

Testimony of Dr. Anthony B. Sanders
Before the U.S. Senate Banking Committee
Topic: "Choice Neighborhoods Initiative"
March 26, 2012

Senator Menendez and distinguished members of the Committee, my name is Dr. Anthony B. Sanders and I am the Distinguished Professor of Finance at George Mason and a Senior Scholar at the Mercatus Center. It is an honor to testify before this committee today.

I am here to discuss a proposed Senate bill: S. 624, the Choice Neighborhoods Bill.¹ The Bill calls for \$350 million in 2012 for competitive grants to revitalize distressed neighborhoods.

\$350 million spread over the U.S. for distressed neighborhoods is a drop in the bucket. Bear in mind that Stanford University recently built a business school campus for \$345 million.²

This Bill is a revision of the HOPE VI program that was less than a success.^{3 4} As of June 1, 2010 there have been 254 HOPE VI revitalization grants awarded to 132 housing authorities since 1993—totaling more than \$6.1 billion

And yet Detroit, Cleveland, and many other inner cities continue to suffer.

What are the changes to HOPE VI that give us hope that it will help? These changes are supported by housing advocates, private developers, HUD, and numerous community groups listed below.

What are the changes to HOPE VI that give them hope?

- Expands eligible properties to privately owned and managed but severely distressed HUD-assisted housing, that serves as affordable housing for an extended period of time;
- Expands eligible applicants to include local governments, nonprofits, and for-profit developers to apply jointly with a public entity such as a Public Housing Authority;

¹ <http://confoundedinterest.files.wordpress.com/2012/02/choice-neighborhoods-bill-as-introduced.pdf>

² Stanford Graduate School of Business, "Stanford Graduate School of Business Launches New Knight Management Center to Enable Innovative Curriculum and Engage Students Across University," April 15, 2011, <http://www.gsb.stanford.edu/news/headlines/knightmanagementcenteropens.html>.

³ U.S. Department of Housing and Urban Development website, "HOPE VI," http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/hope6.

⁴ Carlos A. Manjarrez, Susan J. Popkin, and Elizabeth Guernsey, "Poor Health: Adding Insult to Injury for HOPE VI Families," Metropolitan Housing and Communities Center, June 5, 2007, http://www.hartfordinfo.org/Issues/wsd/Housing/gblock/HOPEVI_Health.pdf.

- Ensures coordination and efficient use of resources by requiring transformation plans to address not only housing, but jobs, supportive services, economic development, education, recreation, and transportation;
- Allows conversion of vacant or foreclosed properties to affordable housing as an eligible project, which addresses the foreclosed and vacant homes plaguing many communities;
- HUD had \$265M for this work in 2010 and currently has \$165M available in 2011. The bill would authorize the Choice Neighborhoods Initiative at \$350M as a full replacement for HOPE VI.

This is another move towards private-public partnerships like we have with Fannie Mae and Freddie Mac, the mortgage giants in conservatorship. Private-public partnerships sound like a “free market” solution, but they are not. In 2010, the grant recipients were housing authorities where \$22 million per development was common.⁵ Now the idea is to open up the grants for nonprofits and for-profit developers to join hands with public housing authorities to deliver the same public housing solution that has been a failure for decades.

After billions of dollars have been spent, Hope VI and this bill should focus on a better way to help the poor rather than “a lick of paint” approach public housing. After all, \$350 million is a drop in the proverbial bucket.

A Better Way

The Senate and the House have taken an important step recently in terms of trying to unshackle the free market and encourage job creation. Job creation is important to solving the problems of our lower-income households, allowing them to possibly escape public housing.

But not everyone will be able to escape public housing. While our public housing is far better than many other countries: a visit to various public housing projects will convince you that improvements in public housing are still needed.

The Administration and Congress have set aside staggering amounts of money for housing and mortgage programs already. HAMP, HARP 2.0, the Attorney General Settlement of \$25 billion, the proposed FHA Refi program from President Obama’s 2012 State of the Union Address, HUD’s 2012 Budget of \$47,199,000,000,⁶ and the losses of Fannie Mae and Freddie Mac to taxpayers of \$160 billion puts the amount thrown at housing by various government entities at over \$230 billion in recent years.

⁵ U.S. Department of Housing and Urban Development website, “FY 2010 HOPE VI Revitalization Grant Awards,” http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/hope6/fy10awardees.

⁶ U.S. Department of Housing and Urban Development website, “FY 2012 Budget Summary,” February 2011, <http://portal.hud.gov/hudportal/documents/huddoc?id=fy2012budget.pdf>.

Department of Housing and Urban Development Secretary Shaun Donovan is an advocate of improving the quality of housing projects in the nation. But why can't HUD find \$350 million in their \$47.2 billion budget through effective budget management? Does HUD not deem Choice Neighborhoods Initiative important enough to fund in its own budget?

A better way to help solve the problem is to unleash the free market on housing. Taking a page from the President Reagan (and Democratic majority) playbook, we should use fiscal policy to increase the supply of clean, affordable housing by offering accelerated depreciation deductions on multifamily housing. This will increase the supply of housing without having to go through housing authorities and not-for-profits.

The Reagan/Democratic Congressional approach (also known as the Kemp-Roth "Economic Recovery Tax Act of 1981" (Pub.L. 97-34)⁷ was to increase depreciation deductions on multifamily housing using the Accelerated Cost Recovery System (ACRS).⁸ Under this legislation, all property was depreciable for tax purposes over 15 year and for low-income housing, 200% declining balance depreciation was available. Furthermore, rehabilitation expenditures for low-income housing could be amortized over five years. The Act worked so well that it was amended in 1986 with the 1986 tax act.

We could once again use fiscal policy to help solve the public housing problem. I would prefer this solution to the "lick of paint" approach to revitalizing distressed neighborhoods.

To be sure, such legislation could create additional deficits, but the simulative effects to the economy and the distressed neighborhoods could be greater than the lost tax income received by the Federal government.

Recently, Bank of America announced a "Mortgage to Lease" trial program.⁹ To avoid foreclosure and yet another property going to Real Estate Owned (REO) and out in the already flooded housing market, this proposal from Bank of America will keep homeowners in their current home but switch them to renters. It is a way to stabilize neighborhoods hit by the foreclosure crisis and curtail neighborhood blight by keeping a portion of distressed properties off the market.

⁷ U.S. Congress Joint Committee on Taxation, "General Explanation Of The Economic Recovery Tax Act Of 1981, (H.R. 4242, 97th Congress, Public Law 97-34)," December 31, 1981, <http://www.jct.gov/publications.html?func=startdown&id=2397>.

⁸ Karl Case, "Investors, Developers, and Supply-Side Subsidies: How Much is Enough?" *Housing Policy Debate* 2 no. 2 (1991), <http://www.wellesley.edu/Economics/case/PDFs/InvestorsDevelopers.apr1991..pdf>; and James Poterba, "Tax Reform and Housing Market in the Late 1980s: Who Knew What, and When Did They Know It?" Federal Reserve Bank of Boston Conference Series (1992), <http://www.bos.frb.org/economic/conf/conf36/conf36g.pdf>.

⁹ Anthony B. Sanders, "Private Market Solution to Foreclosure: Bank of America's Lease Alternative to Foreclosure," *Confounded Interest* blog, 22 March 2012, <http://confoundedinterest.wordpress.com/2012/03/22/private-market-solution-to-foreclosure-bank-of-americas-lease-alternative-to-foreclosure/>.

Between stimulating the construction and rehab of public housing and initiatives like Bank of America's "Mortgage to Lease" trial program, we now see better potential to fix the problems of public housing.

Thank you for the opportunity to testify.