

# America's Working Families: Where Will They Live?



## CLOSE TO HOME

A SYMPOSIUM ON WORKFORCE HOUSING

NATIONAL ASSOCIATION OF HOME BUILDERS & FREDDIE MAC

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We make home possible<sup>SM</sup>

## ON DECEMBER 8, 2004, NAHB AND FREDDIE MAC SPONSORED A WORKFORCE HOUSING SYMPOSIUM

to discuss the problem of providing affordably priced housing for America's working families in the communities they serve. Speakers included federal and government officials; researchers and experts in housing policy and housing finance; employers in the private sector and home builders. The following is a summary of symposium presentations.



**NAHB President Bobby Rayburn and Freddie Mac Chairman and CEO Richard Syron talk to the media at the symposium.**

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# Building a FOUNDATION for Workforce Housing



By **BOBBY RAYBURN**

PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

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**W**HEN I TOOK OVER THE REINS of the 220,000-member National Association of Home Builders almost one year ago, I promised that I would dedicate my efforts and the resources of our organization to finding a solution for the growing shortage of affordably priced housing for the heroes in our workforce who make vital contributions to our communities. Generation after generation, we have come a long way in America, steadily expanding housing opportunity for our families. There have always been challenges standing in the way of that progress, and we have always worked hard and succeeded in overcoming them, building a stronger, more efficient housing delivery system in the process. There is no reason that we cannot overcome the obstacles that are increasingly preventing the workers we value the most from living in the same neighborhoods they serve, and I am confident that we are well on our way to implementing strategies that will make this happen.

Housing affordability has always been a challenge for our industry. In fact, affordability has always been a primary goal of our housing finance system. The creation of the low-downpayment, 30-year mortgage opened the door for housing opportunity for typical working households across this country. When our soldiers returned from World War II, we saw production builders move into high gear. By building an affordable, entry-level product that could be financed with an affordable mortgage, our industry provided millions of Americans with access to the American dream. In the years that followed, as those families moved forward in their careers, we saw them trading up to bigger, more expensive houses. We called it the housing ladder, and most


of the time—when mortgage rates were at affordable levels—it worked well as a conduit for the accumulation of family wealth.

I started in the building business in the 1970s, so I was around for the devastatingly high interest rates of the early 1980s. It was obvious even before then that passbook savings accounts were not enough to provide our industry with the capital it needed. So we hitched our wagon to the secondary mortgage market, and we solved the problem. In more recent times, we have seen incredible innovation in housing finance that has further expanded housing opportunity in this country. On top of that, for the past few years American home buyers have enjoyed the lowest mortgage interest rates since the 1960s. You’ve seen the results in the headlines. Our national homeownership rate has risen to an all-time high. People have been buying homes at a record pace. And home builders have been building as fast as they can to keep up with the demand.

From reading those headlines, you might not know that America today has a serious housing problem. It is a sobering fact that working families—the teachers, firefighters, nurses and other workers who are the heart and soul of any community—cannot find affordably priced housing in the communities they serve. Many of those communities have failed in their commitment to provide affordable housing. Many of those communities are actually responsible for sky-high land prices and housing prices because they have embraced zoning and other regulations that are designed to stop residential growth. There are many causes of today’s workforce housing problem, but the bottom line is that in recent

years, the disparity between housing prices and the incomes of these workers has only grown worse.

I am a home builder, and that means that I share in the optimism that is almost a prerequisite for success in an industry where we face challenges at every turn and must always keep a steady focus on our mission to build the housing that our growing population needs. The Workforce Housing Symposium, which was jointly sponsored by NAHB and Freddie Mac, has increased my confidence that we will turn the tide in communities across this country. We have delineated the problem and its root causes, and we have identified initiatives that are beginning to answer the need for workforce housing. We have heard from the Secretary of Housing and Urban Development his assurance that a top priority for the President is pursuing policies that will address this problem, and rightfully so because it also a top concern of the American people. We have heard from the CEO of Freddie Mac about new programs in the secondary market to further its mission to expand housing for our workers. And we have heard from home builders, employers and representatives from the public sector, who have shared their experiences and expertise about how we are going to get the job done.

We have built a solid foundation from which we can address our workforce housing needs. It’s time for housing to give a hero’s welcome to the dedicated men and women who work on our behalf, and there is no better way of showing our appreciation for their vast contribution than to bring them the housing that will ensure they remain an essential and enduring force in our communities. 

***“Our national homeownership rate has risen to an all-time high. People have been buying homes at a record pace. And home builders have been building as fast as they can to keep up with the demand.”***

# A COMMITMENT

## from HUD Secretary Alphonso Jackson to Workforce Housing



**Alphonso Jackson**

**P**LEDGING TO WORK WITH THE NATION'S HOME BUILDERS to overcome regulatory barriers that impede the availability of affordable housing, Alphonso Jackson, secretary of the U.S. Department of Housing and Urban Development, has outlined several actions his department is taking to provide homeownership opportunities for America's working families.

"We are reducing FHA paperwork, making it more user-friendly," he says. "Exclusionary zoning and gold-plate development standards limit the ability of developers to build homes. These barriers must come down."

Declaring that the removal of regulatory barriers is a necessary component of any national housing policy, Jackson has directed the agency to carefully review all HUD rules, policies and notices of funding availability to ensure that no unnecessary barriers exist or are proposed.

HUD has also created the Regulatory Barriers Clearinghouse ([www.regbarriers.org](http://www.regbarriers.org)), a national Web-based forum that gives state and local governments the ability to share ideas and develop solutions to address unique housing challenges.

Pointing out that HUD, the Department of Defense and the Department of Homeland Security were the only three agencies that did not undergo cuts in the newly passed FY 2005 federal budget, Jackson says that housing is a top priority for the White House. "This is the first President in the history of this country to be a housing President," he says. "President Bush recognizes that housing has been the engine driving the economy. He is absolutely committed to increasing housing opportunities in this country."

### **Adding Seven Million Affordable Homes in Ten Years**

When he accepted the GOP nomination for President at the Republican National Convention in September, President Bush set out a goal of adding seven million additional affordable homes to the nation's housing roster in the next decade. Achieving this national objective, Jackson says, will require the joint efforts of the federal government, home builders, private organizations, and state and local governments to encourage the removal of regulatory barriers to affordable housing so that millions of hard-working Americans—such as police officers, firefighters, nurses, teachers


and other vital contributors to society—will be able to find affordable homes near the places where they work.

Essential to this effort, Jackson says, is transforming urban centers into vibrant communities in order to help cities to thrive and encourage citizens to live in downtown areas.

To further boost housing opportunities, Jackson is also championing the Administration's FHA single-family zero downpayment mortgage insurance program. HUD estimates that an additional 140,000 families will be able to achieve homeownership if this proposal is enacted. "I truly believe it is in our best interests to push the zero downpayment program. If we make it work, there will be very little default. If we can provide opportunities for people to own their homes,

they will keep those homes," he says.

In a related area, Jackson praises HUD's collaboration with the NAHB Research Center on the Partnership for Advancing Technology in Housing (PATH) program, a public-private initiative that seeks to speed the creation and widespread use of advanced technologies to radically improve the quality, durability, energy efficiency, environmental performance and affordability of America's housing.

When surveying the damage from this year's hurricane season in Florida and Alabama, Jackson observed that most of the PATH homes were relatively unscathed while others suffered serious damage or were destroyed. "Homes built under the high PATH standards showed excellent results," he said. 

PUNCHSTOCK



***"Exclusionary zoning and gold-plate development standards limit the ability of developers to build homes. These barriers must come down."***

# Shaping a BIPARTISAN National Housing Agenda

**IN A FREE-WHEELING DISCUSSION** on housing challenges facing the nation, Jack Kemp and Henry Cisneros, two former secretaries of the U.S. Department of Housing and Urban Development, agree that housing is an issue that transcends partisanship and that both Democrats and Republicans can work together to advance the cause of workforce housing in this country.

“Clearly, a national dialogue is needed on this subject,” says Cisneros, who served as HUD secretary during the first Clinton Administration and is currently chairman of American CityVista. “Bipartisanship is possible. There are plenty of people on both sides of the political aisle who understand the significance of housing.

“Ideas Jack (Kemp) has been discussing for 30 years are maturing—President Bush calls it an ownership society, Newt Gingrich called it an opportunity society. Jack had his own early conceptions of it and fueled some of the understandings of that concept. We are at a moment of paradigm shift in our society. For people, owning something is very important—be it stocks, financial instruments, a small business or their own home,” says Cisneros.

“This issue transcends blue and red states. The reason there is a consensus on housing is because people do care about this issue—those on the center right and center left,” says Kemp, former HUD secretary under the George H. Bush Administration and co-director of

Empower America, a public policy and advocacy organization he co-founded in 1993.

## Preserving Tax Incentives for Housing

As a new Congress begins tackling the economic priorities of the second-term Bush Administration, Cisneros says that any moves emanating from the White House or Capitol Hill on tax reform must ensure that the interests of the housing community will be well-served. “The Administration has placed a priority on the homeownership tax credit. I hope it is able, in discussions on tax reform, to sustain the impetus for the homeownership tax credit and protect all of the other elements in the tax code that relate to housing. It is very important,” he says.

Cisneros also emphasizes that it is absolutely vital for housing and the economy that the mortgage interest deduction remain an important part of the tax code. During his years serving at HUD, Cisneros says he learned that altering the mortgage interest deduction “would be so disruptive to the housing sector” that the Administration and Congress should refrain from any attempts to change this important tax benefit. “You can’t quarrel with the role that housing plays in the American economy and you don’t want to tinker with something that has functioned as well as the housing sector has.”

## What the Federal Government Can Do

The two former HUD secretaries differed on whether the huge federal deficit will force the Administration and Congress to make tough choices on housing, with Kemp arguing that it’s not the size of the deficit that matters but whether the economy continues to grow.

“I’m not frightened by a budget deficit that is 3.6 percent of GDP (Gross Domestic Product) and moving down to 2.9 percent of GDP if the economy keeps growing. We have an \$11.7 or \$11.8 trillion economy. Go out over 10 years and the economy will grow to about \$140 to \$150 trillion. We can do it all if we have the right mix of policy. We have to grow the pie first, make a bigger slice for everyone,” Kemp says.



**Jack Kemp, Bobby Rayburn and Henry Cisneros**



“President Bush wants seven million more new home owners in the next 10 years. I think we can do better. We will hold Bush accountable for meeting his goals,” Kemp adds.

The two former top federal housing officials agree that there are several steps the government can take to facilitate affordable housing at a modest cost to the Treasury. Cisneros advocates focusing on predatory lending, fair housing and issues related to reforming the government sponsored enterprises, Fannie Mae and Freddie Mac. “This doesn’t cost a lot of money and produces an awful lot of bang toward this agenda of moving people into homeownership,” says Cisneros.

Kemp calls for expanding the earned income tax credit, providing more funding for the American Dream Downpayment Act and supporting the Community Development Block Grant programs.

Noting that roughly three-quarters of whites own their homes while less than half of minorities do, the two housing leaders agree that the task—and opportunity—in the coming years for home builders, lenders, community leaders and local and federal officials is to close this housing gap.

### **Overcoming Regulatory Barriers and ‘NIMBYs’**

“Expanding the supply of housing is absolutely essential to making it affordable, particularly to these people who are critical first priorities—police, teachers, firefighters,” says Kemp. Local leaders, community activists and politicians must work together to remove barriers. Housing is the most highly regulated industry in America—bar none. Everything from wetlands legislation to endangered species legislation, we all want to save the condor, see the eagles. All of this affects housing, it affects land distribution.”

***“You can’t quarrel with the role that housing plays in the American economy, and you don’t want to tinker with something that has functioned as well as the housing sector has.”***

—Cisneros

Kemp adds that another major obstacle is the “Not in My Backyard” syndrome, or NIMBY. “Unless people are willing to set aside preconceived notions of what low- or moderate-income families bring to the community, I don’t know if we’ll ever solve this housing supply problem,” he says.

To keep this issue at the forefront, Kemp urges all interested parties to contact their local and federal lawmakers and to ask them one question: “What are you doing to relieve the regulatory burden on home builders?”

Demonstrating the tremendous need to supply housing that is affordable for the nation’s public servants, Cisneros cites the example of local governments in California, which he says are having to “change the hours of police officers from five, eight-hour shifts a week to three, 12-hour shifts because the police officers are put up in a dormitory in the days between their three-day shifts and then sent home for four days because it’s not reasonable to ask them to commute the distances that they would have to commute because of home prices. That’s what’s happening in our country.”

“When a policeman or policewoman in Los Angeles has to be put up in a dormitory so that he or she can work three 12-hour shifts, that should be a national disgrace,” adds Kemp.

In their presentations across the country to discuss their recent book, “Opportunity and Progress: A Bipartisan Platform for National Housing Policy,” Kemp and Cisneros are highlighting the issue of workforce housing. The book was written with Nicolas Retsinas, former assistant secretary for housing at HUD and director of the Joint Center for Housing Studies of Harvard University, and Kent Colton, the former CEO of NAHB and a senior scholar at Harvard’s housing center.

The four authors are aiming to elevate housing as a national priority and are asking the federal government to assume its place at the table and partner with states, localities and public and private sector organizations to address housing concerns.



***“President Bush wants seven million more new home owners in the next 10 years. I think we can do better. We will hold Bush accountable for meeting his goals.”***

—Kemp

# The PROBLEM Defined

**A**DHERING TO THE OLD ADAGE THAT, “A problem well defined is half-solved,” a panel of top-flight housing researchers at NAHB’s symposium examined exactly who is affected by shortages of affordable workforce housing, the degree to which these families are disenfranchised and the circumstances that led to, and continue to fuel, the challenges at hand.

*Increasing numbers of working families have been joining the ranks of the nation’s households with “critical housing needs.”*

## Working Families Losing Ground in Housing Market

According to Barbara Lipman, research director at the Center for Housing Policy, evidence started to emerge at the beginning of this decade suggesting that “working families” were having greater difficulty achieving homeownership than in the past. These families have the equivalent of a full-time paying job (in some cases, they have more than one part-time job) and earn too much to receive federal housing assistance, but too little to qualify for a mortgage.

Data from the American Housing Survey confirms that increasing numbers of working families have been joining the ranks of the nation’s households with “critical housing needs”—paying at least half their income for housing or living under substandard conditions. Over the six-year period ending in 2003, the number of families with critical housing needs rose by 67 percent, and about 25 percent of the total group was comprised of working families.

The data revealed that families with critical housing needs were about as likely to live in the suburbs as the inner city, that their numbers were growing fastest in the Midwest and South (beyond the traditional gateway cities) and that more than half (53 percent) owned rather than rented their homes. The vast majority of occupations represented in this population were in the service industries—such as firefighters, police, teachers and retail workers. About 2.2 million foreign-born households were on the critical housing needs list in 2003, along with 11.9 million who were native-born.

Working families accounted for nearly one-third of the native-born households on the critical needs list, and more than half the foreign-born households. Moreover, because immigrants are more likely to settle in expensive areas—thriving cities where jobs are plentiful—they are also more likely to have incomes that are less than half of the median income in their area. Lipman also observes that immigrants with critical housing needs often aren’t newcomers. In fact, more than



Source: Center for Housing Policy



**Barbara Lipman**

one-third of the 1.2 million immigrant working families with critical housing needs arrived in the U.S. between 1980 and 1989.

An online database at the Center for Housing Policy provides information on workers in select occupations and what it costs them to live in certain cities compared to how much they earn. It is important to note, says Lipman, that the occupations that are expected to grow the most are “traditional jobs earning traditional wages.” This includes janitors, retail salespeople and food preparers. An increasingly substantial portion of the labor force, and hence, working families with critical housing needs, can be found in jobs such as these, few of which provide enough income to qualify for a mortgage. Similar analyses for the rental housing market are also available at the [www.nhc.org](http://www.nhc.org) Web site.

### **Affordable Neighborhoods Dwindling in 25 Top Metro Areas**

David Crowe, NAHB senior staff vice president for federal regulatory and housing policy, reports that a recent NAHB study—“Where Is Workforce Housing Located?”—indicates that workers who provide vital services to the community face an uphill battle to find affordable housing in the nation’s top 25 metropolitan areas. For the most part, those workers can find housing they can afford in less than half of the areas in those cities. Moreover, the census tracts that are affordable contain far less than one-half of the owner occupied homes, and the housing in these areas is typically much older than the housing stock in less affordable areas.

For example, NAHB’s data provides a realistic picture of where teachers can afford to live in Portland, Ore. Within the few census tracts classified as affordable to teachers, just 14 percent of the houses were built

over the last 10 years. In comparison, about 24 percent of the housing stock is new in the unaffordable census tracts. Similar observations hold true for areas with affordable rental opportunities, although there does seem to be a greater likelihood of finding an affordable rent than an affordable mortgage in most cases.

“The data leads you to fairly strongly conclude that places where it is most affordable for people like firefighters, police and teachers to live tend not to be the highest caliber neighborhoods,” Crowe notes.

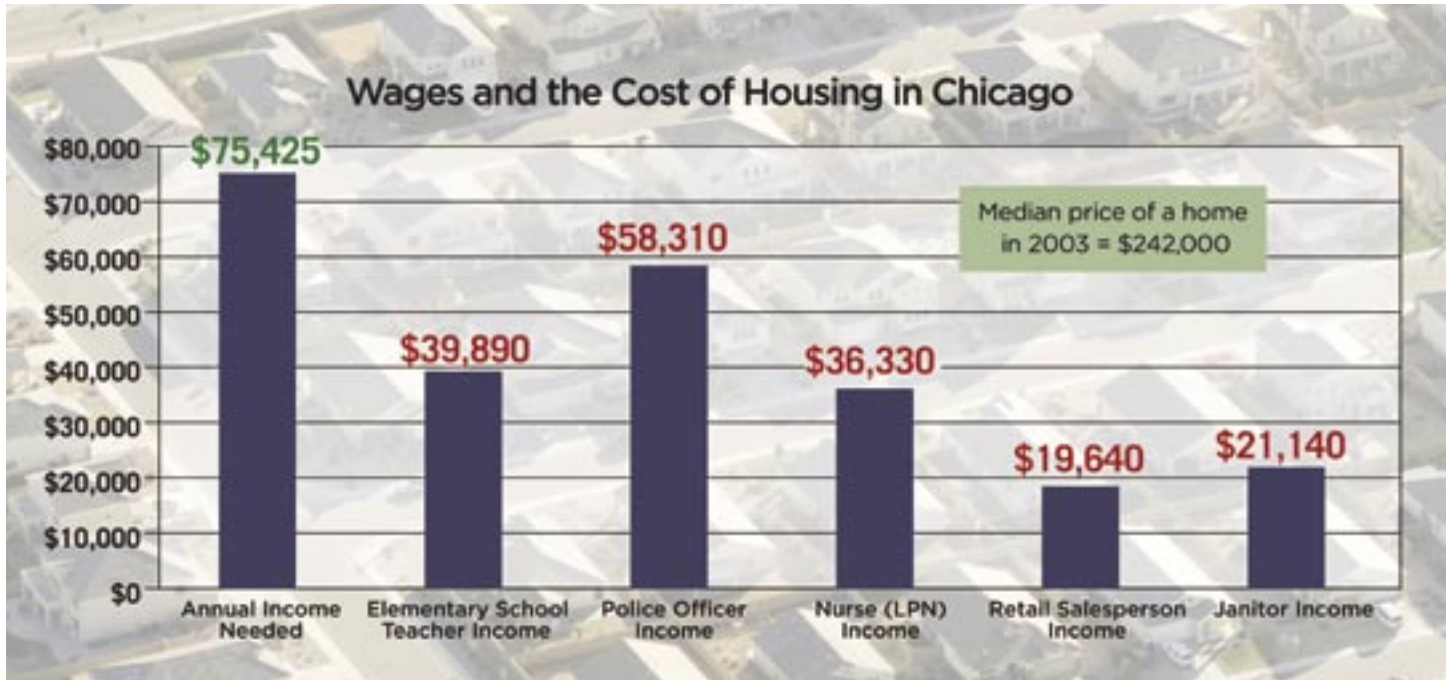
In all, the maps generated by NAHB’s analysis provide visual evidence of what Crowe terms “striking and dramatic” disparities between the number and locations of areas where people in service-related professions can afford to live and the number and locations of areas where they can’t afford to live.

The NAHB study identifies a general pattern of affordable housing: “In the middle of the metro area is an affordable ‘doughnut hole,’ an area of housing affordability that is often small and is adjacent to, or incorporated within, the traditional business center of the city. Around this affordable central core is a large ring that contains housing that is not affordable to low- and moderate-income families. On the urban fringe, far from many employment centers, is a distant ring that

*Workers who provide vital services to the community face an uphill battle to find affordable housing in the nation’s top 25 metropolitan areas.*



**Nic Retsinas**



Source: Center for Housing Policy

***“In the amount of time that the number of single-family homes affordable to working families has increased 10 percent, the number of jobs in retail and service industries has increased almost 100 percent.”***

—Retsinas

contains affordable housing.”

Overall, the study found that median-income teachers could afford housing in 44 percent of all the census tracts in the 25 metro areas studied. A median paid nurse could find affordable housing in just 11 percent of Denver’s census tracts; police officers were limited to about 25 percent of the neighborhoods in Miami; and retail workers were priced out of 97 percent of the tracts in the 25 cities, the study found.

In most cases, the “affordable” census tracts were located in inner cities and scattered in areas that are well outside city limits and a long drive to those service-sector jobs.

Prospects for homeownership are particularly bleak for retail salespeople, who can routinely drive 30 minutes or more to work at a \$7-an-hour job, says Crowe.

### **Home Prices Growing Faster Than Salaries**

Hardly a new problem in the United States, housing affordability remains most severe among the nation’s lowest-income families, says Nic Retsinas, director of the Joint Center for Housing Studies at Harvard University. “What has changed is the proportion of moderate-income people for whom housing affordability is a big issue.”

With all the uncertainties about workforce housing, one thing we know, says Retsinas, is that the problem isn’t going to go away - not by itself, and not anytime soon. “The market is not going to self-correct. The rate of home price appreciation has far outstripped income growth, and in the amount of time that the number of single-family homes affordable to working families has

increased 10 percent, the number of jobs in retail and service industries has increased almost 100 percent.”

Equally concerning is the fact that “jobs that are now declining pay about 21 percent more than jobs that are increasing,” Retsinas says. As a greater portion of the working public takes on lower-paying jobs, the number of those commuting more than 45 minutes has increased substantially. “We do not see a time when the housing market will recalibrate itself to the new labor market. There won’t be a correction in terms of supply because regulatory barriers have been so exacerbated” that needed homes aren’t getting built in the affordable category. “Every day there are more barriers,” he said.

What we don’t know, says Retsinas, is to what extent the absence of affordable workforce housing affects local economic competitiveness. “There is very little hard data on this, which is one reason the business community has not been as engaged as it should be” in finding solutions, he said. “The question we must try to answer is, ‘If you commute 45 minutes to work, what does that do to your productivity?’”

Absent intervention by federal and local government, the future is clear, Retsinas predicts: low-income people will continue paying greater percentages of their income for housing, and service-industry and other employees will be commuting further distances to work. “The people we’re talking about here have an average of about \$900 in the bank. That tells me they are one broken transmission, or one doctor bill, away from being in desperate conditions. That is why we need to find out what that crosswalk is between our economy and our housing market.”

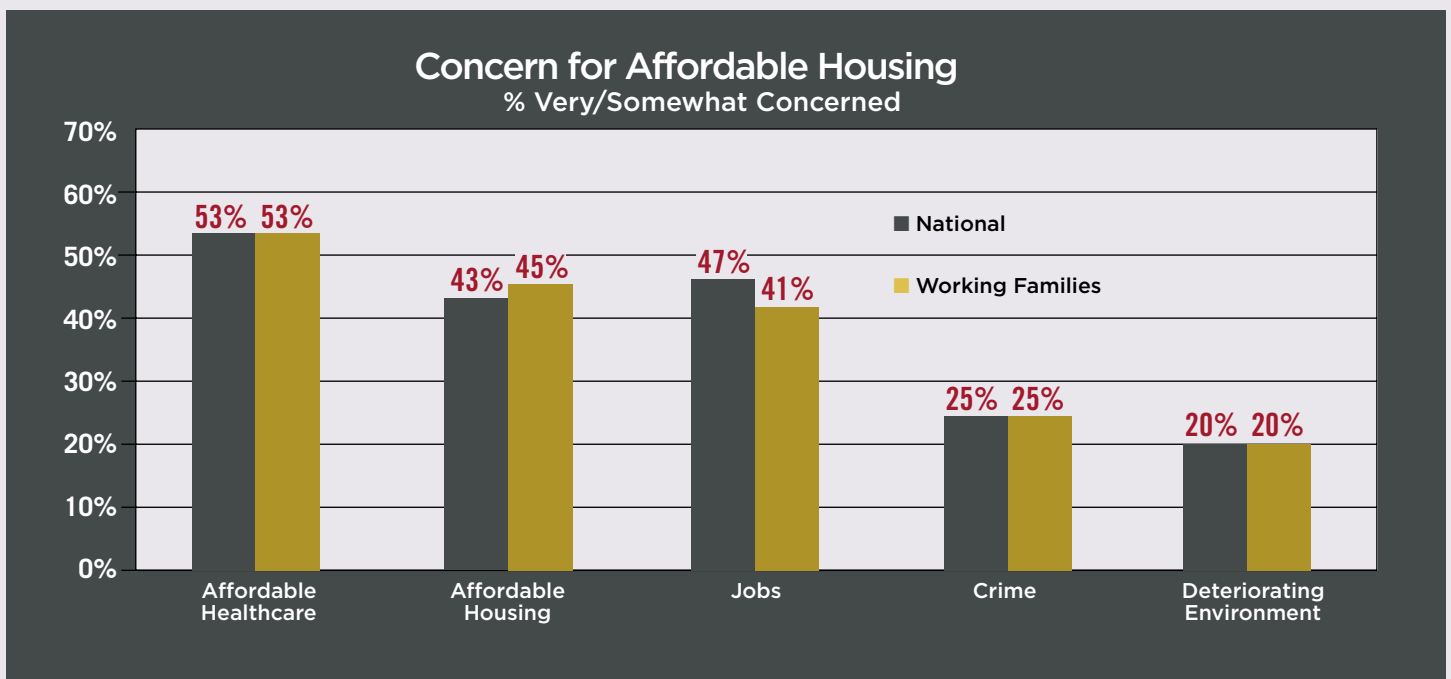
# SURVEY IDENTIFIES STRONG SUPPORT FOR WORKFORCE HOUSING

A TELEPHONE SURVEY IN JULY commissioned by symposium sponsors NAHB and Freddie Mac found that the availability of affordably priced housing is one of the top concerns of the American public, along with affordable healthcare and jobs. Concerns were especially high among low-income households, renters, minorities and those living in markets in the West with high housing costs.

Nine out of 10 of the households surveyed indicated that workers should be able to live in the communities where they work, according to Cary Overmeyer, a research analyst for Atlanta-based TNS NFO. “Americans value having these people as their neighbors,” he says.

The survey also found that U.S. households are just about evenly split in their support for higher housing densities as a means of reducing housing costs, but 72 percent indicated support for neighborhoods with mixed housing types. Fifty percent of those polled said that companies should provide stipends and other economic assistance to enable their employees to find affordable housing, and 55 percent indicated that there is a role for the local government in this endeavor.

Seventy-two percent of those surveyed said that affordable workforce housing should be a concern of politicians.



Source: TNS-NFO

Following are remarks from a keynote address by RICHARD SYRON, chairman and CEO of Freddie Mac, to the symposium.

## Freddie Mac

# INITIATIVES

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## Address Workforce Housing

**W**ORKFORCE HOUSING IS SOMETHING I FEEL PASSIONATELY ABOUT—partly because of my own life. I grew up in a working class home in Boston, with my cousins living upstairs and downstairs from us. It wasn't technically multifamily housing. But I preferred our name for it anyway: The Irish Battleship.

My parents had to really stretch to afford the place, and that made a lasting impression on me. Decades later, Freddie Mac's role in this symposium tells you how seriously we take the growing crisis in workforce housing.

This is a broad, cross-cutting issue. Far from being limited to mortgage finance, it raises fundamental questions about the nature of our society.

We also meet at a time when people are asking fundamental questions about the nation's economic direction and policies. That includes the appropriate shape, scope and regulatory regime for the housing Government Sponsored Enterprises (GSEs), Freddie Mac and Fannie Mae.

So what I'd like to do this afternoon is really step back and speak to both of these broad sets of questions.

First, I want to discuss the progress Freddie Mac is making to become a mission-driven company. I'll update you on some of our mission initiatives—including those on affordable and workforce housing—that can make a real difference in the lives of America's families.

Second, I'd like to discuss the enduring role and value of the GSEs. Because Freddie Mac can only make good on its mission—and your organizations can only make good on theirs—if the GSEs remain strong and vibrant. And that requires our partnerships with you to be strong and vibrant as well.

### **Achievement in Housing**

At the outset, let me say how proud I am of what the housing industries have achieved together.

During the past four years, our combined efforts

have produced all-time highs across the board. Home builders constructed more than seven million new homes. Mortgage lenders originated more than \$11 trillion in home loans. Freddie Mac financed homes for 17 million families. Realtors® and others sold more than 31 million homes.

And what did all this accomplish?

Together, we helped raise the U.S. homeownership rate to an all-time high. By refinancing conventional mortgages, we enabled millions of families to ease their financial burdens and tap almost half a trillion dollars in home equity. Last year alone, about a third of all growth in personal consumption was housing-related. Over the last few years, all this housing activity made for a milder and shorter recession—and a stronger, less cyclical economy.

In short, when America needed the housing industries most, we produced our best results ever.

### **Freddie Mac Initiatives**

But as today's symposium makes clear, our best has not been enough, because our job is far from being done. That is especially true in the emerging market—minorities and new immigrants—that as you know will be the source of most of our growth in the coming years.

These are families our industry has not fully served. But they are the ones who hold a key to our future.

So here are some things that Freddie Mac is doing to make home possible—affordably—for more Americans.

First, we've launched a major initiative called "Project Greenlight." It includes:

*"When America needed the housing industries most, we produced our best results ever."*



**Richard Syron**

- New mortgage products that greenlight more loans.
- A redesigned A-minus program that lifts more families out of the subprime market.
- New outreach tools that expand the pool of potential borrowers.
- Even broader access to all of our affordable products through our automated underwriting service.

Now we are about to take the next step. A new mortgage suite called “Home Possible” will provide a new level of credit flexibility—so our affordable housing programs can include more of the families they’re supposed to serve. As a result, our lowest downpayment mortgages can go to more eligible families with lower credit scores, taking out more types of loans, buying a wider range of homes.

This is no small pilot program. “Home Possible” will mean home sweet home for hundreds of thousands of families.

And to make it easier for families to buy a new construction home, we’re making our automated underwriting decisions good for six months rather than four. This will give home builders extra time to put the finishing touches on a new home without risking the loss of a qualified buyer.

As a government sponsored enterprise, Freddie Mac must keep thinking about home buyers after they

move in the front door. We cannot simply ignore what could force them out the back door.

That’s why we’re testing a new type of high-touch servicing on affordable loans. This experimental program makes counseling services available to home owners at any time—not just on the brink of foreclosure.

A second area we’re emphasizing is the needs of working families. A leading example of this is the “Workforce Home Benefit” program. This is a soup-to-nuts, customizable program that dozens of employers are using to offer mortgage assistance to as many as 175,000 working families.

And through “Home Possible,” we’re now making our most flexible loan terms available to working families that serve our communities.

Of all the issues that bear on affordable housing, our most direct leverage is obviously on mortgages. But as a GSE with a broad public mission, we cannot sit by and pretend the supply of affordable housing doesn’t matter—even if our direct influence on it is less.

So a third major push of ours is to increase the supply of affordable housing. We’ve started with multifamily housing.

We are pursuing a significant initiative with home builders and the AFL-CIO Investment Trust. Together, we’re going into a dozen high-cost areas and creating

10,000 new apartments. And we're targeting these units for those who need them most—working families earning an average wage.

Through a new program that supports small loans, we're expanding our multifamily business to reach the entire market.

We're also investing more aggressively in low-income housing tax credits. Supported by the GSEs, these credits are the primary means the market uses to create and preserve apartments for low-income families.

And we're changing the way we do business by delegating underwriting on certain affordable loans to experienced lenders—a move that will finance thousands of additional apartments next year.

Our fourth and final major effort is reaching out to more families who may be interested in homeownership. In the emerging market, studies confirm that we cannot expect new home buyers to always come to us.

That's why Freddie Mac is doing more than ever in the area of counseling, education and outreach. Together with many partners, we're helping consumers build a good financial record; dispelling myths about the mortgage process; teaching families how to detect and deter predatory lending; and helping them adjust to paying the mortgage.

We're even sponsoring a study with the home builders to learn what all these new families want in a home.

We're also using a new version of Loan Prospector with a select number of lenders and housing counselors—not to make underwriting decisions, but simply to decide whether families are financially ready to apply for a loan. Most of the families are minority, first-time home buyers who would not ordinarily be in the system. About 30 percent of those who have gone through the process turn out to be ready for homeownership.

### **A Renewed Focus on Emerging Markets**

As you can see, these efforts are teaching us important lessons. And we had already learned that home buyer counseling before the purchase can reduce default rates on certain loans by as much as a third.

So these new programs are not touchy-feely stuff. They have very real business implications for our reaching and serving the emerging markets.

And one such implication is already proving itself out. I'm encouraged that a lot of lenders say they see a real change at Freddie Mac. They're embracing our renewed focus on mission because they face increased regulatory and business pressures of their own. And because lenders realize that our outreach and other tools will also help them penetrate the emerging market, we've started to be much more competitive in buying a representative mix of their affordable business.

That's real progress. Given the vast loan volumes we deal in, it will take time for our numbers to rise to the high standards we've set. But our direction is clear—and we're not turning back.

Of course, simply buying more affordable loans can never be all that we demand of ourselves, because responsible leadership is about more than numbers on a page. It's about doing the right thing for the families we all serve.

Please don't get me wrong. Measurable goals are important and we expect to be held accountable. For example, our HUD goals represent a sharp increase over the next few years—and we will make truly massive efforts to meet them.

But as important as these goals are, they do not reflect all of our responsibilities as a GSE. Our mission drives us to expand housing opportunities for ALL Americans. And we cannot tolerate predatory lending or neglect other parts of our congressional mandate.

When the country's largest circulation newspaper runs two consecutive front-page spreads on predatory lending—as happened this week—then we know it's not just an industry issue, it's a national concern we must meet head-on.

After all, we are here not only to help people buy homes—but also to keep them. We don't want to look back and find that in our zeal to help families, we actually hurt them and their neighborhoods.

These are the principles that have motivated us to lead the industry in combating predatory lending. It's why we don't buy or guarantee home loans with excessive costs. And it's why we've led the secondary market in policies that are reforming the subprime market.

That's the Freddie Mac I want to see: pursuing ambitious initiatives, meeting stretch HUD goals and improving on other important metrics—but always taking the high road as we do so.

That's the difference between how we could behave as just another giant financial institution—and how we must behave as a GSE worthy of our charter.

### **Embracing GSE Reform**

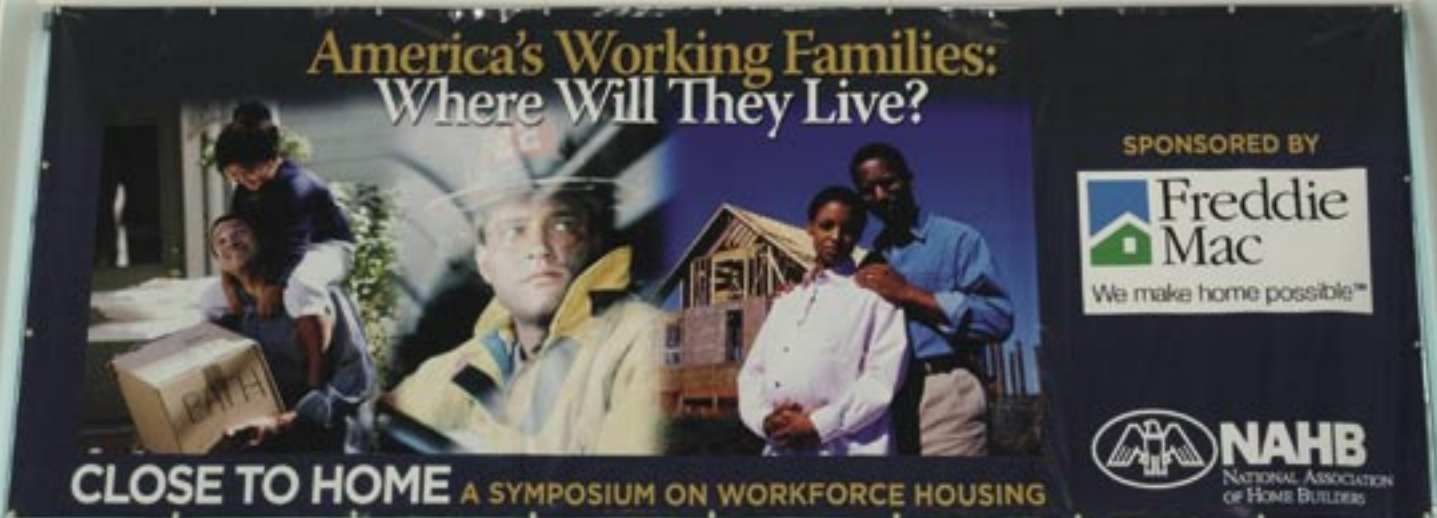
Now it's no secret there is a major legislative debate coming on the GSEs. It's one I welcome. Reform is necessary, and we embrace it. We look forward to working with the Administration and the Congress to put to rest any doubts that our regulator has all it needs and all it takes to do the job right. And we are committed to working closely with the home builders and other valued partners throughout this process.

There is one way we could lose this debate. And that would be if the discussion ignored the immense benefits of the current system and took us for granted.

You know better than anyone that the world's finest housing system wasn't built in a day. It took decades of innovation and hard work. Most of all, it took strong partnerships among home builders, lenders and a secondary market anchored by the GSEs, including Freddie Mac.

It wasn't always this way. Years ago, when our system was very different, housing starts stopped, and home lending dried up, all because the market ran out

*“We don't want to look back and find that in our zeal to help families, we actually hurt them and their neighborhoods.”*



of mortgage money.

So back in 1970—the year of Freddie Mac’s birth—the country considered creating a secondary market for conventional mortgages. The legislation was controversial. A number of high economic officials were firmly opposed, saying there was no need for a secondary market.

The president of NAHB at the time, Louis Barba, told Congress: “The lack of a stable supply of residential mortgage funds ... has brought this industry to the brink of disaster and is steadily worsening an already serious housing shortage.”

President Nixon agreed. He was a strong proponent of the legislation creating the secondary market—telling Congress that dips in the business cycle would no longer result in “discriminatory disabling of housing.”

Congress and the President got it right. Credit is the lifeblood of the housing industries. The housing GSEs have attracted global capital, created new mortgage tools and served as a shock absorber when the broader financial markets locked up.

As a result of the GSEs’ success and influence, housing today is less vulnerable to the business cycle than ever before, so that this year, for example—even with rising interest rates—total home sales will eclipse the previous high by almost 10 percent.

I saw this kind of success first-hand long before I joined Freddie Mac. In the early 1990s, I was a bank regulator in New England. A credit crunch had gripped my region. Home builders were hit particularly hard by regulation that backfired and limited their access to credit from certain banks.

But the residential mortgage market was surprisingly unaffected. That was due to the GSEs, and the li-

quidity, stability and affordability we provide—no matter what the economic environment.

At Freddie Mac, we believe this nation remains firmly committed to low-cost homeownership. So we welcome reform. But let’s ensure it is reform that strengthens our system, instead of weakening it.

Our charter—conveying our special abilities and responsibilities—is what enables us to pursue our affordable mission effectively. It’s also what allows us to bring innovative products to market, and to make it faster, easier and cheaper for families to buy new homes.

The unintended consequences of a bad bill would endanger all that.

So our critics can’t have it both ways. They can’t demand that we meet ambitious goals and at the same time strip away what makes us unique and treat us as if we were just another couple of private-sector financial institutions, because those kinds of changes would make it all-but-impossible for us to serve our mission.

And they would harm our partners just as they would harm the families we serve.

That’s why we will be working for a bill next year that improves the regulatory environment and keeps America’s family-friendly system of housing finance the best in the world.

We hope the coming debate can be based on the facts. We hope it reflects the economic merits. And we hope, as well, that in this debate we will earn a good share of your confidence and support. Because we know where we stand. We stand with housing—and everyone who wants to build it, finance it and make it affordable for all. And we hope that you will stand with us, as well.

**The workforce housing symposium was held at NAHB’s National Housing Center in Washington, D.C.**

# Partnerships PROVIDE Local Solutions

**P**ANELISTS AT THE SYMPOSIUM DESCRIBED APPROACHES that have scored success in providing affordable workforce housing through collaborations between the home building industry and the public sector, with the idea that these strategies will find wider applications in communities around the country.



**Marsha Elliott**

The millions of working people who pay too much of their incomes for housing or endure long daily commutes back and forth to the communities where they can afford to live are not just statistics, says NAHB National Vice President Marsha Elliott, a Chicago-area home builder who heads the Terrestris Development Company. “Behind those numbers are real people—mothers and fathers and husbands and wives—who must accept difficult tradeoffs because the cost of housing in the communities where they work has simply risen beyond their means.” But unfortunately, this very tangible problem is often overlooked by the media and during political campaigns, and must be moved higher on society’s priority list, she adds.

One of the best ways to approach housing affordability is through a variety of creative partnerships. “We see again and again that meaningful action on workforce housing comes through dynamic partnerships involving private and public sector entities,” says Elliott. “By working together, and by drawing lessons from successes from around the country, we can improve the housing opportunity for millions of low- and middle-income families,” she adds. “Not surprisingly, many of the most effective solutions come from local initiatives. And we should identify ideas and practices that have worked and look for opportunities to apply those ideas in other places,” she notes.

### **Worrying About Hospital Workers**

Kevin Kast, president and CEO of SSM St. Joseph Health Center in St. Charles, Mo., provides a real-world example. In the rapidly growing area where the

health center is located, the median income is more than \$62,000 and the average home price has increased by 60 percent in recent years. With more than half of the employees in the health system earning less than \$40,000 per year, Kast says he is concerned that a lack of workforce housing will lead to problems in recruiting and keeping essential staff.

“This is a serious threat to my hospitals,” he says. While his peers may lose sleep over malpractice insurance and managed care, he worries about having the nurses, radiologists, cooks, maintenance staff and others who are so essential to the hospital’s functioning. “We have to think creatively to solve this problem,” Kast says, because the principles that were used in the past no longer apply.

### **Concerns From Private Sector Employers**

Those concerns are echoed by Carl Guardino, president and CEO of the Silicon Valley Manufacturing Group, a public policy trade association representing 180 of Silicon Valley’s most respected private sector employers. “Every year I meet with members to identify key concerns in our area, he notes. “Homes that are affordable for working families has been the number one issue for five years running.”

Guardino agrees that successful local initiatives can be effective models for other communities. “If you hear something you like, steal it,” he says, referring to innovative public-private partnerships for providing affordable housing. “Plagiarism may not have been okay in college, but it’s perfectly acceptable when talking about improving the communities where we live.” Given that advice, the Housing Trust of Santa Clara County (California), which was created by Guardino’s group, is a model that could prove successful in many areas.

This affordable housing investment trust, which is funded entirely from private sources, offers loans and grants to create affordable housing opportunities. Since 2001, it has helped more than 1,260 families buy



**Carl Guardino**

their first homes and enabled the development of hundreds of units of affordable rental housing and special-needs housing in Santa Clara County. Basically, with an investment of \$16.1 million, the group has leveraged construction valued at \$733 million and created more than 4,100 housing opportunities.

**Local Programs Promote Housing Affordability**

Other examples of successful efforts to make housing affordable—such as programs that provide no-interest loans to teachers or special financing for nurses and police officers—are catalogued on the National League of Cities web site at [www.NLC.org](http://www.NLC.org), says Charlie Lyons, the immediate past president of that group. Such programs are necessary, he says because the federal government spends \$30 billion on housing annually today compared to \$76 billion annually during Gerald Ford’s Administration.

Lyons, who is also a selectman in the Town of Arlington, Mass., also lists measures that he sees as key to providing affordable housing:

- Pursue non-traditional housing types that meet the needs of today’s households.
- Reassure people that affordably priced housing in their community is not a threat to what they have invested in their home.
- Convince home owners that higher densities will not lead to lower property value.
- Extend outreach to churches, which can be a valuable ally in the effort to provide affordable housing.

**Empowering the Grassroots**

It is also important to empower the grassroots to speak as one, says Guardino. His organization ac-



**Kevin Kast**

complished this by creating and staffing the Housing Action Coalition (HAC), a broad-based grassroots advocacy network representing more than 150 groups with an interest in housing. Among its members, the coalition counts home builders associations, local governments, environmental groups, affordable housing advocates and many others. And it has been very successful in serving as an advocate for affordable housing and endorsing specific projects. It also focuses on educating the public about affordable housing and in working for legislative solutions that address affordability problems.

Another key strategy is to “engage the grass tops” to address housing affordability concerns. The Silicon Valley Manufacturing Group did this by creating the Housing Leadership Council, which consists of 70 CEO-level officials of private and public groups. This group came up with seven strategic initiatives to address housing supply and demand. Among them are the previously mentioned Housing Trust of Santa Clara County and a peer-to-peer program that reaches out to public officials and community leaders to champion affordable housing.

*“We see again and again that meaningful action on workforce housing comes through dynamic partnerships involving private and public sector entities.”*  
—Elliott



**Charlie Lyons**

# CATCHING UP

## With Housing Demand

**INCREASING THE SUPPLY OF HOUSING** so that it is more in line with the rising demand for housing in localities with fast-growing economies and an expanding job base will help to alleviate the shortage of affordable workforce housing, according to panelists at NAHB's Workforce Housing Symposium, who discussed strategies for overcoming barriers to workforce housing. But accomplishing that in areas where regulation of home building is formidable and land prices are high is no easy matter and will involve a concerted effort among various entities in the private and public sectors.



**Gary Garczynski**

"People are coming to high employment areas with jobs but no place to live," says Gary Garczynski, a past president of NAHB and president of National Capital Land and Development Company. "It's very easy to say that low interest rates have made it easy for homeownership to increase, but housing still has a long way to go to fill the need for workforce housing."

### **Expanding the Inventory**

There's no getting away from the fact that strong demand and a limited housing inventory have contributed significantly to the rapid escalation in housing prices that has been occurring in many of the nation's hottest markets, said David Flanagan, president of Elm Street Development. If there were more homes available for sale, competition would be driving housing prices down. Solutions need to be found on the supply side because in areas such as Washington, D.C., demand pressures related to economic growth will only continue: over the next 25 years, an influx of 1.5 million new residents is expected in the region, creating the need for an additional 800,000 homes.

As a builder in suburban Montgomery County, Md., Flanagan says he was able to see for himself the toll of government-imposed production constraints on supply. When the county lifted its housing moratorium

about five years ago and more builders were suddenly able to move forward with new production, the price of a townhouse dropped \$114,000, he says. With today's supply of housing in the county still lagging far behind demand, the average price of a townhouse is more than \$450,000 and new production is migrating into communities that are increasingly distant from the city.

Flanagan believes that regional and state planning must do a better job of accommodating and encouraging the production of new housing. Local municipalities need to give a priority to meeting the demand for affordable workforce housing, and states need to step up their role, providing incentives for home building instead of pummeling the industry with more regulation. "States have got to reward cities and counties that step up and push for more housing," Flanagan says.

Regional planners might be doing a better job of gaining public support for the new residential growth the region's expanding population and job base requires, he says, if they understood the essential impact of housing on the vitality of the local economy. "Politicians believe that housing doesn't pay for itself—which is wrong," he says.

Flanagan advocates a multi-step approach to put housing at the center of a viable long-range plan for the region:

- Mandating regional and state planning.
- Giving states more oversight over local planning.
- Having developers "step up to the plate and pay their share for schools and roads."
- Creating a stronger connection between federal transportation funding and regional and state planning. For example, before the federal government releases its portion of the funding for a new Metro subway station, surrounding zoning allowing higher densities should be in place. If the local jurisdiction balks, it should not



**David Flanagan**

receive federal dollars for the project.

- Educating politicians about the positive economic impact of housing activity.
- Educating the general public that higher density, when properly planned and administered, can help solve a shortfall of affordably priced housing without jeopardizing the community's goals.

### Existing Housing and Federal Programs

Existing single-family homes and apartments present the best opportunity for the Washington, D.C. region to meet its workforce housing needs, says Tom Bozzuto, founding partner of Bozzuto and Associates, because land prices have become prohibitively expensive, surging 24 percent between 1990 and 2000, compared to an increase of only 2.9 percent in hard construction costs.

"It will be practically impossible to provide workforce housing with new construction unless we have government programs," Bozzuto says. While federal programs promoting low-income housing do exist, he adds, there aren't any that are currently targeted to workforce housing.

One of the few local initiatives in place supporting workforce housing is Montgomery County's Moderately Priced Dwelling Unit (MPDU) program, which requires 12.5 percent to 15 percent of the total number of units in a subdivision or high-rise building of 35 or more units to be set aside for home buyers making less than 80 percent of the county's median income. The builder receives a density bonus as much as 22 percent higher than the density that is normally allowed, and this provides for some additional market rate units to pay for the subsidy. After some success, however, Bozzuto said that the set-aside program is running into problems because land owners are factoring those higher densities into their prices when they sell the property.

### Freddie Mac Initiatives

From the secondary mortgage market, Robert Tsien, senior vice president at Freddie Mac, reports that the development of business- and consumer-oriented pro-

grams to help foster the availability of workforce housing is underway at Freddie Mac, including "Workforce Home Benefits," an employer-assisted homeownership program, and "Dispel the Myths," a consumer program currently in six cities.

Implemented by Freddie Mac and Tyson Foods, Inc., earlier this year, "Workforce Home Benefits" enables eligible employees to obtain financial assistance with their downpayment or closing costs from their employer.

Tyson Foods' \$50 million program will give eligible employees greater access to homeownership counseling as well as flexible mortgage products with low down payment requirements. Employees who have worked at Tyson Foods two years or more and have a household income of less than \$54,500 are eligible to participate. The next phase of the program, he said, will include 12 companies and institutions, including hospitals and universities. Freddie Mac is also exploring the possibility of expanding the initiative to a local government that would tie the benefits to the production of more than 2,000 homes.

"Dispel the Myths" is a consumer outreach and homeownership counseling program that was created to educate potential home owners about the home buying process. The program is currently in Baltimore; Las Vegas; Columbus, Ohio; Miami; Chicago and Dallas, and Tsien said it will expand to 18 more cities and is expected to reach more than 25,000 potential home owners. 📌



**Tom Bozzuto**



**Bob Tsien**

# CLOSE TO HOME A SYMPOSIUM ON WORKFORCE HOUSING

DECEMBER 8, 2004

## WELCOME AND INTRODUCTORY REMARKS

**Bobby Rayburn**

*President, National Association of Home Builders  
President, Rayburn & Associates*

## KEYNOTE OPENING ADDRESS

**Alphonso Jackson**

*Secretary of Housing and Urban Development*

## SURVEY RESULTS—THE HOUSING NEEDS OF WORKING FAMILIES

**Cary Overmeyer**

*Research Analyst, TNS NFO*

## THE PROBLEM DEFINED

**Ed Golding** (moderator)

*Senior Vice President, Financial Research, Freddie Mac*

**David Crowe**

*Senior Staff Vice President, Federal Regulatory and Housing Policy,  
National Association of Home Builders*

**Nic Retsinas**

*Director, Joint Center for Housing Studies, Harvard University*

**Barbara Lipman**

*Research Director, Center for Housing Policy*

## OVERCOMING BARRIERS TO WORKFORCE HOUSING

**Gary Garczynski** (moderator)

*2002 President, National Association of Home Builders  
President, National Capital Land and Development Co.*

**Tom Bozzuto**

*Founding Partner, Bozzuto and Associates*

**David Flanagan**

*President, Elm Street Development*

**Bob Tsien**

*Senior Vice President, Freddie Mac*

## KEYNOTE ADDRESS

**Richard F. Syron**

*Chairman and CEO, Freddie Mac*

## PARTNERSHIP FOR SOLUTIONS

**Marsha Elliott** (moderator)

*National Vice President, National Association of Home Builders  
Executive Vice President, Terrestris Development Co.*

**Charlie Lyons**

*Immediate Past President, National League of Cities  
Selectman, City of Arlington, Mass.*

**Kevin Kast**

*President and CEO, SSM St. Joseph Health Center, St. Charles, Mo.*

**Carl Guardino**

*President and CEO, Silicon Valley Manufacturers Group*

## THE NEXT FOUR YEARS FOR HOUSING

**Nic Retsinas** (moderator)

*Director, Joint Center for Housing Studies, Harvard University*

**Henry Cisneros**

*CEO, American CityVista  
Former Secretary of Housing and Urban Development*

**Jack Kemp**

*1996 Republican Vice Presidential Nominee  
Former Secretary of Housing and Urban Development*





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