

**Remarks by Rick Lazio**  
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**Opening**

Thank you, Marvin Markus, for that kind introduction.

It's an honor to once again appear at the Citizens Housing and Planning Council annual luncheon with so many friends and colleagues – people who as business and political leaders, volunteers and advocates, have devoted their lives to the commitment of the 1949 Housing Act, a “decent home and a suitable environment” for all Americans.

Affordable housing isn't only about housing the chronically poor, as important as that goal is. It's about preserving and remaking communities. It's about young couples trying to get a foothold into a neighborhood so that they can live close to their jobs. Communities are served by workers of diverse income levels and the housing stock should reflect their diverse means. If they are priced out they'll be pushed out to the suburbs, subjected to interminable commutes, and contribute to the growing suburban sprawl. When we define the affordable housing crisis as a crisis at the very bottom of the income ladder, we fail to see comprehensive solutions that will yield sustainable results.

As most of you know, I was fortunate to be able to dedicate a good part of my time in Congress to improving policy in affordable housing and continue to be involved in that effort. We made great strides in the 1990s. The laws I authored promoted mixed income targeting, reform of the Brooke Amendment, and One for One replacement. I suggested that highly performing public housing authorities be given more, not less, authority and discretion. And I pressed to replace chronically dysfunctional PHA's with tenant choice.

But challenges remain, both in making the right policy choices and securing resources. I'm now in the private sector, but *I speak only for myself today and my comments do not reflect the views of JPMorgan Chase, or any of its affiliates.*

With that disclaimer out of the way, I'd like to review some of the latest developments in housing policy.

**Expanded ownership – a premature initiative?**

Let's start with the story of 2007/2008. The markets are dislocated from the fallout in subprime lending, declining property values, and a sharp increase in foreclosures. For the past decade or more, an unquestioned goal of housing policy has been to increase the rate of homeownership. The goal has been pursued through various levers of government, the GSEs – Fannie Mae, Freddie Mac, and the Federal Home Loan Banks – the Federal Housing Administration, and the tax code. Homeownership would give people a stake in their communities and improve the quality of low income neighborhoods. I still believe

this, but we must recognize its limits and that the subprime crisis is in part a result of that policy. Regulatory concerns about exotic loans were brushed aside because the loans served the goal of homeownership. While many subprime products were designed to help families get started and made sense when the underwriting was based on promising earnings prospects, they were too often abused by speculators, and many lenders were negligent in their underwriting.

We now know that there was a built-in assumption – among borrowers and lenders – that home values would continue to appreciate, and when they didn't, the repercussions were felt in every corner of the capital markets, triggering a credit crunch, a downward spiral of home prices, and a general slow-down in the economy.

There are lessons to be learned. In the future we need to ensure that borrowers are better educated and have access to the counseling they need. Regulators need to help lenders better understand their risk and certain non-regulated practices need to be regulated. In the future we must let people make the leap from renting to ownership at their own pace. We should also ensure that they have an equity stake in their home from the beginning. The zero percent-down FHA loan may be a deserving casualty of this crisis.

Renting is a viable option for people at all income levels, not a fall-back for people who can't afford to buy. This is true for a number of reasons. Because a home is not a liquid asset that can be disposed of easily, it tethers the owner to one job market when better opportunities may exist in another. The economy suffers when workers cannot easily relocate to satisfy the demand for labor where it exists. Moreover, a home is not always the best investment, and yet for years now people have treated their homes as assets on which they stake their children's college education and their retirement. We now know that homes do not always go up in value, and homeowners who've put all their eggs in the home equity basket will be disappointed. And yet the tax code is geared toward home ownership -- the mortgage interest deduction and the capital gains exemption in particular – and these provisions are not likely to be repealed anytime soon.

The lesson here is that we cannot rely on increasing rates of homeownership among low income people to relieve the pressure on affordable housing. Many in Washington – in both parties – have been invested in this policy for eons, especially those who put their faith in free market solutions.

### **Promising trends**

Now that the ownership push has run its course, let's consider some of the most promising trends that are emerging in affordable housing policy today.

All sorts of interesting work is being done by communities across America to boost production. In Rochester, Minnesota, they are leveraging employer's commitment to affordable homes for workers. In Burlington, Vermont, they're using Shared Equity Mechanisms to Create Mixed Income neighborhoods. In Arizona and Ohio they've

created Housing Trust Funds from assets like unclaimed property. And many towns and cities have turned to **Inclusionary Zoning**.

Under inclusionary zoning policies, zoning permits are granted on the condition that they include affordable housing units, not segregated but mixed with higher income housing. In other words, regulatory incentives, rather than financial incentives, drive the supply of affordable units. Done right, inclusionary zoning can be a powerful tool. New York has had great success with inclusionary zoning – Williamsburg is a recent case -- and more than 130 localities nationwide are using inclusionary zones, though not all have matched the success of New York. We could benefit from a forum for local officials to share best practices in designing inclusionary zones.

**Workforce housing** is one of the most promising new concepts to emerge in community planning. Workforce housing accommodates the variety of workers at diverse income levels that serve a community – the police officers, teachers, nurses. Young couples that don't yet have the purchasing power that will come as their careers advance should also have a place in the community. When the middle class is priced out of the communities in which they work, the result is suburban sprawl and vast commutes. Quality of life suffers and transportation costs increase -- which exacerbates the affordability issue.

Workforce housing is an answer to sprawl. It provides for a housing stock at diverse pricing so that people at all income levels can afford to live close to their jobs. The question is how to incentivize workforce housing and how to preserve its affordability over the generations. A lot of creative energy in localities from New Hampshire to South Florida is focused on these questions.

**Green affordable housing** is a winning proposition for a number of reasons. Because green housing makes more efficient use of resources, occupants save on utility bills, which can be a substantial expenditure for low income individuals. Green housing is *more affordable* by virtue of being green – affordability and environmental design complement one another. Building green saves about 30% on energy, up to 50% for water use, and well more than 50% for waste cost. Organizations like Enterprise Community Partners and the National Resources Defense Council are partnering to finance 8500 green homes and apartments.

Moreover, green housing has broader political support than other forms of affordable housing because of the generalized interest in improving the environment and addressing global warming in particular. When affordable housing advocates make common cause with environmentalists both will enjoy increased political leverage.

We need to look at new ways to leverage existing funding. A **comprehensive approach** yields the best results. Let me cite an example. Many of you are familiar with the extraordinary work being done by the Administration's Interagency Council on Homelessness, which is led by Philip Mangano. He has shown ingenuity and steely determination that has won over many of the most adamant Bush critics. Late last year HUD released an analysis showing that the population of chronically homeless had

decreased by 12 percent, perhaps the first time ever that the homeless population had decreased. Phil has had such success because he has approached the problem comprehensively. The Interagency Council draws on the resources of 20 agencies. Homelessness is not alleviated merely by providing shelter, but by job training, education, substance abuse counseling, the treatment of mental illness, and other factors.

The best affordable housing initiatives use this same comprehensive approach, viewing the affordable housing crisis as a symptom of a broader social crisis that involves employment, health care, education, and other issues. Comprehensive solutions provide powerful and sustainable results. Yet, in Washington there is too little coordination among HUD, HHS, Labor, Education, and other agencies. As housing advocates, we should demand this coordination.

## **Resources**

Of course having the right policies is one thing; having the resources to execute those policies is another question.

Historically, appropriated federal money has been the most significant resource. But I don't need to tell you that we are entering an era of ever more constrained resources at every level of government. Entitlement spending has doubled as a percentage of the federal budget over the past 80 years and will dwarf it in the decades to come. Discretionary spending, which accounted for nearly 70 percent of the budget 50 years ago, now accounts for less than 40 percent. The remaining Presidential candidates have all proposed health care reform that would require significant new federal spending (especially the Democratic plans). Repeal of the alternative minimum tax (AMT) would cost some \$800 billion. At least some of the Bush tax cuts, those targeted at the middle class, are likely to be extended before they expire in 2010; this will run in the hundred of billions of dollars.

In short, federal dollars, especially appropriated federal dollars, will be increasingly hard to come by. State and local resources will also be strained, largely as a result of falling property tax revenues from the current housing crisis. We have to adapt our strategies to an era of scarce public resources.

Consider some of the alternatives. State and local regulatory incentives, for example, are being used successfully in many jurisdictions to promote affordable housing. For a developer seeking zoning and permits, the prospect of cutting the red tape to get a project moving carries significant value and is incentive enough to accommodate affordable units if that's what local authorities require. Some advocate for additional minimum wage increases, which would boost the purchasing power of renters at the expense of their employers, not the government. No matter how creative we get, a gap will always remain that can only be filled by public resources.

The use of public resources will only win sustained political support if it is accompanied by strict accountability standards, transparency to dispel any suspicion of corruption or

steering of contracts, and benchmarks for success. Let's not underestimate the importance of bipartisan support, which can be won by adopting the methods and the standards of the private sector.

Economic theory aside, bipartisan support has always been stronger for tax expenditures as a mode of funding than for appropriated funding. But I'm not an economist, and I always have an eye on where consensus can be found. Tax expenditures are an easier sell politically.

One of the best success stories we have in affordable housing, the **Low Income Housing Tax Credit**, is a tax expenditure. It has worked because of the way it combines market incentives with government subsidies. It is a model of a public-private partnership in which developers compete and incur market risk in order to provide affordable housing units. In any given year, about 50 percent of multifamily housing starts are attributable to the Tax Credit.

By contrast, the **Section 8 voucher program**, which depends on appropriated funding, is in trouble. Property owners are becoming fed up with the program because of delayed payments and are increasingly abandoning the program. As a result, poverty is being recentralized and the policy progress of the 1990s is being undone. The failure of Congress and the Administration to provide reliable funding is undermining the Section 8 program.

There will always be a need for demand side programs such as the Section 8 voucher. Supply side programs serve no purpose if supply of affordable housing remains out of reach for those who need it.

But with a little creativity, tax expenditures can be made to work on the demand side. John Quigley of Berkeley has proposed a refundable tax credit for qualifying renters which would function much like a voucher in boosting the renter's purchasing power, but would have the virtue of being a tax expenditure, not dependent on the appropriations process. This idea merits serious consideration.

Of course the biggest housing-related tax expenditure of all is the mortgage interest deduction, which costs the Treasury nearly \$80 billion annually. The provision particularly benefits the owners of expensive homes, though it is limited to mortgages of less \$1 million. Now I don't need to tell you that the mortgage interest deduction is a sacred cow in American politics, with the lobbying muscle of the realtors and the homebuilders, not to mention millions of homeowners, behind it. I deal in political reality, not in fantasy. Still, if we are serious about finding the resources necessary to deal with affordable housing, we have to discuss limiting the deduction to free up resources. It's been done before. Prior to 1986, interest on all consumer debt, including mortgages, was deductible. In 1986, the deduction for consumer debt (other than mortgages) was repealed, and in 1987 Congress limited the mortgage interest deduction to mortgages of less than \$1 million. Any further limitation could only occur in the context of comprehensive tax reform – the type of reform that is likely to be on the

agenda next Congress. If the limitation were reduced to \$750,000 (perhaps phased down over time) it could free up tens of billions annually that could be put toward affordable housing. Another source of funding, perhaps more politically feasible, could come from phasing out the mortgage interest deduction for second homes. The capital gains exclusion on home sales, significantly expanded in 1997, could be examined. The cost of the current exclusion is expected to climb from \$35 billion in 2006 to \$47 billion in 2012. Any one or some combination of these changes could produce significant sums that could be put toward down payment assistance for first time homebuyers, vouchers for rental units, refundable tax credits for renters, making the mortgage interest deduction an above-the-line deduction, or any number of other uses that would expand affordable housing. Again, I don't underestimate the political difficulty of making these changes, but bold thinking about the use of our resources is called for.

The corporate sector also needs to step forward and contribute resources. We have a direct stake in the availability of affordable housing for our workers, our customer, the health of the communities in which we operate and the economy at large.

As we speak, Congress is considering legislation that would create another resource which is I'm sure of great interest to people in this audience, an affordable housing fund funded by a percentage of the portfolios of Fannie Mae and Freddie Mac, estimated at a value of up to \$500 million a year. Fannie and Freddie profits derive at least in part from government-bestowed advantages they enjoy. It makes sense, in my view, to require them to dedicate some of their resources to affordable housing. The question is whether the fund can be preserved for that purpose. In a deal reached this week in the Senate Banking Committee, as part of the GSE/FHA reform bill, a substantial portion of the affordable housing fund would be used to cover the costs associated with a new FHA program that helps out troubled borrowers and troubled loans by providing a mortgage guarantee for marked-down loans being refinanced. In 2009, 100 percent of the affordable housing fund would be diverted to the FHA program; in 2010, it would be 50 percent; and in 2011, it would be 25 percent; at which point the FHA program would sunset. As part of the deal, the affordable housing fund was made permanent in the Senate Committee bill, and the funding will revert in full to its original purpose after 2011.

The House version of the bill used taxpayer dollars to fund the FHA plan. While I know it is not popular with people in this room to divert money from the affordable housing fund, using the fund instead of taxpayer dollars may be politically necessary to make the so-called "bailout" more palatable to Senate Republicans and to the White House. In exchange, you get a permanent fund, while the House version of the fund sunsets after five years. This seems like a good trade off.

The bill passed the Senate Banking Committee by a vote of 19-2, a strong vote that should indicate easy passage on the Senate floor. Congressional leadership hopes to send a bill to the President before the July 4 recess. My sense is that it will be closer to the Senate bill than the House bill and that the President will sign it.

GSE reform has been sought by the White House and Republicans generally for some five years. It took the greatest housing crisis since the Great Depression to get it done. It's all in the packaging. Democrats got what they wanted: Relief for an estimated 500,000 homeowners facing foreclosure. And Republicans got what they have long sought: A powerful new regulator for the GSEs with authority to impose minimum capital requirements and limit portfolios. Neither of these pieces had broad enough support to move alone. Joined together -- and with the heightened political urgency of the subprime crisis -- they are likely to become law.

### **Closing – Where can we find the political will to make progress?**

One of the challenges of advocating for affordable housing is that we compete with a number of other public policy priorities – gas prices, health care costs and coverage, national security – that directly and immediately touch the lives of people. It is all too easy to overlook those who live in poverty, particularly when they are concentrated in the inner cities. Our task is to make the public understand the urgency of the affordable housing crisis. One such idea I have already touched on – making common cause with the environmentalists. What more can we do to break through the noise?

The subprime lending crisis is covered daily in the papers and on television. Housing is dominating the public discourse, and the connection between housing and the economic life of the country has never been so vivid. The foreclosure crisis has created a political imperative for action overnight. The plight of a small minority of homeowners is viewed as a problem for all neighboring homeowners, their communities, and the economy at large. There's a lesson here for creating a political imperative for addressing affordable housing, which affects only a relative few people. How do we define the affordable housing problem as a problem for communities as a whole, and for the vibrancy of the economy, so that people demand action on affordable housing not out of charity but out of self-interest?

Watch what's happening in the debate over the FHA rescue program because we can learn a lot about the politics of housing issues and the parameters of what's possible. Barney Frank wants the FHA to “rescue” (some might say “bailout”) homeowners facing foreclosure. His argument is: Sure, some reckless borrowers are going to be bailed out and they're going to get to stay in homes that should be out of their reach, but the plan is justified because it will help whole communities and even the whole economy. If Barney is able to make this argument successfully, it seems to me that it says a lot about the politics of housing and about the parameters of what's doable in terms of housing policy. What's playing out before us is a case study in the politics of housing policy, and I think we would be well advised to pay careful attention to it.

Whatever the lessons of the subprime crisis, we need to raise the profile of affordable housing issues through a drumbeat of op-eds, TV appearances, ad campaigns, letter campaigns, and other means. We also have to be assertive about holding public officials to account – whether by scorecards or some other means -- for their successes and failures in affordable housing.

Let's not let this opportunity slip. We are in a moment of heightened political interest and generalized anxiety over housing. The old consensus about the role of government in the housing sector is being remade. A new Administration will take office in about eight months, and whether it's a Democratic or a Republican Administration, it will offer an opportunity for new ideas to be heard. But to be effective, we need to move beyond our old constituencies and our old methods. In order to form a new bipartisan consensus for action, we need to listen to our critics in order to strengthen our programs and make them more politically attractive. We need to focus on accountability, performance, results, research founded on hard numbers, and the efficient use of the few resources available. It is not enough to make appeals for philanthropy, we need to clarify the public interest in and the realistic possibility of achieving that fundamental goal – “a decent home and a suitable environment for all Americans.” Looking out at the talent and the experience and the dedication of the people in this room, I am hopeful that can get there.