

# Department of Housing and Urban Development

## MISSION SUMMARY

The Department of Housing and Urban Development implements a wide range of federal housing programs.

## AGENCY OVERVIEW

The Department of Housing and Urban Development (HUD) is responsible for administering various programs, including subsidized housing through public housing rental units and housing vouchers; Native American housing programs, such as Section 8 and the Native American Housing Block Grant; community development programs, such as the Community Development Block Grant; the Federal Housing Administration (FHA); and the Government National Mortgage Association (Ginnie Mae).

HUD was provided \$47.9 billion in budgetary resources in fiscal year 2016.<sup>1</sup> The number of agency employees was 8,260 in 2015.<sup>2</sup>

This proposal eliminates the major functions of the Department of Housing and Urban Development. It transfers fiscal responsibility of the major subsidized housing assistance programs to state governments, ends the Community Development Block Grant program, eliminates two key elements of federal housing finance, and transfers several targeted assistance programs to other relevant departments.

The FHA has outlived its usefulness to taxpayers and homeowners. Despite various reform initiatives since the 1930s, the FHA has consistently had trouble meeting safety and soundness guidelines, undermined the stability of the housing market, and in recent years required several billion dollars to cover losses. At best, the FHA's single-family mortgage insurance program accelerates homeownership for individuals who would otherwise obtain home loans in the conventional market a few years later.<sup>3</sup> By enacting all of these reforms, agency spending will be eliminated completely over the next 10 years.

## SUMMARY OF REFORMS

**Subsidized Housing.** HUD operates numerous subsidized housing programs. These programs include the Housing Choice Voucher Program, the Project-Based Voucher Program, the Public Housing Capital Fund, the Public Housing Operating Fund, Choice Neighborhoods, HOPE VI, and the Family Self-Sufficiency Program, Homeownership

Voucher Program, Public Housing Homeownership (Section 32), the Section 8 Moderate Rehabilitation Program, the Public Housing/Section 8 Moving to Work Demonstration Program, the Neighborhood Networks (NN) Program, the Resident Opportunity and Self-Sufficiency (ROSS) Program, and the HOME Investment Partnerships program.<sup>4</sup> Subsidized housing programs are one component of a complex and costly federal means-tested welfare system. The vast majority of means-tested welfare spending—roughly 75 percent—is funded by federal taxpayer dollars.

The largest subsidized housing programs provide rental assistance to low-income individuals in various ways, including both project-based and tenant-based programs. While project-based vouchers provide subsidies to housing project owners, tenant-based vouchers provide subsidies to private landlords. The Housing Choice Vouchers program, commonly referred to as Section 8 vouchers, is the main tenant-based subsidy. HUD distributes nearly twice as much on Section 8 vouchers compared to project-based rental assistance. Section 8 vouchers effectively serve as a price floor, thus distorting the rental market and raising prices, especially for those who do not receive vouchers.<sup>5</sup>

State and local government should take greater financial responsibility for means-tested welfare programs. A first step toward this would be gradually returning fiscal responsibility for all subsidized housing programs to the states. Doing so would also help promote greater efficiency in subsidized housing assistance. States would have greater incentive to spend wisely if funding came from their own coffers, and resources would be better directed to help those in need.

For example, the Chicago Housing Authority was using HUD funding to subsidize lavish apartments for some low-income families. The rent subsidies provided by HUD were subsidizing rent in high-rise apartments that had been listed among the top 10 most expensive apartments in Chicago.<sup>6</sup> A local government or state would likely not engage in such extravagant spending if it was using its own dollars. Funds would be more wisely directed to provide more basic housing for low-income families.

**Indian Housing.** HUD operates numerous Native American housing programs. These include

the Tribal Housing Activities Loan Guarantee Program (Title VI), the Indian Community Development Block Grant (ICDBG) Program, the Indian Housing Block Grant (IHBG) Program, Loan Guarantees for Indian Housing (Section 184), Loan Guarantees for Native Hawaiian Housing (Section 184A), and the Native Hawaiian Housing Block Grant (NHHBG) Program. As HUD is phased out, these programs should be eliminated or transferred to the Department of the Interior.

**Community Development.** The federal government operates the Community Development Block Grant (CDBG), which provides money to state and local governments for low-income housing, infrastructure development, public services, and other activities. This program has been in place since 1974 and has cost taxpayers more than \$100 billion during the course of its lifetime.<sup>7</sup> The CDBG is not well-targeted to low-income communities, and due to a lack of transparency in the data it is difficult to assess whether the program is meeting its stated goals of, among others, creating jobs for low-income individuals and eliminating “slums and blight.”<sup>8</sup>

**Federal Housing Financing.** Finally, this proposal ends two key components of federal involvement in housing finance. The FHA provides taxpayer-backed insurance for mortgages, and Ginnie Mae is the primary financing vehicle for all government-insured mortgage loans. Specifically, Ginnie Mae provides principal and interest guarantees on mortgage-backed securities, which consist entirely of government-insured mortgages (such as those guaranteed by the FHA).

Starting in the 1930s, Congress passed a series of laws that significantly expanded the federal government’s presence in the housing finance system. These federal programs have grown and contributed to an explosion of mortgage *debt* over the past few decades, while rates of ownership of homes have barely changed. The long-term increase in mortgage

debt spurred by these federal programs exposes homeowners and taxpayers to significant financial risks. In return for substantial costs to taxpayers, federally backed mortgage insurance programs have had minimal impact on homeownership rates.<sup>9</sup>

**Other HUD Reforms.** HUD operates other smaller programs aside from subsidized housing, Indian housing, community development, and federal housing finance programs. These programs include homeless assistance programs and Housing Opportunities for Persons with AIDS. These programs should be transferred to the Department of Health and Human Services. HUD also operates HUD-Veterans Affairs Supportive Housing Vouchers (HUD-VASH), a veteran’s assistance program that operates in conjunction with the Housing Choice Voucher program. This portion of the program could be transferred to the Department of Veterans Affairs.

## POLICY DETAILS

**Transfer Subsidized Housing Programs from the Federal Government to the States.** The cost of subsidized housing assistance programs came to roughly \$53 billion in FY 2015.<sup>10</sup> Federal funding for means-tested housing programs should be phased down at a rate of 10 percent per year for 10 years. Each state should be allowed to determine how and to what extent it will replace federal housing programs with alternative programs designed and funded by state and local authorities.

**Eliminate the Community Development Block Grant.** Beginning in the following fiscal year, FY 2018, funding for the Community Development Block Grant should be ended.

**Eliminate the Federal Housing Administration.** Congress should eliminate the FHA. The federal government should ultimately stay out of the home financing business.

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## SOURCES OF FURTHER INFORMATION

- Robert Rector and Rachel Sheffield, “Setting Priorities for Welfare Reform,” Heritage Foundation *Issue Brief* No. 4520, February 24, 2016, <http://www.heritage.org/research/reports/2016/02/setting-priorities-for-welfare-reform>.
- John L. Ligon and Norbert J. Michel, “The Federal Housing Administration: What Record of Success?” Heritage Foundation *Background* No. 3006, May 11, 2015, <http://www.heritage.org/research/reports/2015/05/the-federal-housing-administration-what-record-of-success>.

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## ENDNOTES

1. U.S. Department of Housing and Urban Development, "Fiscal Year 2017 Congressional Justifications," [http://portal.hud.gov/hudportal/documents/huddoc?id=FY\\_2017\\_CJs\\_Combined.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=FY_2017_CJs_Combined.pdf) (accessed June 1, 2016).
2. U.S. Department of Housing and Urban Development, "Department of Housing and Urban Development Full-Time Equivalent (FTE) Employment," [http://portal.hud.gov/hudportal/documents/huddoc?id=1.3-FTE\\_Staff\\_Summary.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=1.3-FTE_Staff_Summary.pdf) (accessed June 1, 2016).
3. Additionally, the federal government insures home mortgages through the Veterans Administration (VA) and the Rural Housing Service at the Department of Agriculture and provides principal and interest guarantees for the mortgage-backed securities issued by Fannie Mae and Freddie Mac. All such programs should be eliminated. See Norbert J. Michel and John L. Ligon, "Five Guiding Principles for Housing Finance Policy: A Free-Market Vision," Heritage Foundation *Issue Brief* No. 4259, August 11, 2014, <http://www.heritage.org/research/reports/2014/08/five-guiding-principles-for-housing-finance-policy-a-free-market-vision>.
4. See U.S. Department of Housing and Urban Development, "Programs of HUD: Major Mortgage, Grant, Assistance, and Regulatory Programs, 2016," <http://portal.hud.gov/hudportal/documents/huddoc?id=HUDPrograms2016.pdf> (accessed April 26, 2016).
5. HUD's own research has shown that, overall, Section 8 vouchers have had no beneficial impact on self-sufficiency and welfare dependency. See David B. Muhlhausen, *Do Federal Social Programs Work?* (Santa Barbara, CA: Praeger, 2013), pp. 190–204.
6. Alby Gallun, "Poor Families Use 'Super Vouchers' to Rent in City's Priciest Buildings," *Crain's Chicago Business*, July 26, 2014, <http://www.chicagobusiness.com/article/20140726/ISSUE01/307269984/poor-families-use-supervouchers-to-rent-in-citys-priciest-buildings> (accessed February 5, 2016).
7. *Ibid.*
8. Eileen Norcross, "Community Development Block Grant: The Case for Reform," testimony before the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Government Affairs, U.S. Senate, June 29, 2006, <http://mercatus.org/publication/community-development-block-grant-case-reform> (accessed April 19, 2016).
9. All similar programs that insure mortgages, such as those administered by the VA and the Department of Agriculture, should also be eliminated. See John L. Ligon and Norbert J. Michel, "The Federal Housing Administration: What Record of Success?" Heritage Foundation *Backgrounder* No. 3006, May 11, 2015, <http://www.heritage.org/research/reports/2015/05/the-federal-housing-administration-what-record-of-success> (accessed April 19, 2016).
10. U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2017*, <https://www.govinfo.gov/content/pkg/BUDGET-2017-BUD/pdf/BUDGET-2017-BUD.pdf> (accessed June 1, 2016).