POLICY ADVISORY GROUP

RESEARCH REPORT

Housing Policy Levers to Promote Economic Mobility

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October 2015

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Acknowledgments

This report was funded by the John D. and Catherine T. MacArthur Foundation and Housing Authority Insurance, Inc. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission. As stated in our funding principles, funders do not determine our research findings or the insights and recommendations of our experts. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders.

This paper benefited from input provided at a convening in April at the MacArthur Foundation. Participants are listed in the appendix. The authors gratefully acknowledge valuable comments from Erika Poethig, Donald Marron, and Solomon Greene and editorial assistance from Fiona Blackshaw.

Housing Policy Levers to Promote Economic Mobility

More than 45 million people live in poverty in the United States, including 16 million children (DeNavas-Walt and Proctor 2014). Many people born into very low income households remain poor throughout their lives, and their education and employment opportunities are limited. This is particularly true for blacks and other people of color, who experience both income gaps and wealth gaps: for every $2 whites earned in 2010, blacks and Hispanics earned $1, and for every $6 whites had in wealth, blacks and Hispanics had $1 (McKernan et al. 2013). Since the Great Recession, policymakers and researchers have increasingly focused on mechanisms for reducing income and wealth inequality, improving economic mobility, and providing families with greater financial security to avoid homelessness and hunger.

Housing plays a critical role in people's lives. It is a major consumption item, a source of safety and stability, and a nationally encouraged means for accumulating wealth. It also shapes where people access education and pursue employment. Housing policy can play an important role in improving the economic well-being of low-income households, a group that is growing as the middle class shrinks.[1] Housing policy also can impede progress when families do not have access to affordable, safe, and stable housing and when economic and racial segregation leave some communities with reduced financial, social, and human capital.

In a time of increasingly constrained resources, understanding what investments best create communities of opportunity is vital. Through this paper, we aim to better equip researchers, policymakers, and practitioners for conversations about the links between housing policy and economic mobility. In particular, we focus on the housing policy levers that can be used to provide greater opportunity to lower-income households, particularly people of color who have been disadvantaged over generations. Although we focus on low-income households, many middle-income households will benefit from these policies as well.

The first half of this paper clarifies common definitions and measurements of inequality and mobility, drawing on the literature surrounding today's debates over inequality and economic mobility in the United States. We conclude that economic mobility is the best lens for examining how housing policies can address challenges of inequality in society today. The second half of the paper identifies five

categories of housing policy levers that affect economic mobility: tax policy, block grants, rental assistance, fair housing, and homeownership programs. We consider programs and policies that currently impede economic mobility, some that are not being used to their fullest potential to promote it, and other approaches that show promise.

Clarifying the Concepts

Millions of Americans have experienced poverty firsthand. The official poverty rate in the United States stands at 14.5 percent, with 45.3 million individuals living under the 2015 federal poverty threshold of $24,008 for a family of four with two children (DeNavas-Walt and Proctor 2014; US Department of Health and Human Services 2015). Real median household income increased slightly in 2013 to $51,939, still 8 percent lower than the pre-recession (2007) median of $56,436 and 8.7 percent below the median household income peak of $56,895 in 1999 (DeNavas-Walt and Proctor 2014). Financial insecurity continues to touch large swaths of the US population. From 2009 to 2011, 31.6 percent of the population had at least one spell of poverty lasting two or more months (DeNavas-Walt and Proctor 2014). As more families struggle to meet their basic needs, many communities suffer from reduced human, social, and financial capital; greater demand for social services; and elevated class and social tension (Thorbecke and Charumilind 2002).

Before we can assess solutions, we need to clarify the problem. “Income inequality” and “economic mobility” are often used interchangeably when describing current challenges to American growth and prosperity. Conflating growing income inequality, stagnating middle incomes, low absolute incomes at the bottom of the income scale, and constraints on economic mobility often muddles discussions about how to improve economic well-being for individuals and families. Spatial inequality, economic and racial segregation, and financial insecurity are often included in the discussion. Below, we tease out the different dimensions of these concepts to identify which frame is most useful for shaping federal, state, and local housing policies aimed at improving households’ economic well-being.

Income and Wealth Inequality

Income inequality generally refers to how unevenly income is distributed throughout a country, region, or city. The degree of income inequality in the United States changes based on whether one measures income before or after taxes and transfers, how one defines households, and various other factors.

However, the conclusions remain directionally consistent: the gap between the rich and the poor in the United States has increased considerably over the past several decades (Acs and Zimmerman 2008; Chetty, Hendren, Kline, and Saez 2014; DeNavas-Walt and Proctor 2014).

One way to assess the distribution of income is to calculate the percentage of all household income controlled by different shares (often quintiles) of the population. In the United States today, the top quintile (i.e., the richest 20 percent of households) controls 51 percent of the income, whereas the bottom quintile controls a mere 3.2 percent (DeNavas-Walt and Proctor 2014). Further, while the average incomes of the top 20 percent of earners grew 43 percent in inflation-adjusted terms between 1979 and 2013, the incomes of the bottom 20 percent actually fell by 2.7 percent (US Census Bureau 2014). To put these numbers in context, the 24.6 million households in the top quintile had incomes above $105,910 in 2013, while the 24.6 million households in the lowest quintile had incomes of $20,900 or less (DeNavas-Walt and Proctor 2014).

A recent study examining the gap in incomes in the 50 largest US cities found that households in the top 5 percent of the income range earned 11.6 times as much as households in the bottom 20 percent, compared with the national average ratio of 9.3 (Berube and Holmes 2015). Apart from Jacksonville, Florida, and Houston, Texas, the cities in which top incomes grew were not those in which bottom incomes grew, supporting the increasing concern that rising incomes at the top are not lifting earnings near the bottom, at least in the short term (Berube and Holmes 2015).

The Gini coefficient is another common measure used to assess income inequality. It measures inequality on a scale from 0 to 1, with 0 indicating a perfectly egalitarian world (where every household has the same income) and 1 representing a completely skewed world (where one household has all the income). According to an Urban Institute analysis, the Gini coefficient for income in the United States for 2012 was 0.470 before taxes and transfers and 0.421 afterward (Acs and Johnson 2015). Of the 34 nations belonging to the Organisation for Economic Co-operation and Development, the United States has the second-highest level of inequality, far above that of many redistributive European countries such as Denmark, where after-tax Gini measurements are as low as 0.252.[2]

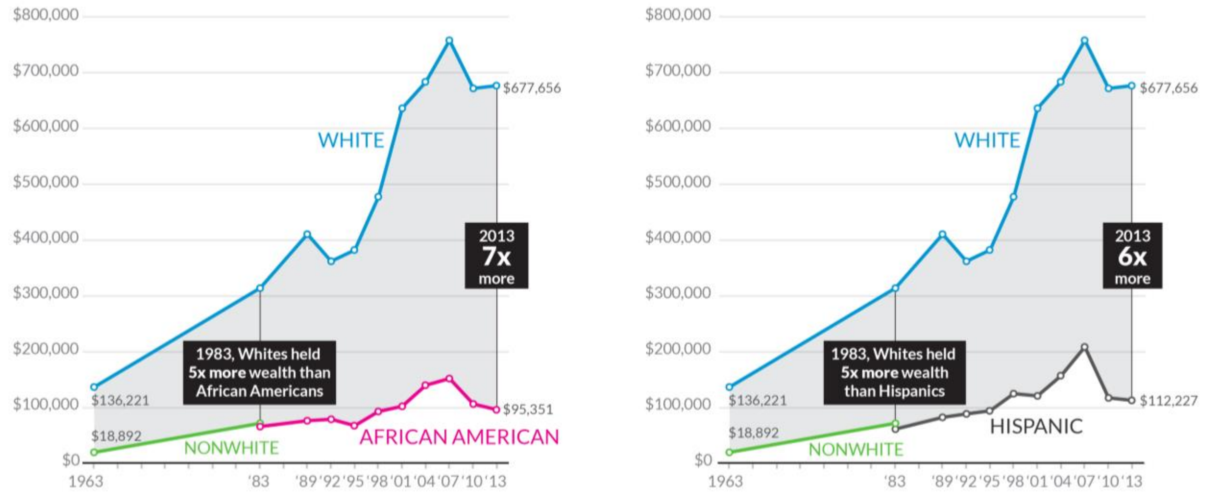
WEALTH INEQUALITY EXCEEDS INCOME INEQUALITY

Although income inequality shows vast gaps between the top and bottom quintiles, the disparity is even greater for *wealth inequality*. Between 2000 and 2011, households experienced drastically different changes in net worth. Households in the top quintile saw their real median household net worth increase to $630,754, whereas households in the bottom quintile saw their real median household net worth dip to −$6,029.[3] Racial differences in wealth are just as stark. In 2013, the average wealth of

white families was more than $550,000 higher than that of black families, who had an average of $95,000 in wealth, and Hispanic families, with $112,000 in wealth, as shown in figure 1.[4]

FIGURE 1

Disparities in Average Family Wealth by Race and Ethnicity Have Grown between 1963 and 2013



Sources: Urban Institute calculations from Survey of Financial Characteristics of Consumers 1962 (December 31), Survey of Changes in Family Finances 1963, and Survey of Consumer Finances 1983–2013.
Notes: 2013 dollars. No comparable data are available between 1963 and 1983. The African American/Hispanic distinction within the nonwhite population is available only in 1983 and later.

These disparities are particularly troubling when we consider that in 2013, the federal government spent $384 billion to support asset development through retirement and homeownership tax subsidies. Over two-thirds of these subsidies went to the top income quintile, and only 1 percent went to the bottom quintile (Steuerle et al. 2014).

Although federal policy has encouraged homeownership for decades, experiences with homeownership have varied by race. One reason for the wealth gap between whites and both blacks and Hispanics is the lower homeownership rates of the two minority groups (42 percent for blacks and 45 percent for Hispanics, compared with 72 percent for whites).[5] The lower homeownership rate is caused by less inherited wealth, less access to financing, and other disadvantages for people of color. A study of wealth accumulation over 25 years (1984–2009) finds that the largest contributor to the difference in relative wealth growth between white and black families was the number of years of homeownership, at 27 percent; the second-largest contributor, at 20 percent, was average family income (Shapiro, Meschede, and Osoro 2013).

Many black homeowners had their wealth wiped out during the Great Recession as property values fell while monthly payments rose (Bocian, Li, and Quercia 2011). Hispanics were also hit hard, as most of their net worth was invested in their homes in 2005.[6] Many Hispanics live in metropolitan areas that experienced the huge boom and bust in house prices. Hispanics experienced the highest rate of completed foreclosures on loans originating between 2004 and 2008—11.9 percent, compared with 9.8 percent for blacks and 5.1 percent for whites (Bocian, Li, and Quercia 2011).

Homeownership, particularly in soft markets, may limit individuals' ability to pursue job opportunities in a new region because they cannot sell their homes. At the same time, homeownership for whites, blacks, and Hispanics provides an important buffer against material hardships (Lerman and Zhang 2014). The buffer may result from the ability to draw on equity, though homeownership is associated with less material hardship even when the amount owed on the house exceeds its value. Alternatively, it may reflect the lower housing costs homeowners experience compared to renters or unobserved factors like greater financial capability (Lerman and Zhang 2014).

An analysis of the components of capital and rates of return over the past six decades finds a large long-term increase in net capital income from housing, suggesting that housing wealth has contributed significantly to wealth disparities (Rognlie 2015). Rognlie recommends that "observers concerned about the distribution of income should keep an eye on housing costs—many urban economists . . . have documented how restrictions on land use and residential construction inflate the cost of housing" (2015, 32).

People disagree on what level of income inequality is "good" for society, but most agree that large numbers of people living in poverty is bad, particularly if those people have little opportunity to improve their condition. For this reason, economic mobility may be a more effective lens through which to frame and assess policies: whether or not the US economic meritocracy provides a fair opportunity for those at the bottom of the income ladder to advance.

Economic Mobility

Economic mobility measures how far individuals move up or down the income ladder throughout their lives (intragenerational) or how far they climb the ladder relative to their parents (intergenerational). These measures indicate the state of equality of opportunity in the United States and help tease out how closely one's future economic prospects are linked to one's inheritance—of wealth, status, genetics, and, as Sharkey finds (2013), neighborhood advantage or disadvantage.

Economic mobility can be measured in many ways (box 1). For example, intergenerational mobility can be expressed by rank–rank correlation, quintile transition matrices, and intergenerational income elasticity (Chetty, Hendren, Kline, Saez, and Turner 2014). Economic mobility may also be measured through a relative or absolute lens. Relative mobility measures how a person's economic position changes over time relative to his or her peers; absolute mobility uses an established future income threshold. An examination of changes in mobility between 1984 and 2004 finds that absolute mobility captures broader economic growth well, whereas relative mobility provides a snapshot of how an individual's position in society changes over time (Acs and Zimmerman 2008).

Eighty-four percent of Americans improve their economic standing from an absolute perspective, meaning they exceed the income of their parents (Lopoo and DeLeire 2012). However, looking within generations at relative mobility, 70 percent of people born at the bottom of the income ladder never reach the middle rung; 43 percent remain at the bottom, with average earnings of $11,490 in 2012. Unlike income inequality, which has increased over time, intragenerational and intergenerational mobility have remained stable nationwide (Acs and Zimmerman 2008; Chetty, Hendren, Kline, Saez, and Turner 2014).

BOX 1

Defining Economic Mobility

Absolute intragenerational mobility answers "Are you earning more than you did at a previous point in time?" and is a useful gauge of overall economic growth.

Absolute intergenerational mobility answers "Are you earning more than your parents did?" and is helpful in understanding if this generation is doing better than the previous one.

Relative intragenerational mobility answers "Are you progressing up the income ladder in step with your peers?" and is a good indicator of opportunity in society.

Relative intergenerational mobility answers "Are you higher up on the income ladder than your parents were?" and is a good measure of how many view the American Dream: that each successive generation does better economically than the preceding one.

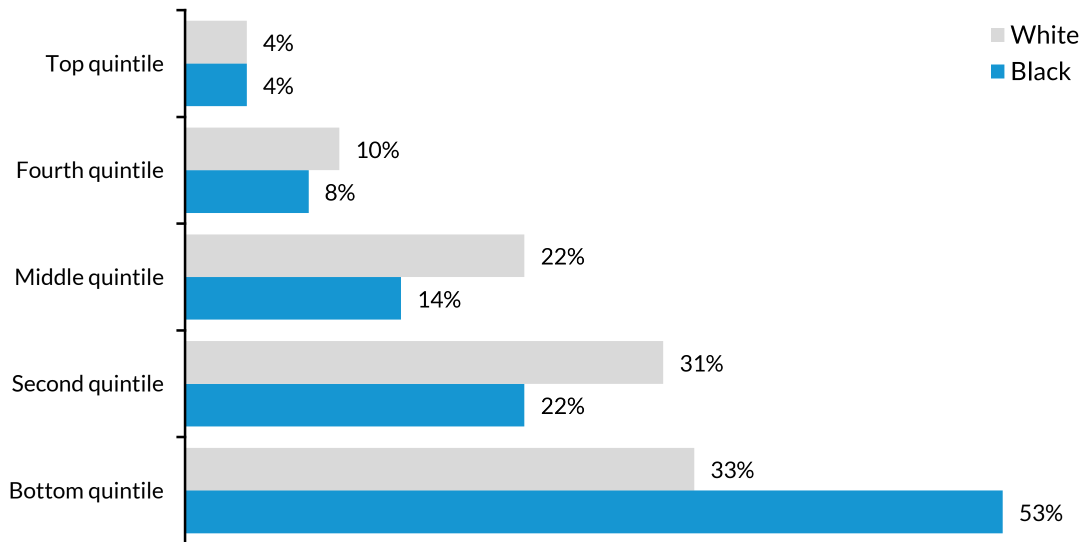
RACE IS A KEY COMPONENT OF ECONOMIC MOBILITY

Strong racial disparities are apparent when looking at economic mobility and those born poor in the United States. Sixty-five percent of blacks grow up in the bottom income quintile, compared with only 11 percent of whites. And whereas 67 percent of those whites escape the bottom rung, only 47 percent of blacks do so, as shown in figure 2 (Lopoo and DeLeire 2012).

FIGURE 2

Blacks Are More Likely to Remain Stuck at Bottom

Where Americans that are raised in the bottom income quintile end up as adults, by race



Source: Lopoo and DeLeire (2002).
Note: Percentages for blacks total more than 100 because of rounding.

Blacks are also more likely than whites to experience downward mobility. Using five-year averages, 56 percent of middle-class black children (those raised in the middle income quintile) fall to the bottom two rungs as adults compared with only 32 percent of middle-class whites (Lopoo and DeLeire 2012). A local analysis of economic mobility, comparing the intergenerational mobility of children in different commuting zones throughout the United States, associates higher degrees of racial segregation with lower mobility, as well as the size of the black population; upward mobility is lower for both black and white children in areas with large black populations (Chetty and Hendren 2015; Chetty, Hendren, Kline, and Saez 2014). Research also shows a larger number of blacks suffer from economic insecurity and thus are more susceptible to financial shocks (Pew Research Center 2015). In addition to promoting opportunity and providing ladders to the middle class, housing policy can help provide safety nets to insulate individuals from financial shocks and limit downward mobility.

Information about Hispanics' economic mobility across generations is not readily available given incomplete data from earlier decades. The Office of Assistant Secretary for Planning and Evaluation at the US Department of Health and Human Services is funding the Center for the Study of Poverty and Inequality at Stanford University to learn more about poverty, inequality, and mobility in the Hispanic community. Chetty and Hendren (2015) find evidence suggesting immigrants have higher rates of upward mobility independent of where they live, particularly in places like New York City. Yet Hispanics are not homogenous, nor are US immigrants more generally. This heterogeneity makes it difficult to measure immigrants' economic mobility through a single lens.

Immigrants represent a range of education and socioeconomic levels, as well as varying degrees of English proficiency (Borjas 2006). Looking across immigrant groups over time, Borjas finds that the typical immigrant worker has an earnings disadvantage upon arriving in the United States that decreases over time but never entirely disappears. The second generation fares better, but the culture and social capital of the environment in which these children are raised have large implications for the mobility of a specific ethnic group (Borjas 2006).

In addition to providing ladders to the middle class, housing policy can help provide safety nets to limit downward mobility.

Predominantly black and Hispanic neighborhoods continue to be spatially linked with areas of severe disadvantage—places with high poverty (at or above 30 percent), high unemployment, large numbers of welfare recipients, and many female-headed households (De la Roca, Ellen, and O'Regan 2015; Sharkey 2014). Black middle-class households making more than $100,000 a year live in and are surrounded by communities with greater levels of disadvantage than white households making less than $30,000 a year (Sharkey 2014). Middle-class neighborhoods of color have lower house price appreciation, fewer neighborhood amenities, lower-performing schools, and higher crime than white middle-class neighborhoods (Cashin 2004; Pattillo 2005).

People in low-income areas often inherit disadvantaged neighborhoods. They live in the same neighborhoods as their parents, with the worst schools, violence, and unhealthy environments (Sharkey 2013). Federal and local policies, including mortgage loan redlining and exclusionary zoning, kept blacks and other minorities out of low-poverty neighborhoods and contributed to large numbers of children of

color being raised in concentrated poverty. Although redlining is no longer federally sanctioned—or permitted—legacies of that policy remain, and discrimination continues to limit blacks' choices. Federal and local policies will be required to end this inheritance of low economic mobility.

ECONOMIC SEGREGATION HINDERS ECONOMIC MOBILITY

Economic mobility is also hampered by economic segregation. Research shows the more economically segregated a metropolitan area is, the less economically mobile its residents are, with some indication that neighborhood economic segregation matters more for economic mobility than income inequality (Chetty, Hendren, Kline, and Saez 2014; Sharkey and Graham 2013). A 2012 study found the segregation of upper- and lower-income households was on the rise in 27 of the country's 30 largest metropolitan areas (Fry and Taylor 2012). With a shrinking share of middle-class or mixed-income neighborhoods across the United States, more families are living in neighborhoods with people of similar economic status. As Florida and Mellander find in their analysis of income, educational, and occupational segregation, "the rich and poor effectively occupy different worlds, even when they live in the same cities and metros" (2015, 9).

Education is one way in which economic segregation may impede economic mobility. When families are able to escape neighborhoods besieged by violence and crime and gain access to better schools and community resources, the academic performance and cognitive test scores of children rise sharply. However, among the 100 largest metropolitan areas, a household must spend $11,000 more per year to live near a high-scoring school (Rothwell 2012). Plus, exclusionary zoning laws continue to prevent low-income families from moving to more affluent areas.

ECONOMIC MOBILITY VARIES ACROSS THE UNITED STATES

Economic mobility varies substantially across US regions, states, metropolitan areas, and neighborhoods. Children from families at the 25th percentile of income in Seattle have upward mobility outcomes similar to those at the median in Atlanta, according to an analysis by Chetty, Hendren, Kline, and Saez (2014). While Salt Lake City, Utah, and San Jose, California, exhibit rates of mobility similar to those of Denmark and other high-scoring nations, cities like Milwaukee have lower rates of mobility than every developed nation for which data exist (Chetty, Hendren, Kline, and Saez 2014). (Yet Milwaukee was one of the cities where households in the lowest income quintile saw their incomes rise; see Berube and Holmes 2015.)

Chetty and Hendren (2015) observe that places with better outcomes for children have lower rates of residential segregation by income and race, less income inequality, better performing schools, lower

violent crime rates, and larger shares of two-parent households. By examining the tax records of 5 million families who moved across counties in the United States, Chetty and Hendren were able to conclude that 50 percent to 70 percent of the variance in observed intergenerational mobility across counties and commuting zones can be tied to the causal effects of place. A child from a below-median-income family growing up in the western suburbs of Chicago will make on average 28.8 percent more ($7,520) as an adult than a similar child growing up in the city proper—simply because of where he or she grew up.

In Chetty and Hendren's 2015 study, exposure time is directly related to outcomes. Every year a child spends growing up in a better location (i.e., commuting zone or county) improves future earnings and economic outcomes. These analyses underscore the need to look beyond the national story to the local level, to understand what opportunities families in advantaged communities have and what characteristics of people and their neighborhoods are associated with moving up the income ladder.

Because where we live is closely tied to our access to a wide range of resources and a healthy physical environment, housing plays a vital role in economic mobility.

Selecting a Lens

With income and wealth inequality increasing nationwide, one may think that inequality is the frame that policymakers should use. We propose focusing on economic mobility, even though it has remained fairly consistent over time, for several reasons.

To start, increasing incomes at the top of the distribution do not directly translate to improvements for households at the bottom (see Berube and Holmes 2015), even in cities where opportunities to capture and redistribute wealth seem more possible. New York City and Seattle may be deploying a range of redistribution strategies, but those strategies are not yet showing an effect on income inequality. The lack of progress suggests the need to focus on other measures of families' economic well-being that may be more directly susceptible to targeted policies.

In addition, the recent work highlighting housing as a critical component in wealth inequality suggests that policymakers need to consider more closely the institutions and policies that enable families to "protect" their housing wealth by driving up housing prices through exclusionary zoning

(Fischel 2005). These practices do more than simply raise housing prices in a community; they determine which families have access to resources and opportunities and contribute to both racial and economic segregation.

The American ethos offers another reason to look beyond income inequality. As Richard Reeves explains,

> Many countries support the idea of meritocracy, but only in America is equality of opportunity a virtual national religion, reconciling individual liberty—the freedom to get ahead and "make something of yourself"—with societal equality. . . . The problem is . . . that America is failing to live up to American egalitarian principles, measured by the promise of equal opportunity for all, the idea that every child born into poverty can rise to the top.[7]

Economic mobility seems the best candidate as a lens for considering how housing can address inequality in our society. Economic mobility is about the ability of individuals to move beyond their inheritance—of wealth, ability, family, and environment—and improve their economic well-being. Because our country is one in which where we live—the state, the city, the neighborhood—is closely tied to our access to a wide range of resources and a healthy physical environment, housing plays a vital role. At its core, stable affordable housing enables children to have better cognitive development and improved learning, reduces parents' stress, allows families to maintain relationships and build social connections, and may provide resources for training, education, and enrichment, along with many other benefits. Policies that trap people in communities with unstable housing, bad schools, no jobs, and few institutions and community assets not only keep individuals from being able to ascend the next rung of the ladder but often leave them on the bottom rung, likely to perpetuate the cycle of poverty for the next generation (box 2).

BOX 2

Safety, Stability, and Affordability: The Importance of Housing

Access to safe, stable, affordable housing options shapes the trajectories of individuals and families. Households with few such options make challenging trade-offs to find a place to live: they spend more than they can afford, rent substandard units, move repeatedly, or move into unsafe neighborhoods with limited opportunities. When households sacrifice one or more of these dimensions, they experience instability and adverse health and well-being outcomes.

Affordability: Housing consumes the largest share of a household budget. Families living in unaffordable housing must reduce their spending on necessities like food, utilities, and medical care (JCHS 2014; Mills et al. 2006). These financial trade-offs have consequences. Food insecurity among children, for instance, has been linked to greater rates of illness, poorer school performance, and impaired child development.[a] Financial strains can create physical and emotional challenges for parents, which can hinder parenting abilities, increase stress, and lead to negative effects for their children (Cunningham and MacDonald 2012; Newman and Holupka 2014).

Stability: Households struggling to afford housing are more likely to move frequently, live in overcrowded conditions or double up, or be at risk of experiencing homelessness. Such residential instability can disrupt family stability and child development (Cohen and Wardrip 2011; Torrico 2009; Ziol-Guest and McKenna 2014) and hinder education outcomes (Balfanz and Byrnes 2012; Reynolds et al. 2009). A single change in elementary schools results in a decrease in math and reading skills equivalent to a four-month learning disadvantage (Voight, Shinn, and Nation 2012).

Studies have found that children growing up in overcrowded housing have lower math and reading scores, complete fewer years of school, are more likely to fall behind in school, and are less likely to graduate from high school than their peers (Brennan, Reed, and Sturtevant 2014). Children experiencing homelessness are more likely to experience illness, malnourishment, neglect, violence, and cognitive delays (Crowley 2003). For adults, housing instability is associated with postponing needed health care and medications and poor access to health care (Kushel et al. 2006).

Quality: In trying to find an affordable home, low-income households may compromise on quality. Extremely low income households are three times more likely to live in inadequate housing than households earning 80 percent or more of area median income (JCHS 2014). Substandard housing can expose residents to allergens, rodents, and toxic chemicals, all of which can cause developmental and health problems (Kinney et al. 2002; Leventhal and Newman 2010). Children in public housing who live

in poor-quality homes are 39 percent more likely to visit the emergency room than those who live in recently renovated homes.[b]

Housing-based triggers cause up to 40 percent of children's asthma episodes (Lanphear et al. 2001). According to one study, moving an asthmatic child from poor-quality housing into a green, healthy home reduces asthma-related doctor visits by 66 percent, keeping the child in school and the parent at work (Takaro 2011). Poor-quality housing also correlates with child and adolescent emotional and behavioral problems, adolescent academic skills, and early developmental delays and physical health (Coley et al. 2013; Kerbow 1996).

Limited housing options steer households toward lower-quality neighborhoods (JCHS 2014b). Neighborhoods with crime, blight, and lack of opportunity not only compromise the physical safety of families, but also contribute to negative employment, education, and health outcomes (Ellen and Turner 1997; Leventhal and Brooks-Gunn 2000; Sampson et al. 2002). The presence of toxins, ambient stressors like noise and traffic, and other environmental hazards are further associated with respiratory problems (McConnell et al. 2010), poor maternal and child health outcomes (Morello-Frosch and Shenassa 2006), and reduced life expectancy (Gilderbloom and Squires 2014).

[a] "Map the Meal Gap," Feeding America, accessed September 15, 2015, http://map.feedingamerica.org/county/2013/overall.
[b] University of California San Francisco, "San Francisco Public Housing Type a Strong Predictor of Kids' Use of Emergency Rooms," news release, December 8, 2014, http://www.ucsf.edu/news/2014/12/121771/san-francisco-public-housing-type-strong-predictor-kids%E2%80%99-use-emergency-rooms.

Housing Policy Levers

We now look at specific housing policies that can be used to promote economic mobility. These tools may currently either impede economic mobility or not be used to their fullest potential to promote it.

We recognize that the solutions to economic mobility extend beyond housing. A wide range of government activities influences people's homes and communities. Environmental, transportation, and numerous other policies directly affect the safety, stability, and affordability of someone's home. We investigate housing policies' role in promoting economic mobility here because place is so closely tied to access to opportunity. Today, housing is viewed as a platform to access other services; it has been called "a portal to better educational and life outcomes."[8] Even after constraining the economic mobility conversation to housing policies, we have a broad group of tools to consider.

We do not try to catalogue every potential housing policy lever—or even most of them. Instead we identify several categories of policies that are regularly considered viable (figure 3).

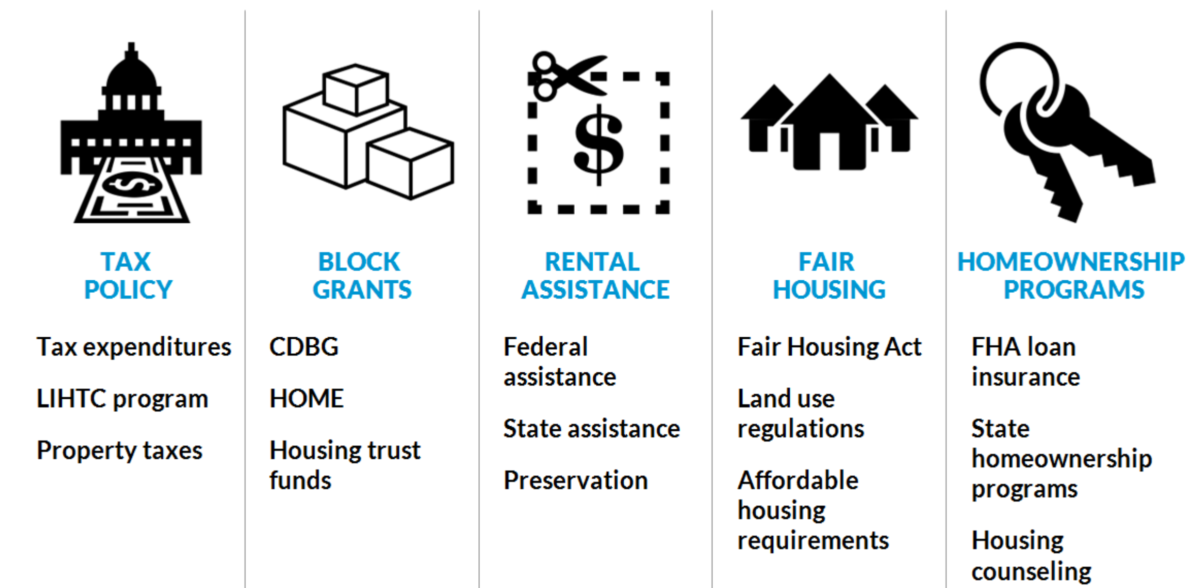
Many federal housing policy levers involve changing the incentives for state and local action. Even without federal policy changes, states and their local jurisdictions have numerous opportunities to improve the economic mobility of their residents through targeted, long-term investments in both individuals and their communities. Because place plays such a large role in an individual's opportunity set, state and local governments have the ability to directly implement housing policies that can create more economic mobility.

We adopt the perspective of "mobility assistance and neighborhood revitalization as *complementary* place-conscious strategies, not as dueling ideologies."[9] While complementary strategies could become competitive when resources become scarce, ultimately, people should have choices about where they live and have opportunities wherever they make their home.

The rest of this paper briefly describes federal, state, and local policies and programs and discusses ways to better use the tools to help low-income families and families of color achieve better economic outcomes.

FIGURE 3

Promising Housing Policy Levers to Promote Economic Mobility



Note: LIHTC = Low-Income Housing Tax Credit; CDBG = Community Development Block Grant; HOME = HOME Investment Partnerships Program; FHA = Federal Housing Administration.

Tax Policy

TAX EXPENDITURES

Much has been written on how the tax expenditures for homeowners largely benefit higher-income individuals and eclipse direct spending on housing assistance for low-income households (Fischer and Huang 2013; Toder, Harris, and Lim 2009). The net value of the mortgage interest deduction was about $70 billion in 2012, and the net value of the real property tax deduction was $28.2 billion (Acs and Johnson 2015). The capital gains exclusion on home sales constitutes another $56.5 billion, and the exclusion of the imputed rental income on owner-occupied housing (estimated at $79.8 billion for fiscal year [FY] 2015) provides homeowners additional financial benefits (OMB 2015, table 14-2).

The property tax deduction creates additional barriers to economic mobility because wealthier jurisdictions can more easily convince their residents to increase property taxes to fund schools when a portion of the increase is “reimbursed” by the federal government; poorer neighborhoods are unable to leverage these extra funds, because they have a low base (Loeb and Socias 2004). In this way, these tax policies bolster economic segregation and stifle economic mobility.

Opportunities to promote economic mobility. The federal government currently incurs tax expenditures of more than $160 billion a year to support homeownership for higher-income households. If the goal is to promote homeownership, the mortgage interest deduction could be restructured so more of the benefit is directed to low- and middle-income taxpayers, who are more likely to be deciding whether to own or rent. This restructuring could be accomplished by changing the deduction to a refundable credit, limiting the maximum amount, and providing the credit only for a household’s primary residence, not second homes (Toder 2013).

Other tax strategies may help lower-income households, such as implementing a permanent first-time homebuyer’s tax credit or helping people save for a down payment through a “first-time home buyers savings plan” that provides federal matching and allows tax-free withdrawals for first-time home purchases (Levin, Greer, and Rademacher 2014, 19). The federal government offered a first-time homebuyers’ credit as part of the stimulus package in 2008; several states offer tax credits or other programs to assist first-time homebuyers.

Or, the federal funds currently going to high-income households through tax deductions could be spent directly on supporting affordable, stable housing for lower-income households. This investment could give low-income individuals and families greater economic opportunities (Pastor and Turner

2010). When looking at post-tax, post-transfer distribution of income, Acs and Johnson (2015) find that housing subsidies decreased income inequality, on net, more than the mortgage interest and real property deductions increased it, despite the government only spending half as much money on housing subsidies. Housing subsidies represent a larger share of low-income households' incomes than the two deductions represent for higher-income households. Accordingly, benefits targeted at low-income households have a greater effect (an "equalizing effect") than benefits targeted at high-income households (despite their "disequalizing effect").

A renter's tax credit, as recommended by the Center on Budget Policy and Priorities, is another tool that can support affordability (Sard and Fischer 2013). States would receive credits based on a per capita formula that they could allocate according to their policy preferences. The credits would be available to tenants, landlords, or the owner's lender (in exchange for reducing the owner's mortgage loan payments) and would be based on a percentage of the rent reduction that the owner provides to the tenants.[10] The recipient would claim the credit to reduce quarterly estimated tax payments or annual taxes. The tax credit could be structured to go directly to renters (like California's renter tax credit), but tax refunds paid after the money is spent are less beneficial to renters trying to pay their monthly rent.

Robert Sampson (2015) recommends "affirmative action for neighborhoods," after finding that neighborhoods also have limited economic mobility. To satisfy the need for sustained interventions that give individuals choices, Sampson proposes giving cash assistance or reducing the tax rate (i.e., a negative income tax) for poor residents regardless of their race who live in poor, disinvested neighborhoods, what Sampson calls "compounded deprivation." This policy, which could be implemented at the federal, state, or local level, would allow residents to remain in their communities, increase their incomes (thereby lowering the neighborhood poverty rate), and possibly increase their social investment in the community. One concern is that such assistance could draw low-income families into poor neighborhoods, thereby further constraining their opportunities. As with all these policy levers, we need to be attentive to possible unintended consequences. In our efforts to identify pathways to promote economic mobility among low-income and minority households, we do not want to trigger residential instability among other groups or increase the middle-class "squeeze."

LOW-INCOME HOUSING TAX CREDIT PROGRAM

The Low-Income Housing Tax Credit (LIHTC) program is another way the federal tax code promotes housing, specifically the private production of affordable rental housing. Instituted in the Tax Reform Act of 1986, the LIHTC program is the largest federal program to promote the production of affordable

housing. States are allocated tax credits, which they then competitively award to private developers for affordable housing projects. To be eligible for the tax credits, developers must dedicate either 20 percent of the units to tenants with incomes no higher than 50 percent of the area median income (AMI), or 40 percent of the units to tenants with incomes no higher than 60 percent of AMI. For these units, the gross rent may not exceed 30 percent of the income limitation of that unit. The rent and occupancy thresholds currently remain in effect for 30 years (Hollar 2014). The program requires that states give priority to projects that serve the lowest-income households and have the longest affordability periods. The program also provides additional credits for developments in qualified census tracts (low-income neighborhoods) and difficult-to-develop areas (areas with high development costs).

The LIHTC program has contributed to the financing of 2.4 million affordable units since its inception in 1986 (Bolton, Bravve, and Crowley 2014). The program cost the federal government an estimated $7.8 billion in 2015 (OMB 2015, table 14-2). Much has been written on the LIHTC program, examining the tenants (Hollar 2014), access to high-performing schools (Ellen and Horn 2012), and state allocation programs (Khadduri 2013). Some stakeholders have raised concerns that LIHTC projects are developed where land prices are low, thus offering affordable units predominantly in communities with fewer resources and opportunities (Furman Center for Real Estate and Urban Policy 2012; Khadduri 2013) and crowding out development that would otherwise occur (Eriksen and Rosenthal 2010). Both federal rules and state allocation plans can be revised to better promote development in high-opportunity areas.

Opportunities to promote economic mobility. The LIHTC program could be revised to impose more stringent requirements on or clearer guidance to states, either to give preference to projects that are located in areas that meet certain criteria related to employment, transportation or other services or to prohibit states from allocating credits to projects that would increase the concentration of poverty. Bonus credits could be awarded for building in locations with promising neighborhood revitalization plans rather than simply in qualified census tracts (Khadduri 2013). Other changes, such as increasing the percentage of rent-restricted units and raising the income threshold to 80 percent of AMI, have been proposed to increase the number of affordable units while permitting sufficient income to fund operating costs. Alternative formulations of the income limitation requirements have been proposed that enable a mix of rent-restricted units to allow “income averaging.” Achieving this greater income diversity may be feasible only in stronger housing markets.

States can improve the effectiveness of the LIHTC program by altering how they implement it. Currently, states develop qualified allocation plans by which they distribute their allocated credits under the federal LIHTC program. They may identify priorities for which they give more points in

evaluating applications. Thus, they could choose to reward projects in low-poverty, high-opportunity neighborhoods or projects that include community spaces for providing services such as child care or job training. For example, Massachusetts gives points based on the quality of the local public school system, access to employment, and access to higher education institutions, encouraging affordable housing to be more location-efficient.

As states determine priorities for their allocation plan, they should consider factors that will better support economic mobility for low-income households and households of color. Ellen and colleagues (2015), studying changes in qualified allocation plans in 21 states, find that state priorities can make a difference. Specifically, Massachusetts, New Jersey, and Texas increased priorities to higher-opportunity areas and saw an increase in the share of tax credits allocated for projects in low-poverty areas and a decrease in those in high-poverty areas.

PROPERTY TAXES

Although local property taxes have traditionally been the core funding for education, states have played a growing role in education funding, primarily as a result of court-ordered finance reforms beginning with the 1971 California Supreme Court decision in *Serrano v. Priest*, holding that disparities in per pupil spending resulting from the education finance system violated the state constitution's equal protection clause. Many school districts continue to receive unequal funding from state education financing systems. Some efforts to better equalize funding have been ineffective, and other efforts to reduce property tax burdens have made the situation worse.

For example, the state of New York enacted the School Tax Relief (STAR) Program in 1997 to give homeowners property tax relief. STAR provides partial exemptions from school district property taxes to all taxpayers who own their primary residence in the state, with an "enhanced exemption" for homeowners ages 65 and older with annual incomes of no more than $60,000. Although the initial program applied to all owners, regardless of age or income, the exemption is currently available only to households with income of $500,000 or less. Renters receive no exemption (Eom, Duncombe, and Yinger 2005; New York State Department of Taxation and Finance 2014). The STAR exemptions are adjusted upward by a "sales price differential factor" in counties in which the median residential sales price exceeds the statewide median sales price (Eom, Duncombe, and Yinger 2005, 4). An analysis of the program found that STAR led to significant increases in school spending and school property tax rates, with the tax-rate increases offsetting almost one-third of the tax savings from the STAR exemptions. The researchers conclude that STAR "has done little to close performance gaps across the state, but it has shifted the burden of financing education in an arbitrary and unfair manner," with the efficiency

losses and tax-rate increases affecting some of the state's neediest districts (Eom, Duncombe, and Yinger 2005, 30).

Another way local property taxes create inequities is by imposing burdens on low-income homeowners who may own their homes outright but whose stagnant or decreasing incomes do not enable them to pay increasing property taxes, thus putting their homes at risk. This situation occurs in communities experiencing gentrification, as property values increase, or in communities where a declining population leaves a small group of taxpayers to fund ever-increasing service costs. Many states provide low-income homeowners with a credit against the property tax bill, basing the credit amount on household income. Some states also provide low-income renters who do not receive federal rental assistance with a tax credit in recognition that renters indirectly pay property taxes and should have some protection from tax increases (Pelletiere et al. 2008). Lower taxes increase disposable income, which helps families meet essential needs.

Property tax policies can support inequities, particularly through education resources, with how taxes are structured and assessed locally and federal deductibility of local property taxes. State decisions to limit property tax revenues, particularly when coupled with heavy reliance on sales tax revenues, can harm children's economic mobility opportunities beyond unequal schools (see Newman and O'Rourke 2011).[11]

Opportunities to promote economic mobility. States adopt other tax mechanisms, such as tax increment financing, to encourage specified development. The focus has often been on economic development to increase local tax revenues rather than improve the well-being of disadvantaged residents, but more states are now focusing on affordable housing. For example, Washington State authorizes its cities to establish a tax exemption program to stimulate the construction of new, rehabilitated, or converted multifamily housing within designated areas of the cities, including affordable housing. The value of eligible multifamily housing improvements is exempted from property taxes for 8 or 12 years. The 12-year exemption is available to property owners who commit to renting or selling at least 20 percent of their units to low- and moderate-income households at affordable prices. If property owners do not meet this requirement for the entire period, they must pay back taxes (Revised Code of Washington § 84.14). California's tax increment financing program, which funded local redevelopment authorities, was an important source of funding for affordable housing. It filled funding gaps for 62 percent of LIHTC developments in 2011. The program was terminated in 2012 (Blount et al. 2014).

Like the federal government, states often try to meet various goals through tax credits and deductions. The District of Columbia's first-time homebuyer's credit and various states' energy

efficiency credits are good examples. The large range of tax policy tools gives states the capacity to target resources to surmount impediments to economic mobility.

Block Grants

COMMUNITY DEVELOPMENT BLOCK GRANTS

The Community Development Block Grant (CDBG) program is a flexible source of funding for states and cities. Grants are given directly to major cities and urban counties as "entitlement communities" or to states to distribute to their smaller jurisdictions. Although flexible, CDBG funds are subject to broad requirements. Each activity undertaken by a locality must meet one of the CDBG's national objectives: principally benefiting low- and moderate-income people (people whose income is 80 percent or less of AMI), eliminating or preventing slum and blight conditions, or meeting other urgent community development needs. At least 70 percent of CDBG grant funds must be for activities that benefit low- and moderate-income people, including expenditures in areas where at least 51 percent of the residents are low- and moderate-income persons. Up to 15 percent of the grant can be used for public services.[12] States are limited to similar allowable activities but can use funds for technical assistance activities.[13]

CDBG funding has fluctuated between FY 2000 and FY 2014, from a peak of $5.1 billion in 2001 to a low of $3.0 billion in FY 2012. Over time the number of grantees has increased while the average allocation amount has decreased 43.7 percent from $3 million in FY 2002 to $1.7 million in FY 2012 (Boyd 2014). (These figures exclude special and supplemental appropriations targeted toward disaster recovery and immediate post-recession relief.)

CDBG provides a federal framework within which states and local jurisdictions have the freedom to design programs. This structure provides the 1,200 grantees with flexibility on how to distribute and use the funding (Bostic 2014). Many jurisdictions divide the funds among numerous projects, thereby diluting their ability to transform a neighborhood. Others may direct the funds to different causes each year, failing to provide the continuous investment some neighborhoods need. Different political structures and cultures and varying local capacity contribute to diverse strategies and uneven results in use of CDBG funds.

HOME INVESTMENT PARTNERSHIPS PROGRAM

The HOME Investment Partnerships Program (HOME) is a federal block grant program that provides flexible funding to states and localities to fund affordable housing for low-income households. HOME funds are awarded annually as formula grants to participating jurisdictions by an allocation that considers the relative inadequacy of the jurisdiction's housing supply, poverty, and other factors. Eligible activities for HOME funds include providing home purchase or rehabilitation financing assistance to eligible homeowners and new homebuyers; building or rehabilitating housing for rent or ownership; and other reasonable and necessary expenses, including site acquisition or improvement, demolition of dilapidated housing to make way for HOME-assisted development, and relocation expenses. HOME funds also may be used to provide tenant-based rental assistance contracts of up to two years. The US Department of Housing and Urban Development (HUD) establishes rent limits, maximum per unit subsidy limits, and maximum purchase price limits for HOME-assisted housing.[14] HOME funds have been declining, with funding averaging $1 billion a year over the last four years, a substantially lower amount than the $1.8 billion in 2010.

Opportunities to promote economic mobility. CDBG and HOME (funded for $3.1 billion and $1 billion, respectively, in 2014) give states and localities flexibility in how to best use federal funds to meet their local needs and priorities. That flexibility makes ensuring federal goals are being met more difficult (GAO 2012). Further, the multiple goals for each program are not explicitly connected to improving economic mobility or to providing greater educational and employment opportunities for residents.

To better promote economic mobility, use of the funds could be more limited or more targeted (Brooks and Sinitsyn 2014; Galster, Tatian, and Accordino 2006). For example, jurisdictions could be required to prioritize allocation of funds to encourage the development of housing in a location that provides opportunities near transit, employment, and schools. Currently, HUD provides an incentive for entitlement communities to designate and target funds to Neighborhood Revitalization Strategy Areas; investments in these areas accounted for 17 percent of total CDBG funds between 1995 and 2012 (Rich 2014). Jurisdictions could be encouraged to combine housing funds with community development funds to increase the investment in a specific neighborhood that meets criteria for being disadvantaged. Such encouragement could better support revitalization of that neighborhood while preserving low-income families' ability to live there.

HOME funds could be accompanied by technical assistance (or requirements) to help communities take advantage of preservation opportunities in areas that are able to attract significant private and/or public investment but face deepening affordability gaps or displacement challenges. Jurisdictions could

be limited in the portion of HOME dollars that could be spent on construction or preservation activities in distressed neighborhoods, unless the funding was part of a larger revitalization plan.

One component of federal funding that directly addresses low-income residents' economic well-being is HUD's Section 3 program, which requires that recipients of certain HUD financial assistance, to the greatest extent possible, provide job training, employment, and contract opportunities for public housing residents and low- or very low-income residents in connection with projects and activities in their neighborhoods.[15] Section 3 applies to recipients of more than $200,000 combined from housing and community development programs, including CDBG and HOME, as well as public housing development operating and modernization expenditures. Greater enforcement of these requirements, increased grantee capacity, and application of Section 3 to a broader group of HUD-assisted residents would increase residents' employment opportunities and promote economic mobility (Sard and Kubic 2009).

At the state and local level, jurisdictions would benefit by using a comprehensive approach that melds multiple funding sources, including CDBG and HOME funds, for substantive and consistent investment in disadvantaged neighborhoods.

Richmond, Virginia's Cities in Bloom project is one such example. Richmond strategically invested more than $21 million over five years in target areas comprising 300 blocks (Galster, Tatian, and Accordino 2006). The city used CDBG, HOME, and capital improvement funds. It also provided focused code enforcement, gave priority to tax delinquency sales and property disposition in these neighborhoods, staffed accelerated historic preservation review, and funded housing counseling. This large-scale, spatially focused package of revitalization initiatives stimulated private market investment and generated perceptible changes in the neighborhoods (Galster, Tatian, and Accordino 2006).

HUD highlights other projects that effectively use CDBG funding. A neighborhood in Hinesville, Georgia, is being transformed from 32 dilapidated units to a combination of new single-family homes and townhouses for at least 45 low- to moderate-income families, including existing residents. The city drew on a range of resources: the Community Home Investment Program, special purpose local option sales tax, the city's revolving loan fund program, CDBG funds, discounted local loans, owners' contributions, and set-aside funds from the city's General Fund budget.

In Philadelphia, CDBG funds, a Section 108 loan, and a federal Homeownership Zone grant catalyzed the revitalization of a fading neighborhood into the Cecil B. Moore Homeownership Zone. By developing large tracts of vacant land, incorporating infill housing consistent with traditional Philadelphia row houses, and restoring many of the area's historically significant structures, the project

transformed the community. The entire lower-income neighborhood benefited, including 760 new residents, 76 percent of whom are low- and moderate-income homeowners, and 10 percent of whom are people with disabilities. Vacancy and crime have been significantly reduced; population, employment, and household income have increased. The project required a wide range of local partners.

Midland, Texas, targeted CDBG funds over 10 years to revitalize five neighborhoods, leveraging $3.9 million for a project total of $16.1 million. The transformational improvements include new or enhanced parks, upgraded streets, curbs and sidewalks, housing rehabilitation and reconstruction, and infill housing development. The city acquires vacant land and completes infrastructure work, and two partner nonprofits, Habitat for Humanity and Midland Development Corporation, develop new homes. Another partner, Midland Community College, provides housing counseling services and an individual development account program.

These models of integrating various sources of funds and working with an array of partners to link housing to financial and employment services need to be more widely shared so jurisdictions can learn from each other. However, one lesson from the Strong Cities Strong Communities Initiative is that federal rules can limit jurisdictions' creative attempts to braid federal funds. Policymakers should consider how jurisdictions can more easily communicate these barriers to the relevant federal agencies and how solutions can be more widely shared. Similar challenges have arisen in disaster recovery, which may be a source of best practices.

States can create incentives for localities to take actions to increase opportunities for low-income residents by prioritizing allocation of housing funds (such as HOME and CDBG) and other discretionary funding, including economic development funds, consistent with these goals.

HOUSING TRUST FUNDS

Enacted as part of the Housing and Economic Recovery Act of 2008, the National Housing Trust Fund (NHTF) is a block grant to states and is targeted to address the shortage of affordable rental units available to households with incomes at or below 50 percent of AMI, with priority for extremely low-income households (30 percent or less of AMI). At least 90 percent of the funds must be used for the production, preservation, rehabilitation, or operation of rental housing (including manufactured housing). Up to 10 percent can be used for specified homeownership activities for first-time homebuyers, including down payments, closing costs, and interest rate buy-down assistance (NLIHC 2013). The NHTF identifies factors the state must use when prioritizing funding, including geographic diversity, the affordability of rents for extremely low-income households, the length of time rents will

remain affordable in the proposed project, and the merits of a proposed activity, such as housing accessible to transit or employment centers.

Created in 2008, the NHTF is funded by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, which contribute a small percentage of the unpaid principal balance of each loan they purchase. The two government-sponsored enterprises have been in conservatorship since 2008, and their conservator suspended contributions. In January 2015, they were permitted to start contributing, paving the way for distribution to begin in 2016.

States also use housing trust funds to support affordable housing. Forty-seven states, the District of Columbia, and hundreds of local agencies have established dedicated housing trust funds for affordable housing (HUD 2013). Jurisdictions can shape the fund to meet their specific housing needs and priorities, making housing trust funds a potentially powerful tool, depending on the degree of funding. Trust funds may be designed to assist individuals directly with rental assistance, housing counseling, and down payment assistance. Or the jurisdiction may target the funds to finance the development or preservation of affordable housing. In doing so, it can influence the location, amenities, rents, and other aspects of the development process.

Opportunities to promote economic mobility. The National Housing Trust Fund provides funds dedicated to housing and focused on helping extremely low-income households. By giving these households access to affordable housing, we can improve economic mobility. The NHTF can be a much more powerful tool, however, if the "merits of a proposed activity" factor is interpreted as ensuring that homes come with access to other resources and opportunities.

Other funds distributed through HUD promote housing development to improve the opportunities of residents, such as the Choice Neighborhoods Initiative, a program designed to catalyze critical improvements in neighborhood assets, including vacant property, housing, services, and schools.[16] Choice is an example of the growing emphasis in federal programs on braiding funding across agencies, leveraging investments in housing, transportation, human services, and education off each other, and improving local and regional planning processes. Similar initiatives include Promise Neighborhoods, Promise Zones, Sustainable Communities Initiative, and Strong Cities Strong Communities. However, individual initiatives that last a few years or through an administration are insufficient. Sustained alignment of federal funding and coordinated investments over a significant period of time are needed to improve economic mobility.

The administration's FY 2016 budget proposes the Upward Mobility Project, which would allow up to 10 successful applicants (communities, states, or consortia thereof) to combine funds from CDBG,

HOME, and two Department of Health and Human Services grants (Social Services Block Grant and Community Services Block Grant) to test and validate promising approaches to help families become more self-sufficient, improve children's outcomes, and revitalize communities so they can provide more opportunities for their residents. In the FY 2016 budget, HUD also proposes $300 million for local housing policy grants to help "localities and regional coalitions of localities to increase economic growth, access to jobs and improve housing affordability by supporting new policies, programs or regulatory initiatives to create a more elastic and diverse housing supply" (HUD 2015, 4). These innovative programs provide further opportunities for learning how to promote economic mobility through deployment of federal resources combined with state and local activities.

As policymakers increasingly recognize the need for housing programs to be more integrated with other services, it is essential that they think of housing policy in the larger context of opportunity and well-being.

The Upward Mobility pilot is a start at better combining federal resources. Lessons can be gleaned from other experiences blending federal resources, such as the benefits of housing assistance to households leaving the Temporary Assistance to Needy Families (TANF) program. Research indicates that households receiving housing assistance were more likely to be employed after leaving TANF than TANF leavers not receiving housing assistance (Sard and Waller 2002). These findings suggest that meeting housing needs is an important component of a state or local jurisdiction's successful transition to work strategy for families. Greater integration of federal funding streams and policies could be a formidable tool in promoting economic mobility. As policymakers increasingly recognize the need for housing programs to be more integrated with other services, it is essential that they think of housing policy in the larger context of opportunity and well-being.

Another opportunity is helping states, jurisdictions, and other recipients of federal funds more effectively use those funds. As a convening participant commented, local governments "make bad use of millions of dollars. We can use that money more effectively." One mechanism for improving local governments' use of federal funds is technical assistance (TA). Although the federal government invests in TA, the current delivery system is not designed to achieve the most effective outcomes. This results in part from insufficient funds, a demand-response business model that requires TA providers to be able

to provide assistance across a wide range of substantive areas as needed, incentives built into the TA model, the inflexibility of current TA to adjust to local context, and the lack of metrics to measure success.

Federal agencies have begun exploring different models of providing technical assistance to their grantees, such as the various activities under the Strong Cities Strong Communities Initiative. Yet, research on capacity building and technical assistance continues to be sparse. Identifying effective and cost-efficient methods for delivering TA seems particularly ripe for exploration as constrained resources require more efficient deployment of federal funds. TA needs to be improved so local systems can be better at what they do and look for ways to generate more mobility.

Rental Assistance

FEDERAL ASSISTANCE

Federal rental assistance is concentrated in three main programs: housing choice vouchers, project-based rental assistance, and public housing. The Section 8 Housing Choice Voucher Program, the dominant federal program with more than $19 billion in spending in 2014, provides households the opportunity to find eligible housing on the private rental market. About 2.1 million low-income families use these tenant-based vouchers, administered by a network of 2,250 housing authorities (CBPP 2015a). Vouchers typically help pay the difference between what a family can afford and the actual rent of a unit that meets HUD's health and safety standards, up to a locally determined rent limit. Families are expected to contribute the greater of 30 percent of their income or the minimum rent amount of up to $50. The program particularly targets extremely low-income families; by law, 75 percent of newly admitted households must be extremely low income.

Section 8 project-based rental assistance operates through an agreement between HUD (or a public housing agency) and a private property owner to designate a set number of units for subsidy. The program serves 1.2 million families (CBPP 2015b). Tenants must contribute 30 percent of their income or a minimum rent of $25, whichever is greater, while the subsidy compensates the landlord for the remaining costs of operating and maintaining the property. The vast majority of the developments were built between the 1960s and 1990s; the program has not added to its supply of new rental housing opportunities in many years (Treskon and Cunningham, forthcoming).

Public housing units are owned and operated by local public housing agencies. The program serves 1.2 million households, 72 percent of which are extremely low income (Bolton, Bravve, and Crowley

2014). No additional public housing is under development, and many existing developments have large capital investment needs following years of use and deferred maintenance. HUD's Rental Assistance Demonstration provides a mechanism for converting public housing to project-based Section 8 contracts. Although many praise the program for offering owners access to private funding, some view it as placing assisted units at risk.

Federal rental assistance consists largely of programs created between the 1930s and 1980s. Accordingly, many of the resources (particularly brick-and-mortar investments) are located in communities that experienced the greatest housing needs at those times—primarily cities in the northeast and midwest. The existing assisted housing supply does not meet current demand, particularly given the influx of immigrants to new gateway cities in the south and west and the changing demographics of the United States.

STATE ASSISTANCE

State involvement in rental assistance is relatively limited. Twenty-two states provide ongoing rental assistance to low-income families, although many of the state programs provide lower levels of assistance than the federal government and may have time limits (Pelletiere et al. 2008). Some states also offer limited transitional assistance to help prevent low-income families from becoming homeless. These programs total an estimated $650 million in funding per year, a fairly small amount compared to federal assistance (Pelletiere et al. 2008). Many local jurisdictions, such as New York City and Arlington County, Virginia, have subsidy programs to help low-income renters; a complete catalogue of programs, their features, and funding is unavailable.

A different application of existing federal and state policies and programs—or new ones altogether—are needed to better provide assistance to households in fast-growing cities. These newcomers may be locating in vibrant cities, but they are often living in disadvantaged neighborhoods.

Opportunities to promote economic mobility. Housing choice vouchers provide the clearest opportunities to promote economic mobility. Recent research examining the effects of families using vouchers to move to lower poverty neighborhoods in the Moving to Opportunity demonstration found positive effects on both college attendance and earnings for children who were younger than 13 when the family moved (Chetty, Hendron, and Katz 2015). The researchers conclude that "housing vouchers which require families to move to lower-poverty areas and are targeted at low-income families with young children can reduce the intergenerational persistence of poverty and ultimately save the government money" (Chetty, Hendron, and Katz 2015, 5). Sard and Rice (2014) provide several specific recommendations to reach that goal:

- Create strong incentives for local and state housing agencies to achieve better location outcomes (i.e., a lower share of families using vouchers in extreme-poverty areas and an increasing share residing in low-poverty, high-opportunity areas), such as giving added weight to location outcomes in measuring agency performance and rewarding agencies that help families move to high-opportunity areas by paying additional administrative fees.
- Modify policies that discourage families from living in lower-poverty communities. HUD could better match the subsidy to costs by setting its caps on rental subsidy amounts for smaller geographic areas (freeing up money for the higher rents in lower-poverty communities). To help families move from extremely poor, highly racially concentrated neighborhoods to higher-opportunity communities with less poverty, HUD could require housing agencies to identify available units in low-poverty communities and extend the search period. HUD also could encourage agencies in a metropolitan area to unify their program operations and simplify "portability" procedures to minimize barriers to families' ability to choose to live in high-opportunity communities.

While they focus on families with children, the recommendations do not highlight the importance of having children locate to higher opportunity neighborhoods at the earliest age possible. As Chetty, Hendren, and Katz (2015) note, the current practice of having families spend years on waiting lists prevents children from benefiting from the extra years of exposure to the lower-poverty neighborhood.

Supporting mobility counseling to help families move to and remain in neighborhoods with more opportunities is another possible solution, although more research is needed to identify effective mobility programs (Cunningham et al. 2010). HUD also needs to directly address the discrimination that residents using vouchers experience in the private market and the barriers that would-be landlords in higher-opportunity areas face in participating in the program (Freeman 2011).

In addition, state and local governments may play a larger role in expanding housing choices in safe, low-poverty neighborhoods with well-performing schools by adopting policies—such as tax incentives and laws prohibiting discrimination against voucher holders—to expand participation by landlords in the federal Housing Choice Voucher Program and to encourage interested families to use their vouchers in high-opportunity areas. Assistance for families could include financial incentives to offset the costs of moving to high-opportunity areas, mobility counseling, and programs to expand access to cars and other transportation to and from these areas (Pendall et al. 2014; Sard and Rice 2014).

HUD is implementing a demonstration of small-area fair market rents, which sets fair market rents at the zip code level. Under the current approach, HUD sets the fair market rent at the 40th percentile

rent for standard-quality rental units in a metropolitan area or rural county and uses this amount to determine payment standards and rent levels in the Housing Choice Voucher program. By setting the fair market rent at a smaller geographical level, HUD can better capture housing price differences among neighborhoods. The goal is to make all neighborhoods in a metropolitan area accessible to voucher holders, including higher-cost neighborhoods that are more likely to have high-quality schools and other resources (HUD 2011).

The recommendations to improve voucher use presume that the federal government will continue to provide housing assistance rather than considering alternative demand-side mechanisms, such as increasing TANF benefits, expanding the earned income tax credit, or providing cash. Research examining which of these options results in households living in better neighborhoods could help identify how to better promote economic mobility.

Service enrichment offers another important tool for supporting upward mobility for residents receiving rental assistance. Taking advantage of housing as a portal, governments and service providers can connect individuals and families with existing service programs; they can also design programs targeted at residents in a public housing community or living in units with project-based assistance or vouchers. One well-known program is Jobs Plus, which reaches out to all adults in a given public housing development with incentives for increased earnings and some individualized support. The Jobs Plus Demonstration operated in six housing developments across the country from 1998 to 2003. According to an MDRC evaluation, the program increased earnings for residents in three of the six sites (Bloom, Riccio, and Verma 2005). A follow-up study of the three sites found that the average earnings of nondisabled working-age participants increased 16 percent (or $1,300) in seven years (Riccio 2010). HUD initiated a Jobs Plus Pilot Program in 2014, providing $24 million for PHAs to develop local approaches to increase earnings and improve employment outcomes for public housing residents. Opportunities go beyond the familiar federal family self-sufficiency or jobs training programs.

The Tacoma Housing Authority Education Project is an example of a promising practice that connects housing and education to improve families' outcomes. The project seeks to use housing dollars to increase low-income students' academic performance, improve the school, and transform the neighborhood.[17] When identifying the most beneficial services to offer, governments and service providers should consider meeting the needs of both parents and children, a "dual-generation" approach (Popkin et al. 2012).

Expansion of the Choice Neighborhoods program and other federal place-based initiatives that seek to eliminate economic segregation through mixed-income development and additional investment

in the community could benefit low-income residents through several different mechanisms. An important component is developing tools that enable existing residents to benefit from the improvements in their neighborhoods. This may involve educating them on their rights (i.e., letting them know they do not have to sell their home), implementing tenant protections, and making resources available to support both their continued residency and their engagement with the community.

PRESERVATION

Preservation maintains housing affordable for low-income residents, particularly when those units are located in neighborhoods becoming more expensive as they experience greater investment.

Buildings containing affordable units can be at risk for many reasons. As the stock ages, the owner may want to sell it or renovate it and raise rents. Applicable use restrictions may no longer apply after a federal mortgage loan matures or is prepaid. The owner may choose to opt out when the property's Section 8 contract expires. The property may fail HUD's quality standards, particularly if the owner is deferring maintenance to reduce operating costs or is unable to access financing to fund rehabilitation (HUD 2013).

Since preserving affordable housing is typically cheaper than building new housing, preservation efforts are an important tool, particularly to enable residents to benefit from improvements in their neighborhood. As many as 350,000 assisted units have been lost between 2000 and 2010, and nearly 900,000 units have project-based Section 8 contracts set to expire before 2014 (Gramlich, Wardrip, and DeCrappeo 2010).

Opportunities to promote economic mobility. Massachusetts enacted a law in 2009 to preserve the affordability of publicly assisted housing. Chapter 40T imposes notification requirements two years before affordability restrictions terminate and, if the owner is selling the property, an opportunity for the Massachusetts Department of Housing and Community Development to make or match a purchase offer. The law provides additional tenant protections by limiting the owner's ability to evict tenants and raise rents for three years after the termination of the affordability restrictions. An assessment of the law's effectiveness found that it had, along with other state preservation efforts, led to long-term preservation of over 1,000 affordable units and pledges to preserve another 10,000 units (Achtenberg 2015). While extremely effective at preserving affordability in properties being sold, the law has little impact on units in projects that are not sold; an estimated 2,400 units have been lost to market-rate conversions.

Preservation strategies need to consider how best to maintain both federally subsidized units and market-rate affordable housing. Over 10 million privately owned rental units have monthly rents of $600 or less, making them an important source of affordable housing (HUD 2013). Before a local government, nonprofit, or other entity can take action, it needs to know the property is at risk of being lost as affordable housing. Thus, an important first step is for the jurisdiction to monitor affordable rental properties and identify at-risk projects. The National Housing Trust tracks properties with project-based Section 8 contracts that will expire within five years, and the National Housing Preservation Database provides an address-level inventory of federally assisted rental housing in the United States. Local efforts, such as the DC Preservation Catalogue, can include units receiving local subsidies.

With information about the units at risk, states and local jurisdictions can act to preserve the units. One model is the Preservation Compact of Cook County. Funded by the MacArthur Foundation, the Cook County Compact encourages collaboration among agencies. After local investigation found that two challenges to preserving properties were the property tax structure and utility costs, the Compact focused on having the county reduce rental assessments and on funding energy renovations. The Ohio Compact created a Sustainable Preservation Loan Fund to provide predevelopment, acquisition, and bridge-loan financing. The Compacts need further evaluation, but they may provide a model for bringing agencies and organizations together to improve preservation efforts.

Other local efforts involve preservation opportunities connected with transit-oriented developments. As local governments invest in transportation improvements, they may use community benefit agreements or other devices to ensure affordable housing is preserved so current residents can benefit from the investments.

At the core of preservation strategies is the need for money to pay for renovation and purchase. Streams of federal funding, such as HOME, Community Development Block Grants, and LIHTC, can provide funds for revitalizing affordable housing.

Fair Housing

FAIR HOUSING ACT

The Fair Housing Act, enacted as Title VIII of the Civil Rights Act of 1968, prohibits discrimination based on race, color, national origin, religion, sex, familial status, or handicap in the sale, rental, and financing of dwellings and in other housing-related transactions (42 U.S.C. §§ 3601 et seq.). The act prohibits

discrimination in programs and activities receiving financial assistance from the federal government. It also requires HUD to administer its programs and activities to affirmatively further the purposes of the act, including to reduce segregation and promote more inclusive communities.

More than 40 years after passage of the Fair Housing Act, protected groups, including racial and ethnic minorities, continue to experience discrimination in seeking homes. Although blatant discrimination, such as refusing to provide people of color with information on units or refusing to make loans in certain neighborhoods, occurs less frequently, discrimination that is more difficult to detect continues, such as showing an applicant fewer units or offering less-favorable loan terms (Apgar and Calder 2005; Turner et al. 2013).

In addition to prohibiting intentional discrimination, the law has been applied to prohibit policies that appear race-neutral but harm people of color (or other protected classes) because they have a disparate impact. These policies could include zoning laws to prohibit multifamily housing, credit-scoring practices that lead to borrowers of color having higher interest rates, or state allocation of tax credits that results in low-income housing being built only in high-poverty neighborhoods of color. The Supreme Court recently confirmed that policies that have a disproportionate adverse effect on a given racial or ethnic group, in the specific case segregating minorities in poor neighborhoods, violate the Fair Housing Act. Writing in the majority, Justice Kennedy affirmed the importance of the Fair Housing Act:

> Much progress remains to be made in our Nation's continuing struggle against racial isolation. In striving to achieve our "historic commitment to creating an integrated society," we must remain wary of policies that reduce homeowners to nothing more than their race. But since the passage of the Fair Housing Act in 1968 and against the backdrop of disparate-impact liability in nearly every jurisdiction, many cities have become more diverse. The FHA must play an important part in avoiding the Kerner Commission's grim prophecy that "our Nation is moving toward two societies, one black, one white—separate and unequal." The Court acknowledges the Fair Housing Act's continuing role in moving the Nation toward a more integrated society.[18]

The Supreme Court's decision was followed by HUD's release of a new rule to provide greater weight to the "affirmatively furthering fair housing" component of the Fair Housing Act.[19] The rule aims to improve housing choices and create access to opportunity for groups protected under the act by requiring jurisdictions that receive HUD funds to take the following actions:

- Engage residents on fair housing and community development issues, which would make jurisdictions more accountable to community member needs.
- Use a data-driven analysis (an assessment of fair housing) of community conditions and impediments to fair housing.

- Tie federal funding, including CDBG and HOME funds, to addressing the identified fair housing challenges.[20]

The rule would require jurisdictions to focus on four goals: improving integrated living patterns and overcoming historic patterns of segregation; reducing racial and ethnic concentrations of poverty; reducing disparities in access to community assets such as education, transit access, and employment, along with exposure to environmental health hazards and other harmful stressors; and responding to disproportionate housing needs by protected class.

Opportunities to promote economic mobility. Strong enforcement of the Fair Housing Act can play an important role in promoting economic mobility by enabling families to find and obtain housing in neighborhoods with good schools, jobs, and community resources, regardless of their race, ethnicity, religion, or other protected basis. The Fair Housing Act, which also prohibits discrimination in lending, has helped curb predatory lending practices that strip families of wealth.

The affirmatively furthering fair housing rule is a promising tool to directly address spatial segregation and access to opportunity. As PolicyLink observes, "By encouraging more job investments in high-unemployment communities and promoting transit investments that connect these communities to jobs elsewhere, this rule would help people previously isolated from employment opportunities better engage in the regional workforce and contribute to local economies."[21] Recent pilots in improved fair housing planning that were funded by HUD through the Sustainable Communities Initiative, in part as a precursor to the affirmatively furthering fair housing rule, demonstrate how targeted and low-cost solutions can be achieved when fair housing planning brings together diverse stakeholders to look at regional barriers that separate very low-income families from jobs.

Effective implementation of the rule will be critical to its success. Convening participants suggested a staged approach. Rather than immediately engaging with jurisdictions that are poorly disposed to the rule, HUD could work with early adopters to learn from their activities. Conducting ethnographic research as the rule is being implemented would enable the field to learn from community conversations and experiences. Promising models could be shared with willing jurisdictions that are uncertain of the best path forward. More gradual diffusion, building off positive experiences, may result in better outcomes in the end while avoiding overtaxing HUD's capacity. Research showing the economic opportunities created by affirmatively furthering fair housing may promote the perspective that the rule is a tool for improving communities rather than a form of affirmative action.

Despite the mechanism chosen for implementing the rule, enforcement remains essential. In an Urban Institute housing discrimination study, Turner and colleagues (2013) recommend that

enforcement strategies should not rely primarily on individual complaints of suspected discrimination. HUD should encourage the local fair housing organizations it funds to conduct more proactive testing, especially in the sales market, where discrimination appears higher than in the rental market. Proactive testing can reveal discriminatory practices that would otherwise go unpunished and may increase compliance with the law if housing providers know they may be "caught."

Local fair housing organizations should also expand and strengthen their relationships in Hispanic and Asian communities to address the discrimination experienced by all people of color—not just blacks. Home seekers of color often have lower incomes, less wealth, weaker English language fluency, and blemished credit and may face higher levels of discrimination as a result. Many other possibilities, such as recommendations for improving rental assistance, will be reinforced by implementation and enforcement of a strong fair housing rule (Sard and Rice 2014).

In addition to adoption and implementation of the new rule, HUD has other opportunities to support fair housing. For example, HUD is conducting a pilot in Baltimore in which it provides incentives for investment in affordable multifamily housing in mixed-income, integrated communities through Federal Housing Administration multifamily insurance programs. This program, which relies on market rate development, could be brought to scale.

States have a large role to play in the ultimate success of HUD's affirmatively furthering fair housing rule. The rule requires states to conduct an assessment of fair housing, an analysis of community conditions and impediments to fair housing. The four goals identified by HUD directly relate to conditions affecting economic mobility: improving integrated living patterns and overcoming segregation, reducing racial and ethnic concentrations of poverty, reducing disparities in access to community assets, and responding to housing needs. States can use the analysis to direct their distribution of federal and state funds as well as coordinate efforts among agencies and programs to remove impediments.

State fair housing laws may add protections beyond those in the federal Fair Housing Act. For example, Connecticut prohibits discrimination based on an individual's source of income, and the District of Columbia prohibits discrimination against individuals with housing choice vouchers. As with the federal law, enforcement is a critical component. However, fair housing enforcement alone is insufficient to reverse persistent patterns of segregation. Turner and colleagues (2013, xxiv) assert that a multipronged strategy is necessary that includes

> vigorous enforcement of anti-discrimination protections along with education—about the availability and desirability of diverse neighborhoods; local regulatory reforms and affordable housing development—to open up exclusive communities and preserve affordable options in

> gentrifying neighborhoods; neighborhood reinvestment—to equalize the quality of services, resources, and amenities in neighborhoods of color; and new incentives—to encourage and nurture stable diversity. All of these elements are required to achieve the fundamental goals of free and fair housing choice and healthy, opportunity-rich neighborhoods.

All these strategies require state and local action.

LAND USE REGULATIONS

Land use regulations are one of the most powerful tools a local jurisdiction has to influence its residents' opportunities. Unfortunately, many jurisdictions have chosen to exclude low-income residents from a neighborhood by limiting higher-density development or by allowing high-density, multifamily development where it is segregated from other housing types and isolated from schools, jobs, stores, and other community resources. Much has been written on exclusionary zoning and its effects on people of color and low-income residents (Ihlanfeldt 2004; Rothwell 2011; Rothwell and Massey 2009). Yet many states and local jurisdictions have begun using land use regulations and zoning ordinances to improve housing opportunities for their residents, which in turn can support efforts to improve economic mobility. Rognlie's (2015) finding that housing wealth contributes to wealth disparities emphasizes the importance of land use regulations as a tool in promoting economic mobility.

States spend a large sum on infrastructure, extending beyond transportation to include schools and other public facilities, sewer lines, and waste management. With a greater recognition of the importance of transportation networks and energy efficiency, states are considering how to use their funds more efficiently. This efficiency can range from limiting state funding to developments in "priority funding areas" to providing additional education funding to a community based on the number of multifamily housing units it permits to be built to giving additional state transportation funding to jurisdictions that are creating integrated communities through comprehensive planning and zoning revisions.

Inclusionary zoning policies connect market-rate development with affordable housing development by mandating or encouraging a certain percentage of units in a project is affordable to low- or moderate-income households. A growing number of jurisdictions have adopted mandatory or voluntary inclusionary zoning ordinances, which vary greatly in when the requirements are triggered, how many units must be produced, how the target population is defined, and what period of affordability is required. Inclusionary zoning relies on private market activity to produce units and ensures mixed-income developments (unless developers are allowed to make a monetary contribution in lieu of producing units). Although the number of units produced is fairly small (Montgomery County, Maryland, which implemented the first inclusionary zoning ordinance in 1976, has produced only

13,000 units; Urban Institute 2012), the program has been found to provide low-income families access to more economically diverse places.

An analysis of inclusionary zoning programs in 11 jurisdictions found that three-fourths of the homes were in low-poverty neighborhoods (10 percent or fewer households living in poverty), compared with 8 to 34 percent of homes in low-poverty neighborhoods accessed through other affordable housing programs (Schwartz et al. 2012). Families also were able to live near better-performing schools. Earlier research by Schwartz (2012) in Montgomery County, Maryland, found that students who lived in an affordable home through inclusionary zoning and attended low-poverty elementary schools did significantly better than their public housing peers who attended moderate-poverty schools. By the end of elementary school, the children living in inclusionary zoning units had reduced the achievement gap with their nonpoor classmates by half for math and one-third for reading.

AFFORDABLE HOUSING REQUIREMENTS

Some states have adopted laws that encourage local jurisdictions to develop affordable housing. Massachusetts's chapter 40B affordable housing zoning law (also called the "anti-snob zoning act") is one model. Massachusetts encourages all local governments to ensure that at least 10 percent of the housing in their community is affordable. If a community has not met the 10 percent threshold, developers of state or federally subsidized projects can apply for a comprehensive permit through a streamlined process before the local zoning board of appeals if at least 25 percent of the project is affordable. The approval rules for these 40B developments are often more flexible than local zoning, for example, allowing greater density. Local governments have an incentive to reach the 10 percent threshold to avoid losing local zoning control.

Since the early 1970s, the law has contributed to the construction of 40,000 units, a small but significant number compared to other efforts. Massachusetts later added smart-growth criteria to chapter 40B, favoring redevelopment projects that are walkable to transit, village centers, schools, libraries, or retail; meet a minimum of 5 of the commonwealth's 10 development principles; are environmentally sensitive; include fair participation by the public; meet standards for diversity and social equity; are energy efficient; provide transportation choices; and increase job opportunities.

As a first step toward getting local jurisdictions to increase housing choices, states could update their enabling legislation to require localities to plan for housing and to develop strategies and policies that meet various housing needs and focus on expanding housing choices. As part of this process, local governments would determine whether they have the capacity to meet housing needs based on their jurisdiction's projected population size and mix. This is similar to California's Housing Element

requirement, under which jurisdictions must conduct the analysis but are not required to produce the housing. Requirements or incentives would need to be implemented as a second step.

States can provide state aid to encourage local governments to permit more construction of higher density and multifamily housing near transit, jobs, retail, and other community resources. States can also encourage local governments to change their development regulations and increase housing choice through additional funding or expedited permitting (or delegated review) when state agencies are involved in the development. For example, to be eligible for state assistance (which includes grants and tax credits to individuals, lending institutions, developers, and nonprofit organizations), jurisdictions in Oregon must meet statewide housing goals.

States could award housing funds only to local governments that allow for a range of housing in their comprehensive plans and implement zoning for diverse housing that promotes racial and economic integration.

The challenge is not the lack of potential policy options but the lack of political will.

As the above examples indicate, the tools to create more integrated communities are plentiful. Despite growing evidence on the benefits of reduced supply constraints (e.g., Bluestone 2006; Hsieh and Moretti 2015) and increased residential integration (e.g., Chetty, Hendron, and Katz 2015) for individuals, communities and the national economy, jurisdictions continue to have exclusionary policies in place. The challenge is not the lack of potential policy options but the lack of political will. Coalitions of business leaders, such as Silicon Valley Leadership Group and Metropolis Strategies (formerly Chicago Metropolis 2020), have advocated for more affordable housing, identifying local best practices and supporting development. Such efforts have not led to significant changes, suggesting larger coalitions are necessary. With the increasing need for affordable housing, growing evidence on the negative effects of segregation, and little progress on changing land use regulatory regimes, more efforts need to be directed toward building the necessary political will. HUD's affirmatively furthering fair housing regulations, if implemented well and enforced, could be a significant impetus for change at the state and local level.

Another important zoning consideration is how states and local jurisdictions treat manufactured housing. Mobile homes and manufactured housing are important sources of affordable housing, yet local zoning ordinances often prohibit or limit where trailer parks can be located. Current efforts are focused on obtaining better financing terms for manufactured housing, which are often treated as personal property rather than real property under state law. Locally, organizations are helping residents convert rental manufactured-housing communities into resident-owned cooperatives to provide residents with greater stability and a way to build assets (Lubell 2013).

Homeownership Programs

FEDERAL HOUSING ADMINISTRATION LOAN INSURANCE

One of the most influential federal programs to enable lower-income families to purchase homes is the Federal Housing Administration (FHA) loan insurance program. Established in 1934, the FHA was instrumental in standardizing loan products, enabling lenders to offer 30-year, fixed-rate, fully amortizing loans and creating minimum standards of creditworthiness for borrowers (Szymanoski et al. 2012). The FHA made homeownership both more affordable and a means of enforced savings. It has served a key role in helping families become homeowners, funding more than half of all first-time homebuyer mortgages in the past 80 years. But during its early years, the FHA limited lending in communities of color, creating redlining and contributing to the spatial inequality and wealth inequality that have accrued over generations.

Having long ago ceased redlining, the FHA now plays a role in the lending market that combined with its willingness to insure loans with only a 3.5 percent down payment has been particularly important for households of color, who face greater barriers to homeownership, such as saving for a down payment (Szymanoski et al. 2012). Currently, FHA insurance lowers the risk to lenders of making loans to households with lower credit scores and lower down payments, enabling low-income households to access credit to buy homes. The FHA also insures loans secured by multifamily developments, insuring $13 billion worth of such loans in 2013. This lower-cost financing enables more-affordable rents.

The US Department of Agriculture's Rural Housing Service (RHS) offers a loan guarantee program to help households with incomes of up to 115 percent of the adjusted AMI purchase homes, including manufactured homes, in rural areas if the borrower is unable to qualify for conventional mortgage credit. RHS also provides direct loans to low-income households and may include payment assistance.

The RHS program is much smaller than the FHA program, providing assistance to just over 1,300 households in 2014 (USDA 2015).

STATE HOMEOWNERSHIP PROGRAMS

State and local governments have many tools with which to promote sustainable homeownership for low-income residents and people of color. These tools include a range of programs to help families obtain a loan or make their monthly payments, such as down payment and/or closing cost assistance, reduced interest rates, subsidies to reduce monthly payments, grants, and first-time homebuyer tax credits. The programs typically target certain income levels and may focus on specified occupations, such as teachers and policemen. Homebuyers are typically required to obtain housing counseling to receive the benefit.

While states were focused on helping homeowners keep their homes following the recession, the National Mortgage Settlement provided additional resources, which several states used a portion of to fund purchase programs (as well as foreclosure avoidance programs). For example, Alabama allocated $440,000 to a Stepping into Homeownership program, and Florida allocated $35 million for down payment assistance. Housing counseling programs were even more often recipients of settlement funds.

In recent years, foreclosure prevention and neighborhood stabilization activities have been essential to help residents and communities. The federally funded Neighborhood Stabilization Program created toolkits to help cities, including one for lease-to-purchase programs through which low- and moderate-income families may lease a home with an option to buy. Initial evaluations of the NSP program have not addressed whether people of color, who suffered a substantial loss of wealth, are benefiting equally from the program. This may be an example of the importance of considering issues of economic mobility when implementing housing programs.

State and local tools include evidence-based but less common strategies like shared equity programs, including community land trusts (Temkin, Theodos, and Price 2010). Financial institutions and nonprofit organizations can play an important role in implementing state and local programs.

HOUSING COUNSELING

The federal government began funding counseling as part of the Housing and Urban Development Act of 1968. Although most people think counseling is to help people become homeowners, the statute also authorizes rental counseling and advice to both renters and homeowners on property maintenance, financial management, and other matters that can help improve their housing (12 U.S.C. §

1701x(a)(1)(iii)). Funding for housing counseling increased substantially during the Great Recession, when the National Foreclosure Mitigation Counseling Program received eight appropriations totaling $763 million (NeighborWorks America 2014) to help homeowners at risk of losing their homes. However, federal funding for housing counseling unrelated to foreclosures has been erratic and was cut entirely in FY 2011. HUD received only $45 million in FY 2014 appropriations for its housing counseling program, which involves giving grants to housing counseling agencies and intermediaries.

As mentioned earlier, many states support housing counseling programs and require counseling to obtain financial assistance in buying a home.

Opportunities to promote economic mobility. The FHA once changed the lending industry, imposing standards for products and borrowers. Those standards now create barriers for many families, particularly those who have not established traditional credit histories. The FHA could accept a wider range of creditworthiness evaluations and provide appropriate protections to those lenders that rely on these nontraditional but validated credit-scoring models. The FHA could also review and revise its policies to allow homebuyers buying homes through deed-restricted programs, such as shared equity or inclusionary zoning, to have access to FHA financing.

The FHA has proposed reducing its premiums to create incentives for certain consumer behavior, such as completing housing counseling before purchasing a house for the first time (FHA 2014). It could consider using the same mechanism to encourage other behaviors that may create more integrated communities.

Through its grant-making, HUD's Office of Housing Counseling could refocus counseling agencies on helping households select homes—for rent or purchase—in low-poverty, high-opportunity locations. HUD also could better balance its support for counseling to meet the needs of households both looking for rental options and preparing for homeownership.

States can review and refine their various programs to ensure that they are implemented to promote economic mobility for families of color and low-income families. For example, does a down payment assistance program provide sufficient funds to enable a very low income family to purchase a home in a low-poverty community, or is the program unintentionally causing families to buy in poor neighborhoods? Almost every program can be implemented in a way to support families and give them choices as they select their home, their community and the financing mechanism so they have an opportunity for sustainable homeownership and the benefits it brings.

Conclusion

At a time of growing income and wealth inequality, economic mobility provides a frame through which to consider the potential of housing policy to change the trajectories of individuals and communities. Economic mobility is about the opportunities individuals have to improve their economic well-being and requires education and other skill acquisition, available jobs, transportation networks, and other resources. Stable housing with access to those components gives low-income and minority individuals and families a chance to climb out of poverty. The current structures too often constrain individual choice because families cannot find affordable housing near a good school or in a safe neighborhood.

National policies that enforce fair housing, more fairly distribute tax benefits, and invest in people and places that have long suffered from disinvestment can begin to change the trajectory. State policies that fund affordable housing production and preservation in location-efficient areas and create requirements or incentives for local jurisdictions to integrate affordable housing throughout the community can also help.

To truly move the needle in promoting upward mobility, however, housing policy may need to adopt a lens through which programs are adopted, implemented, and evaluated based on their ability to promote upward mobility. Just as initial concerns about housing quality in the 1930s gave way to a focus on affordability in federal housing policy, another transition may be occurring. This goes beyond recognizing that a stable, safe, affordable home is critical to healthy development and well-being, to addressing the important role that neighborhood context plays—particularly for children. The importance of enabling all families to live in neighborhoods where they have access to jobs, good schools, parks, and other community resources and are free from violence, toxins, noise, and other harmful environments may become future federal housing policy.

Appendix. Convening Participants List

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Notes

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