Native American communities.

The COF funds will represent an increase from 1% (under CDBG) in FY 1995 to 1.5% in FY 1996, or from $55 million to $122 million. The AHF funds will result in an increase in housing production funding for Native Americans from $14 million under HOME in FY 1995, to approximately $50 million under the AHF in FY 1996. COF funds will be available for all CDBG eligible activities. Native American communities will be able to use AHF funds for a broad range of eligible activities, including rehabilitation, new construction, acquisition, tenant-based rental assistance, first-time homeownership assistance, supportive services, service coordinators, housing counseling. In addition, these funds will be available for activities such as the development of legal/ financial infrastructure necessary to implement a modern housing and housing finance delivery system, and to fund a portion of other housing infrastructure (water and sewer).

Native American Nations will be eligible for homeless funding under the Homeless Assistance Fund (HAF). One and a half percent of the HAF will be made available to Native American Nations for developing and implementing continuum of care strategies to address homeless needs.

As with the other program consolidations, the cornerstone for identifying and addressing housing and community development needs will be set forth in a consolidated plan by each Native American nation. The plan will contain the specific performance expectations the community hopes to achieve and performance will be measured against accomplishments derived from the plan.

Homeownership

This proposal will continue the successful Loan Guarantee program which assists Native American homeowners in securing mortgage financing. The credit limit for this program was raised in FY 1996 allowing for additional single family loans to be guaranteed without requiring additional new funding.

This proposal also encourages the development of a Native American Finance Service Organization (proposed in legislation last year). NAFSO would provide technical assistance to Native American communities that wish to create Native American lending institutions, in order to provide primary mortgage lending as well as economic development lending. In addition, NAFSO would help to spur the creation of a secondary mortgage market by setting Native American purchase goals for Fannie Mae and Freddie Mac. If these goals were not met, NAFSO would be authorized to engage in secondary mortgage activities.

Under the AHF, the ability for Nations to design their own specific homeownership programs will increase significantly. The uniform approach currently mandated by the Mutual Help Program has not allowed Native American Nations the necessary flexibility to address a wide-enough array of housing issues and environments. Under AHF, Nations will have the opportunity to develop specific programs which relate to their own cultural, social and geographic circumstances.

Rental Housing

While the Department's overall strategy for rental housing seeks to convert to a portable subsidy system, the nature of Native American housing markets and needs mandates a different approach. Unlike the rest of the United States, in Native American communities both low incomes and a severe lack of available housing prevail. The majority of Native American communities experience a shortage or total lack of private rental housing. In these markets a transition to tenant-based assistance will not increase housing choices for low-income Native American families unless they are willing to leave their reservations.

Therefore, some continued project-basing will be necessary. The existing income eligibility to receive housing assistance under the Native American programs will remain at 80 percent of area median income. In order to address unique circumstances, such as remoteness of Reservations from other non-Reservation affordable housing, the Secretary can give Native American governments, or their housing subsidiaries, flexibility to rent some vacated units to anyone who needs housing, including those whose income will be sufficient to pay a true market-rate rent.

III. Create a Federal Housing Corporation

Across this Nation, millions of families need help in securing financing for one of life's necessities -- decent, safe and affordable housing. For a number of reasons, including the lack of mortgage financing, achievement of the American dream of homeownership remains an elusive and unattainable goal for many families. Alternatively, the availability of affordable, rental housing in many communities, particularly for lower income households, remains inadequate. There is also a continuing need for community hospitals and residential health care facilities.

For the past 60 years, the Federal Housing Administration (FHA) has played a critical role in all these areas, filling a niche where the private sector would not, or could not serve. FHA is a Fortune 100-sized insurance company with a $380 billion portfolio of insurance in force backed by the American taxpayer. But it is increasingly technologically obsolete and ill-equipped to manage its business. By creating a new government-owned Federal Housing Corporation (FHC), Congress would transform today's FHA into a results-oriented, financially accountable credit- enhancement operation while ensuring its capacity to continue serving the homeownership and affordable rental needs of people and places that the private sector leaves behind.

FHA has historically played -- and FHC will continue to play -- four pivotal roles:

- **Expanding access to capital to borrowers who otherwise would not be served.**

- **Pioneering and standardizing new mortgage products.** For example, FHA pioneered the 30-year fixed rate home mortgage, which became an industry norm.

- **Providing stability to mortgage markets during economic downturns.** For example, during the 1980s in the oil-patch states, the percentage of loans insured by PMIs plummeted, exacerbating local economic problems. In contrast, FHA continued to make mortgage credit available, moderating the severity of the downturn.

- **Standardizing housing and health care facility credit delivery:** For example, FHA has filled gaps in the credit delivery system supporting the development of affordable rental housing and health care facilities in distressed communities.

The new corporation, unlike the existing FHA, would function through consolidated, flexible product line authority and new operational flexibilities so that it can easily adapt to market demands and customer needs.

Structure, Governance, and Powers

This proposal builds on the need for a continued Federal role in the mortgage credit markets, while avoiding the bureaucratic inefficiencies that hamper the current structure and prevent FHA from reaching its potential. By creating FHC, FHA will be transformed into a streamlined, business-oriented government entity that can operate efficiently, while being held accountable for accomplishing its public purposes in a safe and sound manner.

The new FHC will be a self-sustaining financial institution with clear accountability for performance and results. The FHC's safety and soundness will be monitored by the Office of Federal Housing Enterprise Oversight (as is the safety and soundness of the privately owned government-sponsored enterprises), while its programmatic operations and performance of its mission would be implemented and coordinated with national housing policy by the Secretary of HUD.

FHA's numerous statutory insurance programs will be consolidated and simplified into a few broad, flexible authorities directed to general market sectors: single-family homeownership, multifamily rental housing, and health care facilities. This consolidation will enable the FHC to effectively respond to changing market demands and conditions. For example, if a particular product line is not effective, the FHC, unlike today's FHA, will be able to quickly modify or terminate the product.

The FHC will be authorized to provide credit enhancement, engage in related asset management and disposition, and provide credit-enhancement related services, products and information. FHC's obligations will have the same U.S. Government backing as do FHA obligations today. Moreover, to ensure that the FHC does not inappropriately interfere with private market activity, the FHC will be subject to two general limitations upon its business: (1) a maximum mortgage amount, which will be set and adjusted at the FHA's current statutorily imposed limit; and (2) a 5-year aggregate new business limitation.

Mechanisms Ensuring Accountability

In exchange for added flexibility in its operations, administration, and lines of business, the FHC will be held accountable through established performance measures and other oversight mechanisms. The Secretary will establish a series of public purpose performance requirements for each year's activities. The requirements will ensure that a specified proportion of the FHC's business benefits vulnerable populations, families, communities, and markets underserved by the private mortgage markets.

The FHC will also be subject to financial safety and soundness performance requirements, designed to ensure that the FHC is capable of covering not only anticipated expenses and liabilities but also protecting the taxpayer against unanticipated losses. The Director of the Office of Federal Housing Enterprise Oversight (OFHEO) will be the safety and soundness regulator and develop a risk-based capital adequacy model to ensure that the FHC continues to operate on a self-sustaining basis. OFHEO will have the authority to take appropriate enforcement action if the FHC fails to operate in a safe and sound manner. OFHEO's estimates of performance will serve as the basis for the credit subsidy cost estimates to be reflected in the President's budget. Additionally, the FHC will be subject to an annual audit, performed by a qualified independent third party, and to the oversight of the HUD Inspector General.

Ginnie Mae

The Government National Mortgage Association (Ginnie Mae) will continue to guarantee securities backed by pools of mortgages fully insured under the National Housing Act, including those to be insured by the Federal Housing Corporation.

The Ginnie Mae charter will be amended in two manners to reflect changes being made in the Federal Housing Corporation Charter: 1) to permit the excess of revenues over both expenses and provisions for losses to be transferred to the MMI fund to ensure that the MMI fund meets statutorily required capital standards; and 2) to mirror the federal rulemaking, procurement and personnel policies applicable to the FHC.

Additionally, the Treasury Department, Ginnie Mae, the Federal Housing Administration, and the Office of Management and Budget are currently studying the impact of having Ginnie Mae participate in risk-sharing arrangements between the Federal Housing Corporation and various private and other public entities. The result of this study will determine whether any additional changes to Ginnie Mae's charter are necessary.

Multifamily Portfolio Management Reforms

The current FHA portfolio contains approximately 2 million privately owned and managed rental units of which approximately 1.6 million also benefit from mortgage and/or rental subsidies provided by HUD (the assisted stock). About 87 percent of all tenants in FHA-insured properties are low-income renters with incomes below 80 percent of median and of that, over 50 percent have incomes well below 50 percent of median income. Elderly and disabled households occupy 19 percent of the unassisted stock and almost half of the assisted stock.

Unfortunately, many of these programs were flawed in their basic design and/or operation. This does not mean that the real estate is deficient; in fact, the majority is well-maintained and critical to the 1.6 million households who live there. These flaws, however, are the legacy that this Administration is now for the first time in 25 years raising to everyone's attention and proposing to correct.

The most serious flaw is that the government and the residents are trapped in a difficult, no-win situation because the subsidies pay the debt that is insured by FHA. If HUD/FHA lowers the rents or enforces the rules on maintaining property standards, FHA ends up paying a claim against the GI/SRI insurance fund and eventually owning the real estate through foreclosure. Among other critical flaws were sporadic investment in technology, systems, and training, and a policy against forcing a mortgage into default by enforcing property condition standards, because it would cost FHA money to pay claims.

The Administration has implemented solutions that are an important foundation for the more radical change that is proposed. It was clear last fall, however, that a more radical change was required to end excessive subsidies, stop significant stock deterioration, and relieve both owners and tenants of the massive burden imposed when rules replace common sense. This proposal for multifamily reform is the result. It comprises several initiatives in the areas of portfolio management and enforcement, preservation and property disposition.

Mark-to-Market addresses the most critical flaw -- the interdependence of subsidies, debt payments, and insurance. By separating the subsidies and insurance, we can reduce costs, provide residence choice, ensure real estate-based incentives to owners, and improve the quality of the housing.

The multifamily reforms are based on the premise that it is better and less expensive to pay a claim earlier (full or partial) than either to continue propping up projects with higher or additional subsidies, or to pay a claim and then bear the cost of foreclosure and disposition. The reform effort also comprises several initiatives in the areas of portfolio management and overlapping changes in enforcement, preservation, and property disposition.

The basic concept is to separate future Section 8 renewals from the property, provide for a new legal and financial relationship with owners at contract expiration and adjust the value of the real estate to market levels. The real market value of the real estate is recognized through adjusting the debt to a level consistent with market rents. Future incentives and benefits of real estate ownership will be based on good management and investment in the real estate going forward, and not subsidies from the government.

Under the proposal, tenants will be free to choose where they live (including living in their current home in the majority of cases), and retain subsidy support on a resident basis. FHA will be provided the tools to maintain an active and viable mortgage portfolio. These include the ability to accept partial payment of claims and restructure existing debt when the real estate value is below existing debt without taking full assignment of the loan. Existing tools will be expanded such as selling mortgages and foreclosing quickly where necessary and then disposing of properties more cost-effectively. Also, FHA will again be in a position to enforce with vigor.

It is expected that properties which are both insured by FHA and subsidized by HUD will break down into three basic groups: (1) those which after the subsidy contract expires require no further assistance, except individual tenant-based resident subsidy when the tenant is eligible; (2) those that will require the restructuring of the mortgage, a short-term contract renewal on a project basis and modification of other aspects of their prior legal obligation; and (3) a small but notable segment of the stock that cannot work (rents do not even pay expenses), even if the government forgoes debt.

1. No Claim Payments/Prepayments. It is expected that approximately 25 percent of the assisted portfolio encompasses projects with owners who will elect not to renew the subsidy and to repay or refinance the mortgage at no additional cost to the Government.

   For these properties, the only cost to the government will be the cost of conversion to tenant-based subsidies. Rents may exceed FMR over time and tenants will need to move. Current requirements for tenant notification will continue to be applied. Certificates will be available to eligible households from the Housing Certificate Fund.

2. Partial Claims. Most properties will be allowed to restructure their debt before, or at the time, the contract for Section 8 expires.

   The majority of these projects will be unable to pay current debt service and operating costs when the rents are reduced to market. These projects are good, solid, affordable housing, but must see a recognition of real current value in the debt levels to survive separating the subsidy without causing a full mortgage default and then foreclosure.

   Today, the Department can adjust the loan amount and pay a partial claim to the investor/lender as a workout. The owner retains the amount as non-amortizing debt, in most cases as a second mortgage. The Department is now proposing to offer this to borrowers at or prior to contract expiration. To the extent it can be done voluntarily by owners, lenders and investors today under current authority, this will be done. In some cases, however, additional legislative authority will be required.

   In all cases, eligible residents will be provided with short-term (up to 2 years) project-based protection. Elderly and disabled households may at their option retain the project-based subsidy as long as they are eligible and funds are appropriated to the Housing Certificate Fund. Other households will receive certificates at the end of the transition period, so long as they are eligible. They may use them in place or move if they choose. Owners with restructured mortgages will be required to accept voucher or certificate holders.

3. Full Claims (with foreclosure). Some properties are not now nor can they be made economically or socially viable simply by restructuring. In this situation, restructuring means foreclosing on properties and providing tenants with certificates to seek other housing. These properties will then be disposed of as outlined in the property disposition section.

Multifamily Property Disposition

The Multifamily Property Disposition Reform Act of 1994 (Reform Act) made a number of program improvements that increased HUD's ability to deal efficiently with sales of foreclosed or HUD-owned property and provided the Department with some necessary tools for sales to nonprofit entities and resident organizations. Further program reforms are needed now, both to conform our practices and policies in property disposition with the proposed operating procedures for the new, entrepreneurial FHA and to address the budget realities that make a more cost-efficient approach essential in any future scenario.

The Department is proposing legislative changes to achieve these goals:

- Protect residents when properties are caught in the default/foreclosure/sales cycle;

- Prevent properties from becoming or continuing to be a blight on the communities where they are located, and instead manage and sell the properties in a way that will contribute to neighborhood preservation or revitalization;

- Provide consistency in the Property Disposition program with the Mark-to-Market proposal, particularly with regard to delinking subsidies from real estate; and

- Achieve further cost savings by procedural changes that would improve the sales process and reduce HUD holding costs.

HUD proposes that HUD-owned properties be treated consistently with insured properties going through the mark-to-market process. For subsidized properties, this will mean that up to 2 years of project-based rental assistance will be provided. After this 2-year transition period, families residing in units with project-based certificates will receive a portable subsidy, which could be used to continue to rent in the property or to move to another property of the family's choice.

Preservation

To encourage the development of lower income housing during the late 1960s and early 1970s, mortgages with 40-year loan terms were insured by FHA under Section 236 and 221(d)(3) programs. Certain of these mortgages allowed the owner to prepay the loan without HUD's consent at the end of 20 years. In 1987, with the 20-year anniversaries approaching, Congress imposed a moratorium on the ability of owners to prepay, in order to develop a mechanism to encourage owners to preserve this housing as affordable to low- and moderate-income families for at least the remaining term of the mortgage.

Congress passed the Emergency Low Income Housing Preservation Act of 1987 (ELIHPA) and then the Low Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA). These programs offer generous incentives to owners to continue to operate the properties as low-income housing. The highest and best use of many of these properties is low-income housing, and given the opportunity to prepay, it is anticipated that only 25-30 percent will in fact do so in today's market environment.

Currently, many of the provisions of the two programs contradict the principles of HUD reinvention and of FHA restructuring. They emphasize continued long-term linkage of subsidies with real estate, artificially imposed above-market rent structures as opposed to market-driven rents, and bureaucratic, complex requirements which fall on private owners, residents, and units of State and local governments.

The Department proposes to reform LIHPHRA into a new program (New Preservation) that is less expensive and more realistic operationally. Resident empowerment will continue to be supported with technical assistance grants. The New Preservation program will continue to provide acquisition assistance for the preserved property, but only for acquisition by qualified resident organizations or other community-based nonprofits.

Only those properties with low rents and significant equity demonstrated by an appraisal submitted before February 6, 1995, will be eligible to participate in the new program. Properties which do not participate in the new preservation program will either remain as affordable housing under their current ownership, or the mortgages will be prepaid and the properties become subject to market disciplines that mandate owners to operate them at competitive prices in order to remain viable.

This proposal is designed to achieve the goals of resident organizing and capacity-building, provide protection for residents (including tenant-based assistance for properties where mortgages have been prepaid), encourage nonprofit ownership of properties that are sold (to encourage community-based and community-responsive owners), and community stabilization by allowing properties to find their market niche through repayment or sale.

March 1995
HUD-1524-PA

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410-0001

HUD'S REINVENTION:

FROM BLUEPRINT TO ACTION

March 29, 1995

TO: ALL HUD EMPLOYEES

Last December, the Administration proposed dramatic changes to transform the U. S. Department of Housing and Urban Development into a stronger partner of the American people and the communities in which they live. The President and I have proposed that these changes will make HUD a vigorous supporter of local initiatives for empowerment. We will work in partnership with the Union leadership to implement this transformation in a manner which best serves the interests of the Department and its workforce.

Your copy of the attached Summary document, **HUD's Reinvention: From Blueprint To Action**, is provided to keep you involved and informed in our efforts to deliver better service to America's communities. The document provides specifications for legislation and represents a constructive starting point for good-faith efforts to ensure that our communities are able to attain the resources they need.

Please take the time to review the Summary document. We will continue to hear the employee's voice through the inclusion of union leadership, and we appreciate your contributions to this effort in making HUD an agency which is accessible to communities and people in need. We look forward to continuing our partnership with you, in working together to help our communities reach their fullest potential.

Henry Cisneros