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Homeownership Vouchers: A Plan to Reinvigorate the Economy While Helping Low-Income Families

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While easy monetary policy and a large fiscal stimulus have limited the economic downturn and helped generate modest growth, few believe the economy can grow fast enough to reduce unemployment without the recovery of the housing sector. Yet, no such recovery is in sight. As of late December 2010, the headline story was "Housing Recovery Stalls: Fresh Fall in Home Prices is Headwind for Economy."[1] Construction output remains 30 percent below pre-recession levels and is no higher today than it was a year ago (about 30 percent of all lost jobs were in the construction industry). The unemployment rate among construction workers is about 19 percent, double the national average. There are still 7 million homes in foreclosure or with mortgages that are 90 days delinquent. House prices continue to stagnate.

So far, federal initiatives aimed at shoring up the housing sector have cost tens of billions of dollars but have been ineffective and poorly targeted. The tax credit for homebuyers may have sped up some home purchases, but it did so at a high cost and with benefits flowing to many high-income families. It subsidized purchases that would have taken place without the credit, resulting in a cost to the taxpayer of $43,000 per new home purchased and a total budget cost of $15-20 billion, which was twice as much as Congress expected.[2] President Obama's Homeowner Affordability and Stability plan has reached only a small percentage of eligible homeowners.[3]

The potential benefits of increasing the demand for owner-occupied housing are enormous. A rise in home prices would reduce the number of homeowners who find their homes worth far less than their mortgages. It would discourage these "underwater" homeowners from walking away from their mortgages; allow more families to refinance at low interest rates, thereby reducing the rate of foreclosures; and, ultimately, it would generate new construction jobs and spur associated job growth. Increased home values also can play an indirect role in job creation, since more small business owners would again be able to use their home as collateral for loans to maintain and expand their business.

About the author

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Fortunately, it is possible to design a well-targeted, equitable, and efficient policy that would stimulate the demand for owner-occupied housing in the short-run, raise housing prices, steer benefits to needy families, and reduce the waiting list for federal housing assistance, all at modest cost. Such a policy would create at least 1 million new homeownership vouchers, patterned after the Section 8 (also called "housing choice") rental vouchers. In addition, some of the over 2 million current holders of Section 8 vouchers would be encouraged to convert to homeownership vouchers. Compared to Section 8 vouchers, homeownership vouchers would have the same condition for eligibility (household income no more than 50 percent of the area median income), no more than the current maximum benefit, and the same contribution rate of 30 percent of the recipient family's income. To help with home repairs, homeowners would be required to allocate a small amount of their voucher each month to an insurance pool managed by local housing authorities. Another requirement would be counseling or classes to make sure prospective buyers learn about finances and homeownership. Some of the vouchers could go to current low-income homeowners who face affordability problems as a result of unemployment or reduced earnings, but only if the total contribution from the owner and government would make homeownership sustainable.

> The potential benefits of increasing the demand for owner-occupied housing are enormous

Would such vouchers be sufficient to cover the monthly costs of owning a home? In nearly all localities, the answer is yes. One reason is that the decline in prices of owner-occupied dwellings has been accompanied by increases in rent levels. Since area rent levels determine voucher subsidies, homes in nearly all U.S. metropolitan areas are now affordable to low-income families receiving Section 8 rent vouchers. In fact, in most metro areas, the government cost of the new homeownership vouchers would be substantially less than financing new rent vouchers at the current rent levels.[4] Moreover, the homeownership vouchers would lock in low housing costs for the next 30 years and thus avoid the risk of rising costs due to the escalation of rents.

Direct federal housing subsidies are capped. They serve only about 28 percent of eligible, low-income renter families with children, while the other 72 percent of eligible families receive no subsidy.[5] Many families are stuck on waiting lists that take years to clear. As a result, millions of eligible families pay 50 percent or more of their incomes for shelter that is often substandard, leaving them with little to meet other expenses. This approach is clearly inequitable. Still, compared with other housing subsidies, the rent voucher component of federal housing subsidies works reasonably well for families lucky enough to receive one.[6] The U.S. Department of Housing and Urban Development (HUD) establishes a "fair market rent" (FMR) in each metropolitan area equal to the 40th percentile of local rents. Participants receive a voucher equal to the fair market rent minus 30 percent of their monthly income. They can then use the voucher to rent any unit of their choice that meets HUD's safety, sanitary, and decency requirements. Suppose an area's fair market rent is $800 per month and the recipient family rents a dwelling for that amount. If its household income after some deductions is $1,000 per month, then it pays $300 in rent and receives a $500 per month subsidy. The budgetary cost of the Section 8 voucher program is about $18-19 billion per year and covers about 2.1 million families.

My proposal would expand housing assistance in a more cost-effective approach that would also generate significant gains for the economy as a whole. It differs sharply from past attempts to stimulate homeownership among low-income families. Unlike the expansion of credit through the subprime market, which required low-income homeowners to pay very high interest rates with no government subsidies, the new homeowners

under this voucher plan would experience significant reductions in housing burdens. Because the mortgage would be paid whether or not the homeowner kept his or her job or received a salary increase, the risks would be low and interest rates could be low too. Low-income owners who lose their jobs would not lose their homes as a result, since the income loss would simply lower the participant's contribution and raise the government's contribution, ensuring that the mortgage, taxes, and insurance are paid. Although local housing authorities can allow recipients to use their rental vouchers for homeownership, very few do so. Regardless, the limited experience with the use of vouchers for homeownership shows the plan is feasible. Existing homeownership voucher programs have classes to help people understand their mortgage loan, budgeting and saving, basic home maintenance, and foreclosure avoidance. In general, participants in these programs are eager to fulfill the requirements of employment and creditworthiness to become a homeowner. Foreclosures are relatively rare in existing homeownership voucher programs.[7]

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Because homeowner vouchers would substantially increase the demand for owner-occupied dwellings, inventories of unsold homes would decline and prices would rise in many markets. These increases would benefit current homeowners and lower the losses families and banks experience when homes are sold.

The next section lays out the economic case for homeownership vouchers, including how well the vouchers can meet the carrying costs of homes in a variety of geographic areas, the costs to the federal government, and the proposed budgetary offset. In the subsequent section, I examine potential objections to the proposal and how they can be resolved.

ARE HOMES AFFORDABLE WITH HOMEOWNER VOUCHERS?

Central to the issue of home affordability is the question—which homes and of what quality are affordable under the program? Rankings of homes by market value in each geographic area provide a good indicator of relative quality. Choosing a point on the distribution of home values to target is somewhat arbitrary. One way to ensure that the value of affordable homes under the voucher represents homes at quality levels at least as high as the rental units financed by rent vouchers is to compare the respective incomes of residents. Consider first rental units at the fair market rent, which is based on the 40th percentile of local rents. The median annual income of all renters at the FMR level was about $29,000 in 2007. For purposes of determining home affordability, consider units at the 25th percentile of home prices. It turns out that residents owning homes at the 25th percentile have incomes substantially higher than the income category of renters at the 40th percentile. For the U.S. as a whole, the median income of owners around the 25th percentile of home values was about $55,000.[8] Given this income advantage, homes at the 25th percentile threshold are likely to be of higher quality than rentals at the 40th percentile. Thus, using the 25th percentile no doubt overstates the carrying costs of homeownership at the same quality level as the rent vouchers.

The next step in determining affordability is to pull together data on FMRs and on home values by county and metro area for most of the largest counties.[9] The FMR data comes from the U.S. Department of Housing and Urban Development website.[10] The data on home values comes from the 2009 American Community Survey detailed tabulations, updated for subsequent price trends as measured by the Federal Housing Finance Agency index.[11] In addition, I compile estimates of taxes and homeowner's insurance relevant to each home.

The third step is to specify a set of mortgage terms. Rates for 30-year, fixed-rate mortgages are at about 5 percent. Although the level and stability of incomes of qualifying families might suggest high risks, the fact that buyers would have a voucher should largely eliminate the risk of nonpayment. If the owner loses a job and the family's income falls even to zero, the voucher would still be sufficient to pay the mortgage, taxes, and insurance. For purposes of this analysis, we assume that Federal Housing Authority (FHA) would finance the mortgages. Ideally, qualifying buyers would come up with at least a modest down payment. But, for simplicity, I calculate carrying costs as interest on a 30-year mortgage that finances the full purchase price of the home, plus taxes, interest payments, and some money put aside for maintenance. Households would be expected to pay the monthly amount of principal repayment from their own income; these amounts constitute household savings and would allow the household to accumulate equity. The voucher is intended as a subsidy for shelter and not as a capital transfer.

Affordability depends on whether the maximum size of the voucher is at least as high as the carrying costs. Before presenting summary statistics on a large number of geographic areas, let's look at illustrative cases in Cleveland, Ohio; Las Vegas, Nevada.; Miami, Florida.; and Riverside, California. Note in Table 1 that the prices of homes at the 25th percentile in these areas range from a low of about $85,000 in Cleveland to $134,000 in Miami. Despite these variations, the FMR voucher values all exceed the monthly carrying costs of a home purchase. Even those receiving a voucher to rent a two-bedroom unit could instead pay the costs of homeownership, including interest, taxes, insurance, and an amount put aside for maintenance. Assuming half of those gaining access to the homeownership voucher would qualify for a two-bedroom voucher and the other half for a three-bedroom voucher, the monthly differences between an FMR voucher and homeownership costs range from about $300 to $400 per month.

The monthly costs of the voucher to the government depend not only on the amount provided but also on the contributions by voucher recipients (Table 1). Suppose the maximum amount of the voucher equals the fair market rent or the carrying costs of homes at the 25th percentile, whichever is less. Next, let's assume the vouchers provide housing assistance for two hypothetical low-income earners: Alice, who has one child and makes about $8.40 per hour, and George, who has two children and makes $9.10 per hour. Suppose they both work 35 hours per week but for only 42 weeks of the year or about three-quarters of a standard work year. Finally, assume that the Earned Income Tax Credit benefits (but not other credits) count toward income. With the program demanding contributions equal to 30 percent of the income of recipients, the monthly payments toward housing costs would be $385 by Alice and $460 by George. Subtracting these contributions from the overall carrying costs equals the net direct costs to the government.

While the government costs vary by geographic area and by earnings levels, the annual costs of the vouchers are remarkably low. Scaling up from the estimates in these cities to the U.S. as a whole, the

TABLE 1: FAIR MARKET RENTS (FMR), HOMEOWNERSHIP COSTS, AND ANNUAL GOVERNMENT OUTLAYS ON HOMEOWNERSHIP VOUCHERS IN FOUR CITIES

	Geographic Areas			
Housing Costs—FMR & Homeownership	Cleveland, Ohio	Las Vegas, Nevada	Miami, Florida	Riverside, California
Fair Market Rent Voucher (2 Bedroom)	$720	$907	$976	$970
Fair Market Rent Voucher (3 Bedroom)	$923	$1,067	$1,184	$1,144
Home Value-25th Percentile	$84,800	$96,900	$133,917	$108,227
Monthly Interest, 100% mortgage	$353	$404	$558	$451
Interest, Taxes, Insurance, Maintenance	$525	$589	$783	$648
Homeownership saving-2 bedroom	$195	$318	$193	$322
Homeownership saving-3 bedroom	$398	$478	$401	$496
Homeownership saving-2.5 bedroom	$296	$398	$297	$409
	Payments by Voucher Recipient by Income			
Alice works 35 hours, 42 weeks @ $8.40/hour + EITC-1 child	$385	$385	$385	$385
George works 35 hours, 42 weeks @ $9.10/hour + EITC for 2 children	$460	$460	$460	$460
	Average Government Costs (Monthly Homeownership Costs Less Contribution from Recipient)			
Government Cost/Month for Alice	$140	$204	$398	$263
Government Cost/Month for George	$65	$129	$323	$188
Costs/10,000 vouchers, half to workers like Alice, half to workers like George	$12.3 million	$20.0 million	$43.3 million	$27.1 million
Cost of 1 million vouchersAt average unit costs of four sites				**$2.565 billion**

Source: Tabulations by author based on fair market rent data from the U.S. Department of Housing and Urban Development (http://www.huduser.org/datasets/fmr.html) and home values at the 25th percentile tabulations drawn from the American Community Survey, 2009, updated by post-2009 trends by metropolitan area, as reported by the Federal Housing Finance Agency.

annual direct costs of 1 million vouchers comes to about $2.5 billion per year. As it happens, these cities are quite representative of the country in terms of prices and costs. The average price at the 25th percentile is about $106,000 for these four cities and slightly lower (about $100,000) for the U.S. as a whole.[12] Since wage levels are generally higher in high-price cities, the net costs in Miami and Riverside are probably overstated in Table 1.

To determine whether a voucher at the FMR would be sufficient to cover the carrying costs across a large group of counties, I replicated these tabulations on nearly 100 metropolitan areas. It turned out that the FMR would make buying a home affordable in nearly all metropolitan areas. Except for San Francisco, Manhattan, and some counties in New York and New Jersey, the current FMR would be sufficient to finance the interest, tax, and insurance costs of a home purchase at the 25th percentile of home values. In fact, in most areas, the carrying costs of a home are hundreds of dollars less than the FMR for a three-bedroom unit. The highest differential is in West Palm Beach, where the home value at the 25th percentile is about $131,000 and the FMR for a

three-bedroom unit is $1,847 per month, which is more than $1,000 above the monthly carrying costs of $669 per month. Housing is much more affordable in counties experiencing large drops in home values, including several California, Arizona, and Florida counties. But, similar differentials exist in a variety of cities; the gap is over $1,000 in Baltimore, where the monthly carrying costs are about $550 and the FMR is $1,622.

WHO WOULD QUALIFY FOR THE HOMEOWNERSHIP VOUCHERS?

All families eligible for a Section 8 voucher would be eligible for a special homeownership voucher. The maximum income for a family to retain eligibility for Section 8 vouchers is 50 percent of the median area family income. However, public housing authorities (PHAs) are expected to provide 75 percent of vouchers to applicants whose incomes do not exceed 30 percent of the area median income. For the nation, the 50 percent and 30 percent thresholds average about $31,000 and $19,000 per year, respectively. In many localities, the income thresholds far exceed these levels; for example, the 50 percent threshold reaches over $50,000 in Washington, D.C., and San Jose, Calif.

Decisions regarding the awarding of vouchers would continue to be made by local PHAs. Given the wide range of incomes of eligible families, PHAs will naturally face tradeoffs. As in the case of rent vouchers, when more ownership vouchers go to families in the upper ranges of eligibility, the contributions of the families will be higher and the net costs of the voucher to the government will be lower. On the other hand, providing vouchers to those with the lowest incomes will deal with the most urgent needs. In the case of ownership vouchers, other considerations become potentially relevant. Which families are most likely to be able to maintain their dwellings? If the voucher is limited to 10-15 years, which families are most capable of sustaining homeownership? The calculations in Table 1 assume the vouchers go to families with incomes near the 30 percent threshold in Cleveland and Miami and to families with incomes below the 30 percent threshold in Las Vegas and Riverside. Like all housing subsidy and other income-tested programs, homeownership vouchers create potential work disincentives for recipients. Each $100 of added income raises the recipient's contribution by $30. For many families with very lowest incomes, the Earned Income Tax Credit (EITC) would offset these marginal tax rates because added dollar of earnings increases the government subsidy. But, over the range at which EITC benefits phase out—earnings between about $24,300 and $46,000 for a married couple with two children—each dollar of added earnings lowers the EITC benefit by 21 cents, thereby raising the family's overall marginal tax rate. To reduce the danger of program-induced work reductions, the homeowner voucher plan could impose a strong work registration component as well as an option to assign some portion of earnings gains to an escrow account available after participants leave the program.[13]

The eligibility criterion of 50 percent of area median income is unlikely to pose a comparable problem. The reason is twofold. First, the income limits generally apply only when the voucher is initially granted; thus, a later income gain pushing a household to 55 percent of the median would not lead to a loss of the voucher. Second, families with incomes reaching more than 50 percent of the median or above would be paying enough at 30 percent of their incomes to offset the full voucher amount. Once their contributions reach this level, further gains in income would not be penalized by increased contributions to the government.

WOULD HOMEOWNERSHIP VOUCHERS MAKE A DENT IN THE INVENTORY OF UNSOLD HOMES?

1 million new homeownership vouchers, plus the use of perhaps 250,000 existing rental vouchers for homeownership, would not be enough to cause the sale of the entire supply of unsold homes, but they would help make a significant dent in the inventory. As of the 3rd quarter of 2010, there were 1.9 million vacant homes for sale and another 3.6 million vacant homes that have been held off the market for reasons other than temporary occupancy or occasional use by the owner. This combined figure of 5.5 million units is higher

than the figure for 2005, before the collapse of the housing market, but only by about 1.4 million units. Thus, the added demand in the owner-occupied market for 1-1.25 million units might well soak up a good deal of the excess inventory of homes.

Generating a recovery in housing prices would reduce the foreclosure problem; improve the balance sheets of households, banks, Fannie Mae, and Freddie Mac; and would stimulate new construction. At the same time, an increase in the price of owner-occupied housing would likely lower the benefits of homeownership relative to renting, thereby limiting the future applicability of homeownership vouchers. The strengthening of the housing market may limit purchases by low-income families not covered by the program, depending on the geographic area, the size of the price increases, and the responses by lenders. A price increase would raise the carrying costs of homeownership but might encourage more lending. Currently and for the foreseeable future, a lack of access to mortgage credit on good terms is the most significant constraint preventing many low-income families from lowering their housing costs by financing a home purchase instead of renting.

Generating a recovery in housing prices would reduce the foreclosure problem

WHAT ABOUT THE RISKS FOR BANKS AND FOR LOW-INCOME FAMILIES?

It is only natural that this proposal would raise concerns about repeating the mistakes that led us into the recent financial crisis, once again putting homeowners and financial institutions at risk. In fact, these risks would be minimal. For commercial lending institutions or the FHA, lending through the homeowner voucher program would be less risky than standard mortgages making mortgage loans, because the monthly voucher—an amount more than enough to pay the mortgage—would go to the bank independently of the family's income. Generally, owners would end up paying well over half the monthly costs of the loan. But if the owner became unemployed, the family's contribution would fall to zero while the government's contribution would increase to the full value of the voucher. The lending institutions would still receive the full payment on the loan. Because these loans have relatively low risks, they could be provided at low interest rates. Further, the low-income owners would not lose their homes because of unemployment.

What about other risks to homeowners? Many see the recent decline in home prices as proving that homeownership is too risky for low-income families. This critique makes sense when low-income families take on unaffordable mortgages in the hope that prices will rise. But this way of thinking ignores the positive role of homeownership as a hedge against increased housing costs, especially rent levels. Owning a home with a fixed rate mortgage locks in the price of housing services for a long period, while prices for housing in rental units can be highly variable.[14] With ownership vouchers, housing expenses would drop substantially both because the carrying costs of homes are less than tenants' current rents and because the voucher would absorb some of the monthly costs of homeownership. Owners would avoid the risks of rent increases that make housing less affordable over time. The family would be expected to make payments to reduce the principal on the loan, but these payments could be suspended during times of unemployment. Although losses on these principal payments are possible, they would be offset by the large monthly savings that recipient families experience by paying far less than rents. Moreover, a reduced home price is only damaging when a family moves to another location where home prices are not correlated with prices in their current location. Because households that spend a large portion of their income on rent are particularly sensitive to rent risks, homeownership is especially sensible for these families.

An interesting non-financial rationale for helping many low-income families own homes relates to

marriage and family structure. Unmarried couples with children often choose to delay marriage until they can afford to live in their own home. Helping these couples become owners can stabilize the relationship and encourage marriage.[15]

WHAT ABOUT RISKS AND POTENTIAL BENEFITS TO THE FEDERAL GOVERNMENT?

It might appear from the foregoing discussion that the federal government would bear most of the risks of homeownership vouchers. Yet, this program could actually save Washington money, since the fixed rate, long-term mortgage will lock in the low costs of expanding housing assistance to eligible families. Because the carrying costs of the financed homes average hundreds of dollars per month less than the FMR, the total cost of expanding assistance with ownership vouchers would be much lower than doing so with other subsidies. In addition, the federal budget would be less subject to the risks of rising rents. These risks are real: Between 1983 and 2007, the monthly principal and interest payment on a median-priced existing home rose by 79 percent, whereas median rents increased by 140 percent during the same period.[16] Thus, government savings could be substantial.

The program could mandate that the federal government and/or local housing authorities share in the capital gains if and when the voucher holder sells the home. Recouping some of the costs of the voucher through this mechanism is appropriate and would ensure that households who do not need the voucher do not take one. However, the government's taking too large a share of the gains would limit the household's ability to buy another home in the area and reduce the household's incentives to upgrade the property. Given these considerations, I favor a provision under which the government obtains a 10-20 percent share of any capital gains.[17]

Despite the lowness of today's home prices relative to rents, some units purchased with homeownership vouchers might decline in value. Even in this case, homeowners are unlikely to leave the property because their housing costs would no doubt rise if they gave up their voucher and left the home. But suppose a homeowner simply moves out of a property that is valued at less than the current remaining mortgage. The government would be liable to continue paying a share of the mortgage and could offer a voucher to another family. Because the government would have already locked in a monthly cost that is below the monthly costs of rent vouchers, the government is unlikely to lose even on an *ex post* basis unless area rents plummet. To avoid fraud, any sale at a loss would have to be approved by the local housing authority.

> The costs of the initiative would be less than funding an equivalent number of vouchers at current levels

HOW CAN THE GOVERNMENT FUND THE INITIATIVE IN A TIME OF MASSIVE BUDGET DEFICITS?

Given the nation's precarious fiscal condition, the budgetary impact of any new initiative must be carefully weighed. While the homeownership voucher is designed as a targeted effort to stimulate economic activity and generate revenues that offset some or all of its costs, the plan does require government funding. I estimate the annual cost at approximately $2.5 billion, a modest investment in relation to other stimulus initiatives. It is targeted at the sector where declines in output and job losses have been most severe and where the nation's capacity is most underutilized. It is a more efficient and equitable strategy than foreclosure assistance programs, which have already received considerable government funding.

In the short term, the added spending can be financed out of reductions in foreclosure assistance and other expansionary measures. However, the potential impact of the homeowner voucher program on long-term deficits is a serious problem. Therefore, I propose an offsetting reduction in the Low Income Housing Tax Credit (LIHTC). While the goal of the LIHTC –

expanding the supply of low-income rental housing – is laudable, the credit is highly inefficient because the additional units financed by the government are offset by reductions in private construction.[18] Further, the LIHTC is not effectively targeted on families with the highest housing cost burdens. Even if the credit did an adequate job on its own terms, increasing supply is the not what the housing market needs. There is an abundance of empty dwellings available at prices that are low relative to rent levels.

Although the LIHTC costs about $7 billion per year, a large share of these funds is already committed to prior year allocations. Still, the Congressional Budget Office estimates that eliminating the credit would yield $2.5 billion in 2014 and increasing amounts thereafter, reaching over $5 billion per year by 2019. Thus, substituting the homeowner voucher plan for the LIHTC would actually save the government money within a few years. Since the costs of homeowner vouchers do not rise with inflation, the savings from eliminating or even reducing the LIHTC could yield reductions in the long-term deficit.

EXPERIENCE WITH VOUCHERS FOR HOMEOWNERS

The use of subsidies to help low-income and lower-middle-income Americans become homeowners is by no means a new idea. In the 1970s, HUD sponsored an Experimental Housing Allowance Program (EHAP) that benefited homeowners as well as renters.[19] In fact, 42 percent of the recipients were homeowners, even though only 16-21 percent of all households in the sites were eligible for assistance. There were no particular problems in applying the subsidy to homeowners, but in this case the experiment was aimed at lowering housing cost burdens broadly and not stimulating home buying.

Other homeownership programs have mixed records. The Section 502 Single Family Direct Loan Program has effectively helped rural low-income people buy homes and make their monthly payments. Under this program, the USDA has been paying the difference between 20 percent of the household's adjusted income and the sum of

property taxes, homeowners insurance, operating expenses, and the principal and interest payments at the government's borrowing rate. Section 502 has worked reasonably well.[20] On the other hand, the Section 235 Urban Program in the 1960s was marked by scandals and high default rates.[21]

Some local public housing authorities have taken advantage of the opportunity to use Section 8 vouchers to subsidize homeownership. A common rule is that people can qualify for the homeownership voucher program after staying in the rental program at least one year. The programs offer classes as preconditions for loans in order to help people gain a good understanding of their mortgage, budgeting and saving as a homeowner, basic home maintenance, and foreclosure avoidance. Some PHAs report that people are eager to fulfill the requirements of employment and creditworthiness in order to become a homeowner. Foreclosures are rare, with some PHAs not reporting a single foreclosure.[22] It is unclear why PHAs have not used current vouchers for homeownership subsidies. One possibility is the higher administrative costs of homeownership voucher programs relative to rental voucher programs.[23] If so, a modest increase in administrative allowances might have a major

effect on the effectiveness of homeownership programs. One potential reason for high administrative costs is that the PHA channels people to specific homes. By giving the choice to voucher recipients, administrative costs might fall. In any event, the evidence from existing programs indicates homeownership vouchers are feasible. My proposal would use a benefit formula that would save money relative to the current Section 8 voucher program. Instead of qualifying for a voucher scaled to the local fair market rent, recipients would receive the carrying costs of a home at the 25th percentile of home values or the FMR, whichever is less. Since the carrying costs are substantially lower than the FMR in most areas, the costs of the initiative would be less than funding an equivalent number of vouchers at current levels.

AN ADDED JOBS COMPONENT

To create jobs for idled construction workers, policymakers also could add a home upgrading component to the homeownership voucher. Under this approach, recipients and local public housing authorities would be responsible for overseeing weatherization and other home improvements to houses purchased with vouchers. Ideally, to stimulate a large number of jobs at relatively low cost, the improvements would be undertaken by contractors who employ and train low-skill, low-wage workers alongside experienced, certified workers from relevant construction crafts. At a cost of about $10,000-15,000 per dwelling, contractors could install new windows, insulation, and caulking to reduce energy use. Incorporated into the mortgage on a 30-year basis, these improvements would add only about $68 per month. For some homes, other improvements would be more urgent. In most cases, these improvements could be added to the mortgage amount and still leave the home price well within the 25th percentile level. Indeed, in many localities, the home prices are so low that they would be highly affordable even after renovation and weatherizing costs.

TIME FOR ACTION

While the economy at last appears to be picking up steam, weakness in the housing market continues to jeopardize a rapid recovery. The country will need about four years of sustained growth of 4.5-5 percent per year to bring joblessness down to pre-recession levels. Achieving this growth without a significant pickup in the housing market will be quite difficult, if not impossible. Foreclosures and continuing weaknesses in the balance sheets of households and financial institutions still hinder growth. The homeownership voucher proposal offers a way of speeding up demand for owner-occupied housing while reducing the housing burdens on a large number of low-income families. It provides a low-risk strategy for increasing homeownership. It affords the Obama administration and Congress a rare opportunity to achieve three objectives: improving the overall economy, helping low-income families gain access to essential services, and achieving long-term budget savings.

ENDNOTES

1 S. Mitra Kalita and Sudeep Reddy, The Wall Street Journal, December 29, 2010, A1.

2 Ted Gayer, "Should Congress Extend the First-time Homebuyer Tax Credit?" Brookings, September 4, 2009, http://www.brookings.edu/opinions/2009/0924_tax_credit_gayer.aspx.

3 See pages 35-41 in U.S. Government Accountability Office, "Troubled Asset Relief Program: Status of Programs and Implementation of GAO Recommendations," http://www.gao.gov/new.items/d1174.pdf.

4 Tabulations are available from the author upon request. Also see Robert I. Lerman, "Expanding Housing Demand Efficiently and Equitably," presented at the Allied Social Science Meetings, January 2010.

5 Margery Austin Turner and G. Thomas Kingsley, "Federal Programs for Addressing Low-Income Housing Needs: A Policy Primer," (Washington, D.C.: Urban Institute, 2008), http://www.urban.org/UploadedPDF/411798_low-income_housing.pdf.

6 Although providing assistance in cash might be preferable to benefits-in-kind, some believe limiting the assistance to essentials such as food and housing makes sense.

7 This information is based on telephone interviews between the author and managers of programs using homeownership vouchers in Ohio and Michigan.

8 These data come from tabulations by the author from the 2008 American Community Survey (ACS).

9 I thank Katharina Moll for her excellent research assistance in compiling these data.

10 U.S. Department of Housing and Urban Development, Fair Market Rents, http://www.huduser.org/datasets/fmr.html.

11 U.S. Census Bureau, 2009 American Community Survey, http://www.census.gov/acs/www. See also Federal Housing Finance Agency, House Price Index, http://www.fhfa.gov/Default.aspx?Page=14.

12 Using data from the 2009 American Community Survey, the Census Bureau reports the home value at the 25th percentile for the U.S. was about $105,000 in 2009. Since prices declined between mid-2009 and today by at least five percent, today's price at the 25th percentile is no higher than $100,000.

13 For an application of escrow accounts to dealing with work disincentives under public housing and rent subsidy programs, see Reid Cramer and Jeffrey Lubell, "Rental Assistance Asset Accounts: An Opportunity to Support Work and Savings Among Recipients of Federal Housing Assistance" (Washington, D.C.: New American Foundation, 2008).

14 Todd Sinai and Nicholas Souleles, "Owner-Occupied Housing as a Hedge Against Rent Risk," Quarterly Journal of Economics 120, no. 2 (2005), 763-789.

15 Thanks to Andrew Cherlin, the well-known family sociologist, for making this point.

16 U.S. Bureau of Labor Statistics, "Common Misconceptions About the Consumer Price Index: Questions and Answers," http://www.bls.gov/cpi/cpiqa.htm#Question_2.

17 The size of the government share could depend on the proportion of the mortgage principal repaid by the homeowner and the duration of the subsidy.

18 Michael Eriksen and Stuart Rosenthal, "Crowd Out Effects of Place-Based Subsidized Rental housing: New Evidence from the LIHTC Program," Journal of Public Economics 94, no. 11-12 (2010), 953-966.

19 Edgar Olsen, "Promoting Ownership Among Low-Income Households," (Washington, D.C.: Urban Institute, 2007)http://www.urban.org/publications/411523.html.

20 Roberto Quercia, George McCarthy, and Michael Stegman, "Mortgage Default Among Rural, Low-Income Borrowers," Levy Economics Institute Working Paper No. 96, 1993.

21 Michael Carliner, "Development of Federal Home-Ownership 'Policy'," Housing Policy Debate 9, no. 2 (1998), 299-321.

22 This information comes from telephone conversations between the author and staff at selected PHAs operating homeownership voucher components in their housing assistance programs.

23 Olsen, "Promoting Ownership Among Low-Income Households."

About the Progressive Policy Institute

The Progressive Policy Institute (PPI) is an independent research institution that seeks to define and promote a new progressive politics in the 21st century. Through research, policy analysis and dialogue, PPI challenges the status quo and advocates for radical policy solutions.

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