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IMPROVING AMERICA'S HOUSING BY SHUTTING DOWN HUD

INTRODUCTION

Members of the new Congress have begun to scrutinize the costly and counterproductive housing programs of the U.S. Department of Housing and Urban Development (HUD). This careful examination is long overdue. Although HUD has been criticized for many years, Congress until now has shown little interest in conducting a "bottom-up" review of the agency or in questioning the need for its continued existence.

Sensing the commitment of the new Congress, HUD Secretary Henry Cisneros, Jr., last December attempted to preempt the reform effort and control the process by issuing a *Reinvention Blueprint*, which offered both a stinging critique of HUD and a pledge to restructure its programs in the direction first taken by the Reagan Administration.[1] But when Cisneros's FY 1996 budget proposal was released on February 6, 1995, it bore little resemblance to the rhetoric of December—the failed programs of the past would continue to receive generous funding for the foreseeable future, with promised reforms apparently not scheduled until near the turn of the century.

The Administration's housing budget should be rejected, and Congress should proceed with its own plans for the fundamental overhaul of America's housing policy. Central to this overhaul should be shutting down HUD.

Although there is some overlap, HUD's programs operate in four main functional areas : 1) Low-Income Housing Assistance, 2) Community Development Block Grants, 3) Mortgage Insurance (the Federal Housing Administration and Government National Mortgage Association), and 4) Fair Housing. Low-income housing assistance is the larg-

1 William Raspberry, "At HUD, Reinvention by Necessity," *The Washington Post*, January 4, 1995, p. A15.

est functional area and absorbs about 80 percent of HUD's budget through a variety of programs. Most of the remaining 20 percent of HUD's budget is spent on the Community Development Block Grant program, which covers a variety of civic purposes, including housing. The FHA's single-family mortgage insurance functions generally have been self-financing over the long term, while the budget for Fair Housing activities is just a small fraction of the first two.

To close down HUD, Congress should take the following steps:

✔ **Consolidate most low-income assistance programs within the new welfare block grant proposed for the states.** The states would be encouraged to administer whatever portion of the grant they allocate to housing assistance in the form of housing vouchers and certificates that permit eligible households to choose where they want to live. The states also would be encouraged to allow tenants and program beneficiaries much more involvement in and control of the management and ownership of the government-owned projects in which they live. By establishing block grants and encouraging that funds be used primarily for household-based assistance rather than for the project-based assistance that now dominates HUD programs and is twice as costly per household served, government could provide higher quality assistance to more people at less cost. At the same time, by linking housing assistance to overall welfare reform, Congress can begin to move people to self-sufficiency and end the long-term dependency that characterizes so many of these programs.

✔ **Terminate the Community Development Block Grant.** The Community Development Block Grant program, which has disbursed between $4 billion and $5 billion per year for a variety of purposes, including housing assistance, would be made redundant by the proposed housing block grant and should be eliminated.

✔ **Privatize the FHA.** Single-family mortgage insurance programs of the Federal Housing Administration (FHA) should be reorganized into an independent government corporation and its portfolio cleaned up in preparation for eventual privatization. Many of the FHA's recent financial difficulties have been due largely to costly defaults and foreclosures of FHA-insured mortgages on subsidized, multi-family housing projects.

✔ **Transfer HUD's anti-discrimination functions to the Justice Department.** HUD's Office of Fair Housing, whose chief purpose should be to prevent housing discrimination, should be transferred to the Civil Rights Division of the Justice Department where the issue can be pursued more effectively and efficiently within the context of general civil rights enforcement.

HUD should be dissolved for reasons far more important than any near-term budgetary savings or deficit reduction targets. With the vast majority of its programs focused on low- to moderate-income households, HUD is an integral part of the nation's failed welfare system. Any changes at HUD must be consistent with the overall welfare reform goals of ending long-term dependency and creating strong incentives for self-sufficiency.

Of the many possible directions welfare reform could take, the most sensible would be to shift responsibility and necessary financial resources to the states in the form of block grants.[2] The housing assistance responsibilities and resources that now belong to HUD and comprise about 80 percent of its budget should be part of these block grants. Legislation to be introduced by Senator Lauch Faircloth (R-NC) and Representative James Talent (R-MO) would accomplish this objective.

It is clear that, despite the more than $5.5 trillion spent on means-tested assistance by HUD and other federal agencies since 1965, America's urban problems are worse and the volume of dysfunctional low-income households has grown.[3] And the neighborhoods for which HUD is responsible are far more dangerous and despairing. It is time to close down HUD and radically reform the nation's housing policies.

REFORMING LOW-INCOME HOUSING ASSISTANCE

Since the early 1970s, much of the debate over housing policy has been between the advocates of project-based assistance and those who favor household-based assistance. Arguing that housing problems—such things as substandard housing, overcrowding, and high rent payments compared with income—are in fact income problems, advocates of household-based assistance believe the most efficient way to improve conditions is to give eligible households the financial wherewithal to acquire better housing. To ensure that this assistance is spent on housing, the household receives a cash equivalent in the form of a voucher or certificate that can be used to pay the rent (or some portion of it) on suitable apartments provided by private-sector landlords or other entities.

By and large, a housing voucher program of this sort conforms to the process and purpose of most other government assistance programs, such as food stamps, student loans, Medicare, and Medicaid. In each of these programs, government gives the eligible individual the means to acquire the product or service, which generally is provided by the private sector, by nonprofit institutions, or by state and local governments.

The alternative to household-based assistance is project-based assistance in which government, through a variety of mechanisms, subsidizes the construction, renovation, acquisition, and/or operation of multi-family housing projects where some or all of the units are reserved for low-income households. At present, approximately 70 percent of those who are assisted through HUD are in project-based programs, while the other 30 percent are in household-based programs such as vouchers and certificates.[4]

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2 Robert Rector, The Heritage Foundation, "Four Themes of Welfare Reform," testimony before the Committee on Economic and Educational Opportunities, U.S. House of Representatives, January 18, 1995.

3 Robert Rector, The Heritage Foundation, "The Scope of the Welfare State," testimony before the Committee on Governmental Affairs, U.S. Senate, January 25, 1995, pp. 2-3.

4 Congressional Budget Office, "The Challenges Facing Federal Rental Assistance Programs," December 1994, p. xiii (hereafter cited as CBO Study).

The advantages of household-based programs fall into two broad types.

LOWER COSTS. Household-based assistance is about half the cost of project-based financing.[5] The table below, compiled by the Office of Management and Budget for President Reagan's Commission on Privatization, provides the twenty-year costs per household assisted for several of the major housing programs. The first two are household-based, while the next four are project-based and include an Agriculture Department program for qualified residents of rural areas.

PROGRAM	20-YEAR COST
Voucher	$27,892
Section 8 Certificate	$27,955
Farmer's Home Section 515	$35,210
Rental Housing Development Grant	$53,500
Section 8/292 Housing	$53,575
Public Housing	$69,863

Source: Report of the President's Commission on Privatization, p.11, Table 3.

It should be noted that HUD housing assistance programs are not entitlements. They operate on a first-come, first-served basis which leaves many eligible low-income households unassisted, so any reform which improves program efficiency also increases the number of beneficiaries for the same total costs or less.[6]

PORTABILITY. The second major benefit of household-based programs is that vouchers are portable and allow the recipient some choice in finding suitable rental housing. Assisted households can integrate themselves into the larger community according to their own interests and needs. For example, vouchers permit a family with young children to make neighborhood choices with regard to schools or an elderly individual to make choices with regard to family and friends.[7] Project-based assistance concentrates the assisted, and thus largely the poor, in segregated settings that often are unsafe and far from job opportunities and good schools. According to a recent CBO study:

> [T]he evidence presented in this analysis suggests that with the exception of the elderly, recipients of household-based aid are less likely than recipients of project-based aid to be dissatisfied with their housing units or the condition of their neighborhoods. That pattern is apparent even though the incidence of substandard or crowded units is roughly the same for both types of aid among households of the same type.[8]

5 *Privatization: Toward More Effective Government*, Report of the President's Commission on Privatization, March 1988, p. 11.

6 CBO study, p. xiii.

7 While many see this outcome as an advantage of vouchers, this view is not universal among housing analysts. In the January/February 1995 issue of *The New Democrat*, Howard Husock of the John F. Kennedy School of Government at Harvard University writes that "Rent subsidies, which now go to more than one million households, aim at dispersing poor families rather than concentrating them. In practice, this has often meant injecting the problems of public housing into previously stable neighborhoods."

8 CBO study, p. xix.

Efforts to integrate project-based assistance into better parts of the community usually meet with intense resistance because of fear that such a large number of poor concentrated in one or two buildings would destabilize the neighborhood.

The obvious benefits of vouchers have not been lost on officials at HUD, and previous Secretaries from both parties have attempted to shift resources from project-based programs to those that are household-based for all of the reasons cited above. Unfortunately, past Congresses, often influenced by special interests in the housing industry and within local public housing authorities, have directed the bulk of HUD spending toward costly and inefficient subsidized housing projects.[9]

Why a Block Grant Is Needed

While a voucher system could be operated from Washington as it is today, it makes far more sense to transfer funds to the states and permit them to provide vouchers or other forms of assistance within a new welfare block grant. Perhaps the most important reason to do this is to make sure that all housing assistance is coordinated with other forms of welfare assistance so that the overriding welfare reform goals — encouraging work, reducing illegitimacy, limiting time on assistance, and controlling costs — are met. Otherwise, some individuals could jump from one program to another to avoid work and other requirements designed to move them toward self-sufficiency.

Another important reason is to enhance program flexibility so that the program can be adjusted to meet unique local and regional requirements, in contrast to the typical one-size-fits-all, top-down Washington mandates that can be adjusted only through lengthy bureaucratic procedures. Reducing program overhead costs is another reason for combining all welfare programs into a single block grant. At present, vast bureaucracies at HUD, the Agriculture Department, and Health and Human Services and their state and local counterparts administer different aspects of the federal welfare program. Money saved by reducing this overhead could be used better to assist the poor.

What To Do About Existing Public Housing

About 70 percent of HUD-assisted households are assisted through project-based programs, the oldest and most troubled of which are the locally owned and managed, but federally funded, public housing projects which originated in the 1930s during the Great Depression. These projects are expensive to build and maintain, and the federal govern-

9 Last year's Senate appropriation bill illustrates the extent to which the bulk of HUD's resources were directed by Congress to programs already judged costly failures. The bill allocates $598 million to public housing development, $300 million to Indian housing, $3.8 billion to the renovation and modernization of public housing, $1.7 billion to project-based housing for the elderly and disabled, $250 million to preservation, $555 million to property disposition costs, $500 million to the project-based Neighborhood LIFT program, $3.7 billion to expiring Section 8 contracts (a majority of which are project-based), $2.9 billion to public housing operating subsidies, $500 million to severely distressed public housing, $1.5 billion to the HOME Investment Partnerships Program (also largely a project-based program), and $350 million in grants to eliminate drugs and crime from public housing. The last item indicates just how deeply HUD has been sucked into sustaining costly failures; spending for basic law enforcement purposes absorbs funds that otherwise would have provided housing assistance to another 70,000 needy households. What is left over for household-based assistance is a fraction of this, largely comprised of the $2.1 billion for incremental housing assistance and some minor portion of the $3.7 billion for expiring Section 8 contracts.

ment has been trying to extract itself from this program since the early 1970s. But Congress keeps funding the projects in response to intense lobbying from local public housing authorities and managers. The CBO estimates the unfunded backlog of needed repairs to public housing at between $10.5 billion and $20.7 billion.[10]

While some public housing projects are attractive and cost-effective, particularly for the elderly and the disabled, many of these government-run, inner-city housing projects are financial and social disasters that condemn their residents to environments of crime and squalor. The situation is so bad that this year Congress has had to appropriate $315 million to HUD for crime-control programs. Thus, by perpetuating the failed public housing program, HUD is forced into the law enforcement business, and money that otherwise would have assisted 70,000 additional households is diverted to crime fighting.

Public housing has become HUD's most glaring failure, with many projects now crime-infested neighborhoods of desolation and despair. Vouchers are one way to deal with the worst of these projects. Besides their cost advantage, they give eligible households the chance to move, thereby helping resolve the question of what to do about the 70 percent of assisted households living in public housing or subsidized projects. In his *Reinvention Blueprint* Secretary Cisneros proposes to shift away from direct financial support to the owners and managers of public housing and provide it indirectly by giving portable vouchers to the tenants of public housing projects. Tenants could move elsewhere if they are not satisfied with the way their project is managed, and public housing authorities would be forced to improve services to maintain funding through rent collections rather than direct federal subsidies.

Congress should go a step further by giving tenants several more choices. One would be to use their vouchers to manage or even own the project where they live, a process that has proven successful in dozens of public housing projects throughout the country. Initiated during the Reagan Administration and pursued aggressively during the Bush Administration by HUD Secretary Jack Kemp, tenant management and ownership has been a major success and has led to the transformation of decaying, drug-ridden, crime-infested projects into safe and livable communities.

Experience has shown that with management or ownership in the hands of residents, and with tenants empowered to shape the outcome of events and bear the consequences of their mistakes or inaction, the quality of life and service in these projects improves dramatically, regardless of how bad the situation was at the start. Kenilworth-Parkside in Washington, D.C., Bromley-Heath in Boston, individual buildings in Chicago's infamous Cabrini-Green project, Louisville's College Court, and the Cochran Gardens in St. Louis represent just a few of the tenant management successes in otherwise hostile environments.[11]

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10 CBO Study, p. 9, Table 1.

11 For more details on tenant ownership and management of public housing, see Carl F. Horowitz, "Jack Kemp's 'Perestroika': A Choice Plan for Public Housing Tenants," Heritage Foundation *Backgrounder* No. 888, March 26, 1992, and "The Misplaced Assault on Resident Ownership of Public Housing," Heritage Foundation *Backgrounder* No. 916, October 2, 1992.

Despite this record of success, and despite the opportunity to turn adversaries into partners, the Clinton Administration has done nothing to advance tenant ownership and management. With the encouragement of past Congresses, the Administration that talks so much about empowerment instead has substantially reduced the funding available for tenant ownership planning and implementation grants. During the last budget cycle, HUD received more than a hundred *bona fide* requests from public housing tenant associations, in partnership with their local PHAs, for grants to implement homeownership plans —but only eleven could be awarded because of severe funding limits.

This neglect could be rectified under welfare block grants by encouraging governors and mayors to use some portion of the funds to pursue tenant-based solutions to persistent public housing problems. Inasmuch as public housing projects are owned by state and local governments, block grants get federal bureaucrats out of the loop and allow for more effective locally based solutions.

TERMINATING COMMUNITY DEVELOPMENT BLOCK GRANTS

After assisted housing, which is scheduled to cost $26 billion in FY 1995, the next largest component of the HUD budget is the Community Development Block Grant (CDBG) program. In FY 1995, Congress appropriated $4.6 billion for this program. These grants, allocated directly to communities and states, are spent according to local priorities on such things as the acquisition and disposition of real property, construction of public facilities, rehabilitation of housing, and the provision of a number of permitted public services. At least 70 percent of the funds received by a grantee must benefit individuals of low and moderate incomes.

As in the case of the housing programs discussed above, CDBG grants largely are project-oriented and subject to all of the criticisms associated with project finance. Worse still, CDBG has evolved into a major pork-barrel program. Many projects appear to be of questionable value, secured through the lobbying of powerful lawmakers. One recent report noted that a list of "critical and ready to go" projects compiled by big city mayors included $1.2 million for an "arts center" in San Francisco; $250,000 for a central compost facility in Kalamazoo, Michigan; $400,000 for carousel renovations in Providence, Rhode Island; $360,000 for a swimming pool in Columbia, South Carolina; and $200,000 for a sports complex and historic mill in Central Falls, Rhode Island.[12]

But this waste is only part of the problem. Implicit in such grants, whether they are for frivolous purposes or not, is the presumption that communities can spend their way to prosperity and that the only impediment to economic development is the absence of a few more infrastructure projects to attract jobs, technology, and investment capital. America long since has stopped believing this about foreign aid and now should extend the same skepticism to such domestic bricks-and-mortar initiatives as the Community Development Block Grants, the Economic Development Administration, the Appalachian Regional Commission, and Washington, D.C.'s Pennsylvania Avenue Development Corporation. Compared with other ways to foster economic development, such as cutting

12 Thomas Humbert, "Liberating the Poor From HUD's House of Privilege," Alexis de Tocqueville Institution, July 26, 1993.

taxes and red tape, reducing crime, and improving public education, development grants have a dismal track record.

Fortunately, in the last few years a new class of local leaders has emerged who recognize that cities often have been their own worst enemies and that the high cost of low-quality municipal services has been one of the main reasons why businesses and middle-class families have fled. Mayors in such cities as Charlotte, Cleveland, Indianapolis, Jersey City, Los Angeles, Milwaukee, New York, and Philadelphia, like governors in such states as Massachusetts, Michigan, New Jersey, and Wisconsin, have come to recognize that the key to their own development is not millions of dollars in federally funded projects, but tax relief for their productive citizens, secure property rights through less crime, more efficient government that delivers quality services at the lowest price, welfare reform that ends long-term dependency, and a functioning school system.

These initiatives can be implemented only by local leaders. Indeed, to the extent that Washington's money temporarily can paper over problems or pretend to address needs, there is less incentive for local leaders to make the tough decisions needed to solve their problems. The CDBG program should be terminated in favor of locally based reforms to create an environment that encourages business and productive citizens to remain in, or return to, the cities.

PRIVATIZING THE FEDERAL HOUSING ADMINISTRATION

The Federal Housing Administration (FHA) was created in the 1930s to promote the then-innovative long-term, fixed-rate, level payment, fully amortized mortgage and to fill the mortgage insurance gap created by the Depression-induced collapse of the private mortgage insurance industry.

Designed to be self-sufficient, the FHA insures mortgages against loss from default or foreclosure and collects a premium from every borrower to build insurance reserves and cover actual losses. Implicitly confined to the lower end of the market because of congressionally established maximum limits on the size of mortgages that it may insure, the FHA competes with many private, taxpaying mortgage insurers for the profitable business of insuring mortgages on single-family residences. For most of its history the single-family portion of FHA has been financially healthy, but significant losses were incurred in the 1980s as the real estate market declined in some regions of the country. Since then, as a result of an improved real estate market and program reforms, financial solvency has returned, and the single-family program's net worth is estimated at over $4 billion.[13]

The FHA also insures multi-family residential mortgages used to finance low-to-moderate-income subsidized housing projects constructed under various HUD programs in cooperation with nonprofit and for-profit developers. In recent years, many poorly conceived and mismanaged multi-family housing projects have gone into foreclosure, leaving FHA and HUD with multi-billion-dollar losses.

13 U.S. General Accounting Office, "Mortgage Financing: Financial Health of FHA's Home Mortgage Insurance Program Has Improved," Report to the Chairman, Subcommittee on Housing and Community Development, Committee on Banking Finance, and Urban Affairs, U.S. House of Representatives, October 1994, p. 4.

The FHA should be restructured and privatized according to a two-part strategy:

❶ **The financially sound (single-family) portion should be privatized.** In FHA's nearly sixty years of existence, its single-family mortgage insurance programs have demonstrated that with proper underwriting they can be financially self-sufficient, if not profitable, even when concentrated primarily on creditworthy borrowers with moderate incomes. This portion of the business should be separated from the other mortgage insurance programs and reorganized temporarily as a self-sufficient, independent government corporation. This coporation would exist as an independent entity until such time as its operations can be brought up to private-sector standards and a thorough analysis of its portfolio and its obligations can be conducted.

Most government credit and insurance programs suffer from lax reporting, accounting standards, and financial controls, and these must be rectified prior to sale in order to enhance value. Otherwise, prospective buyers will assume the risk is greater than it really is and price the business accordingly. This is the model used for the U.S. Enrichment Corporation—formerly a part of the U.S. Department of Energy—when it was organized as a government corporation in 1993 and scheduled for privatization in 1996 at a projected sale price of $400 million.

❷ **The remaining risky, unsound insured multi-family mortgages should be placed in a separate liquidating facility and the insurance obligation on these multi-family loans transferred directly to the federal government.** If this is not done, the ongoing risk of these multi-family mortgages either would eliminate any private-sector interest in acquiring FHA or diminish its price. There is precedent within HUD for such asset and obligation transfers to enhance the attractiveness of enterprises slated for privatization. In the late 1960s, when the Federal National Mortgage Association (FNMA), then a part of HUD, was scheduled for privatization, its risky, subsidized multi-family mortgages were transferred to a newly created entity within HUD, the Government National Mortgage Association (GNMA), for orderly liquidation.

Opponents of this two-part strategy would argue that the FHA is the key to providing mortgages to creditworthy but moderate-income households that otherwise might not be of interest to private mortgage insurers. They argue further that promoting homeownership is still a national goal and that, to the extent the FHA can help accomplish this at "no cost" to the taxpayer and without offering unfair competition to private insurers, it should remain within the government. If it were privatized, they maintain, the FHA would turn away creditworthy households of modest means.

Insofar as this claim has any validity, a reconstituted FHA could be chartered as an independent government corporation (similar to FNMA) with no claim on the U.S. Treasury, required to be self-funded, and limited to households and houses that otherwise might be neglected by the private sector.[14] Alternatively, a fully privatized FHA could be encouraged to insure the mortgages of moderate-income buyers by allowing it to charge a higher premium for loans that fall below certain well-specified underwriting standards.

14 See *Privatization: Toward More Effective Government*, pp. 30-32, for a more detailed discussion and proposal for an FHA better targeted toward buyers of moderate incomes.

Whether it is private or an independent government corporation, a reformed FHA must be free of day-to-day government meddling. Otherwise, it will continue to be exposed to the claims of the same special interests who, acting through previous Congresses and Administrations, induced FHA to insure risky, high loan-to-value mortgages, vacation homes, private investment properties, and risky, subsidized multi-family projects.

TRANSFERRING THE OFFICE OF FAIR HOUSING

HUD's Fair Housing program is tasked with enforcing the nation's fair housing laws and objectives, particularly as they relate to the ongoing problem of racial discrimination. Notwithstanding the considerable progress made in this effort since the enactment of civil rights legislation in the 1960s, the problem persists, and government has an obligation to enforce the law and encourage landlords, builders, and real estate agents to obey it.

Unfortunately, in attempting to meet this goal, HUD bureaucrats have trivialized the objective and, in their pursuit of subliminal violations, have subjected the goal of non-discrimination to open ridicule.

How silly is HUD's effort? Consider the following. In response to HUD's directives, the Virginia Association of Realtors urged its member agents to use "caution" in using such words and phrases as *desirable neighborhood, handyman's dream, near country club* (although "near golf course" is deemed acceptable), *prestigious*, *quality neighborhood, secure*, and *within walking distance*. Listed as "unacceptable" are such expressions as *able-bodied, bachelor pad, empty nesters, mature couple, mature individuals, near church*, and, of course, *quiet tenants*.[15]

It is time for Congress to transfer the responsibility for enforcing the nation's fair housing laws to the Civil Rights Division of the Justice Department. This would allow fair housing laws to be handled more professionally within the context of comprehensive civil rights enforcement.

The Rural Housing Programs of Other Departments

Although most of America's urban and suburban housing assistance is provided through programs administered by HUD, some special-purpose housing programs are administered by other departments, including Defense, Veterans Affairs, and Interior. Most rural housing programs are provided by the Department of Agriculture through the Farmers Home Administration.

Rural housing programs are markedly different from the suburban and urban programs of HUD, in part reflecting the destruction during the Depression of large segments of rural Americas financial system. Whereas the FHA was created to insure privately provided mortgages for urban and suburban home buyers, the Farmers Home Administration

15 Perhaps recognizing that the debate within Congress on terminating HUD was serious and that the public ridicule induced by the antics of the Fair Housing staff offered one more reason why the Department should go, HUD in January 1995 issued a "clarification" which, among other changes, again will permit housing ads to use such terms as master bedroom, great view, Santa Claus, St. Valentine's Day, and family room, among others.

(FmHA), dating from 1937, actually provides the loan, usually with a significant interest rate subsidy. In addition, whereas multi-family rental assistance programs are the predominant form of housing assistance provided by HUD to low- and moderate-income urban and suburban households, the FmHA largely provides homeownership assistance to rural low- and moderate-income households by way of deeply subsidized interest rates in the belief that rental units were not always available in rural settings.

While the emphasis on single-family housing has largely freed it from the major financial fiascoes periodically associated with HUD's multi-family programs, FmHA bleeds from a thousand minor wounds. As GAO studies point out, FmHA programs consistently suffer from high loss and delinquency rates, as well as from poor management. Loan servicing by FmHA is costly, ineffective, and deficient in timely and accurate information. Recent experience with private servicing of FmHA loans indicates that improved servicing of $18 billion in loans yielded five-year savings of $1.2 billion in servicing costs alone. Moreover, better private-sector management led to a halving of the delinquency rate and an 80 percent decline in foreclosures.

With the passing of the Depression and the re-emergence of private financial institutions in rural America, the low-income assistance responsibilities now attempted by the FmHA should be folded into the new housing block grant program. Home ownership programs, whether by direct loans or guaranteed loans, should be terminated and replaced by the same FHA programs available to urban and suburban buyers.

The $49 billion in previously made rural loans now held by the federal government should be sold to private-sector investors and servicers as part of the orderly liquidation of this program. As noted above, such a sale will save billions of dollars in servicing costs and in reduced losses from foreclosure.

TRANSITION ISSUES

Any major shift in HUD's responsibilities and programs must be coupled with an orderly withdrawal from the many long-term commitments and contracts HUD has made directly with housing assistance providers—such as developers, nonprofits, local housing authorities—and assisted households. Most of its project-based programs involve some form of long-term contractual commitment by the federal government requiring HUD to subsidize some facet of the project, such as the interest rate on the mortgage or the rents paid by tenants. In other cases, like public housing, the commitment is informal. Many public housing projects have become dependent on HUD operating subsidies and modernization grants, the swift withdrawal of which would have its harshest effect on those least able to bear it—the low-income residents of these projects.

As noted earlier, the uncertainty confronting public housing residents can be overcome by providing them with vouchers that allow them to move to better accommodations and force the public housing authority to compete with private landlords for the rent money of assisted households. With HUD dissolved, this would become the responsibility of the states and funded from the block grant they would receive.

Tenants in other types of subsidized projects whose contracts are expiring—such as those in Section 8 new construction and renovation—would receive vouchers that they could use to remain in the project or to look elsewhere. The same would be true for other types of projects, including subsidized multi-family projects whose owners are threatening to default on their FHA-insured loans: tenants, not owners, would be the direct beneficiaries.

CONCLUSION

Many of Secretary Cisneros's proposals are commendable and, if enacted and implemented aggressively, would constitute some of the most significant reforms ever attempted at HUD. As a result, it is tempting for some HUD critics to declare victory, speed up the implementation, and give HUD a second chance. Congress should resist this temptation for two important reasons:

First, from a budget efficiency standpoint, any reforms enacted today can easily be undone in the future by another Congress indebted to other housing interests. Housing construction and investment interests dominated housing policy for decades and can be expected to do so again. Continuing to maintain a reformed HUD with most of its project-based programs intact, albeit at much more modest levels of activity, means the seeds of future expansion remain and would be difficult to stop in a different political environment. But with HUD dissolved and its decisionmaking and operations transferred to the state level, it would be much more difficult, if not impossible, to expand and revive these costly and wasteful programs.

Second, and more important, consolidating HUD's resources into a block grant is crucial to any comprehensive welfare reform program designed to move people into productive self-sufficiency, in part by ending segregated large-scale custodial programs for poor households. With most of its programs purportedly targeted to low- and moderate-income households, HUD is an integral part of today's failed welfare system. Closing down HUD must be an integral part of reforming that system.

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