



## Economic Policy Program

*Housing Commission*

# Housing America's Future:

New Directions for National Policy

## EXECUTIVE SUMMARY



February 2013



BIPARTISAN POLICY CENTER

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## ACKNOWLEDGEMENTS

The Bipartisan Policy Center would like to express its sincere appreciation for the support and vision of the John D. and Catherine T. MacArthur Foundation, which made the Housing Commission possible.

## DISCLAIMER

This report is the product of the BPC Housing Commission with participants of diverse expertise and affiliations, addressing many complex and contentious topics. It is inevitable that arriving at a consensus document in these circumstances entailed compromises. Accordingly, it should not be assumed that every member is entirely satisfied with every formulation in this document, or even that all participants would agree with any given recommendation if it were taken in isolation. Rather, this group reached consensus on these recommendations as a package.

The findings and recommendations expressed herein are solely those of the commission and do not necessarily represent the views or opinions of the Bipartisan Policy Center, its founders, or its Board of Directors.

# Housing Commission

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## Economic Policy Program

### *Housing Commission*



Seated L-R: Former U.S. Representative Rick Lazio (R-NY), Former U.S. Senator Mel Martinez (R-FL), Former HUD Secretary Henry Cisneros, Former U.S. Senator Christopher S. "Kit" Bond (R-MO), Former U.S. Senator George J. Mitchell (D-ME) at the launch of the BPC Housing Commission, October 26, 2011.

# Letter from the Co-Chairs

We formed the Housing Commission to help set a new direction for federal housing policy. More than five years after the collapse of the housing market, it is now all too apparent that current policy, and the institutions that support it, are outdated and inadequate.

This report, the culmination of a 16-month examination of some of the key issues in housing, provides a blueprint for an entirely new system of housing finance for both the ownership and rental markets. Under this new system, the private sector will play a far greater role in bearing credit risk and providing mortgage funding, and taxpayer protection will be a central goal. We also propose a new, outcome-oriented approach to the distribution of federal rental subsidies that responds to the housing needs of our nation's most vulnerable households and rewards providers who demonstrate strong results at the state and local levels with increased flexibility in program administration. The report highlights how our nation's burgeoning senior population and dramatic demographic changes will present new challenges and opportunities for housing providers in communities throughout the country.

Over the years, Republicans and Democrats have worked together to establish policies to address the diverse housing needs of the American people. After World War II, for example, Republican Senator Robert Taft worked with President Truman to remedy a national housing shortage and respond to the housing needs of America's returning veterans with the Housing Act of 1949. Two decades later, President Johnson and Everett Dirksen, the Republican Senate Leader from Illinois, worked collaboratively to pass the Fair Housing Act of 1968. Both parties came together again to pass the Tax Reform Act of 1986, which created the Low Income Housing Tax Credit. There is a simple explanation for this history of bipartisanship: Americans of all political backgrounds intuitively understand that ensuring access to decent, suitable, and affordable housing is a goal worth striving for, and one that our country must never abandon. The commission follows this bipartisan tradition.

We wish to express our gratitude to our fellow commissioners who have labored long hours, and made many sacrifices, over the past 16 months. It has been a great privilege to work with this distinguished group of Americans, and their dedication to solving some of the most perplexing issues in housing has been an inspiration to us.

The challenges we face in housing are so great and so urgent, that new ideas and approaches must be brought to the policy table. It is our hope that our work will contribute to the dialogue and help further the housing policy reform debate.



CHRISTOPHER S. "KIT" BOND



HENRY CISNEROS



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**Economic Policy Program**  
*Housing Commission*



# Executive Summary and Recommendations

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Our nation's numerous and urgent housing challenges underscore the need for a review of federal housing policy. Since the collapse of the housing market in 2007, the federal government has stepped in to support the vast majority of all mortgage financing, both for homeownership and rental housing. At the same time, rental demand is increasing in many regions throughout the United States, and the number of renters spending more than they can afford on housing is unacceptably high and growing. These developments are taking place against a backdrop of profound demographic changes that are transforming the country and our housing needs. These changes include the aging of the Baby Boomers, the formation of new households by members of the "Echo Boom" generation (those born between 1981 and 1995), and the growing diversity of the American population.

In many respects, our housing system is outdated and not equipped to keep pace with today's demands and the challenges of the imminent future. The Bipartisan Policy Center (BPC) launched the Housing Commission in October 2011 to develop a new vision for federal housing policy that provides a path forward during this period of great change. This report, the centerpiece of an ongoing effort by the Housing Commission to examine key issues that together form the basic elements of a resilient housing system, proposes:

- A responsible, sustainable approach to homeownership that will help ensure that all creditworthy households have access to homeownership and its considerable benefits.
- A reformed system of housing finance in which the private sector plays a far more prominent role in bearing credit risk while promoting a greater diversity of funding sources for mortgage financing.
- A more targeted approach to providing rental assistance that directs scarce resources to the lowest-income renters while insisting on a high level of performance by housing providers.
- A more comprehensive focus on meeting the housing needs of our nation's seniors that responds to their desire to age in place and recognizes the importance of integrating housing with health care and other services.

In preparing the recommendations that follow, an overarching goal of the commission was to ensure that the nation's housing system enables individuals and families to exercise choice in their living situations, as their needs and preferences change over time. While today's challenges are great, the opportunity to create a new system that expands the range of housing options for individuals and families is even greater.

## Reforming Our Nation's Housing Finance System

**A successful housing finance system should maximize the range of ownership and rental housing choices available at all stages of our lives.** Meeting our nation's diverse housing needs requires a strong and stable system of housing finance. This system, when functioning at its full potential, offers millions of Americans and their families the opportunity to choose the type of housing that best responds to their individual situations. The mortgage boom and bust has rocked the system on which the United States has relied for more than 75 years and has forced a reevaluation of the government's role in supporting mortgage credit and how this role should be structured. Private, risk-bearing

capital in the mortgage market has shrunk dramatically, while the tremendous uncertainty surrounding the future of our housing finance system has greatly limited consumers' choices, particularly for creditworthy borrowers seeking to obtain a mortgage. In response to this recent unraveling and subsequent uncertainty, the commission proposes a blueprint for a new system of housing finance that will support homeownership and provide for a vibrant rental housing market.

### Key Policy Objectives

**The private sector must play a far greater role in bearing credit risk.** Greater federal intervention was necessary when the market collapsed, but the dominant position currently held by the government is unsustainable. Today,

## Housing Commission Principles

### The commission developed the following five principles as the foundation for its deliberations and recommendations:

**A healthy, stable housing market is essential for a strong economy and a competitive America.**

The economy will not reach its full potential without a robust housing sector that is supported by a strong and stable system of housing finance. In the post–World War II era, the United States has suffered through 11 recessions, and new homebuilding and housing-related

construction have often led the way to economic revitalization. Likewise, the recent housing and mortgage crisis demonstrated that an unstable housing finance system can hurt not only housing, but, through our increasingly integrated banking and finance system, the entire global economy. A good quality of life for the nation's workforce and population, based on safe and secure homes and communities of opportunity, is critical to the global competitiveness of our national and regional economies.

**The nation's housing finance system should promote the uninterrupted availability of affordable housing credit and investment capital while protecting American taxpayers.**

Tens of millions of American families have benefited from the stability and affordability provided by the U.S. housing finance system and its traditional support of a variety of mortgages, including sustainable, long-term home financing. The commission received a wealth of testimony calling into question the availability of certain consumer-friendly products, including the long-term prepayable fixed-rate mortgage, absent some level of government intervention. The commission believes that the government role in the housing finance system can be structured in a way that narrowly circumscribes taxpayer risk of loss, while promoting the goals of stability and affordability.



the government supports more than 90 percent of single-family mortgages through entities such as Fannie Mae, Freddie Mac, Ginnie Mae, and the Federal Housing Administration (FHA) as well as roughly 65 percent of the rental mortgage market. Reducing the government footprint and encouraging greater participation by risk-bearing private capital will protect taxpayers while providing for a greater diversity of funding sources. A durable housing finance system must provide open access to lenders of all types and sizes, including community banks and credit unions. It must also serve as wide a market as possible and assure consumers fair access to sustainable and affordable mortgage credit.

**While private capital must play a greater role in the housing finance system, continued government involvement is essential to ensuring that mortgages remain available and affordable to qualified homebuyers.** The commission recommends the establishment of a limited, catastrophic government guarantee to ensure timely payment of principal and interest on qualified mortgage-backed securities (MBS). This guarantee should (1) be explicit and fully paid for through premium collections that exceed expected claims (with a safe reserve cushion); (2) be triggered only after private capital in the predominant loss position has been fully exhausted; and (3) apply only to the securities and not to the equity or debt of the entities that issue or insure them.

**The United States should reaffirm a commitment to providing a decent home and a suitable living environment for every American family.**

This commitment, first articulated in the Housing Act of 1949 and repeated in subsequent federal legislation, should be embraced as an essential aspiration of an economically dynamic and just society. Housing policy should recognize the importance of community, economically diverse neighborhoods, and access to education, nutritious food, transportation, and other services, as well as aim to break up concentrations of poverty. Despite our current economic problems, the United States remains one of the wealthiest countries

in the world and should have a housing system commensurate with this status.

**The primary focus of federal housing policy should be to help those most in need.**

As our nation's leaders continue their efforts to restrain federal spending and reduce our national debt, it is clear that federal resources for housing will be significantly constrained for the foreseeable future. These limited funds should be deployed in a more targeted and efficient manner to first help the most vulnerable households, including the more than 600,000 people sleeping on the streets, in shelters, or in their cars because they cannot afford a home.

**Federal policy should strike an appropriate balance between homeownership and rental subsidies.**

Owner-occupied housing and rental housing are complementary—not competing—components of a housing system that serves individuals and families at all stages of life. The support the federal government devotes to housing through direct outlays and tax subsidies should be allocated in a manner that reflects differences in the circumstances, needs, and preferences of households throughout the life cycle.

**As part of this rebalancing, the commission proposes the winding down and ultimate elimination of Fannie Mae and Freddie Mac after a multiyear transition period.** The business model of these government-sponsored enterprises (GSEs)—publicly traded companies with *implied* government guarantees and other advantages—has failed and should not be repeated. During the transition period, the Federal Housing Finance Agency should continue its efforts to reduce the size of the GSE portfolios and move the GSE pricing structure closer to what one might find if private capital were at risk. Congress should also gradually lower the GSE loan limits to allow larger loans to flow to the private sector.

**Through the gradual reduction in loan limits to pre-crisis levels, the commission also supports a more targeted FHA that returns to its traditional mission of primarily serving first-time homebuyers.**

### **The Structure of the New System**

**The commission proposes to replace the GSEs with an independent, wholly owned government corporation—the “Public Guarantor”—that would provide a limited catastrophic government guarantee for both the single-family and rental markets.** Unlike the GSEs, the Public Guarantor would not buy or sell mortgages or issue MBS. It would simply guarantee investors the timely payment of principal and interest on these securities. The model endorsed by the commission is similar to Ginnie Mae, the government agency that wraps securities backed by federally insured or guaranteed loans. Other than the Public Guarantor, all other actors in this new system—originators, issuers of securities, credit enhancers, and mortgage servicers—should be private-sector entities fully at risk for their own finances and not covered by either implicit or explicit government guarantees benefitting their investors or creditors.

**In the new system, the limited catastrophic guarantee of the Public Guarantor would only be triggered after all private capital ahead of it has been exhausted.** The government would be in the fourth-loss position behind (1) borrowers and their home equity; (2) private credit enhancers; and (3) the corporate resources of the issuers and servicers.

**The Public Guarantor will have significant standard-setting and counterparty oversight responsibilities.** These responsibilities include (1) qualifying institutions to serve as issuers, servicers, and private credit enhancers; (2) ensuring that these institutions are well-capitalized; (3) establishing the guarantee fees to cover potential catastrophic losses; (4) ensuring the actuarial soundness of two separate catastrophic risk funds for the single-family and rental segments of the market; and (5) setting standards (including loan limits) for the mortgages backing government-guaranteed securities. With respect to rental finance, the Public Guarantor would also have the authority to underwrite multifamily loans directly and would be responsible for establishing an affordability threshold that would primarily support the development of rental housing that is affordable to low- and moderate-income households.

### **Obstacles to the Housing Market Recovery**

**The commission has identified a number of regulatory obstacles that are restricting mortgage credit and inhibiting the housing market’s recovery.** These obstacles include overly strict mortgage lending standards; the lack of access to mortgage credit for well-qualified self-employed individuals; uncertainty about the extent of “put-back” risk for mortgage lenders; the demand for multiple

**Meeting our nation’s diverse housing needs requires a strong and stable system of housing finance.**

appraisals and the use of distressed properties as market comps; the application of FHA compare ratios; and the uncertainty related to pending mortgage regulations and the implementation of new rules.

**To overcome these obstacles, the commission recommends that the President of the United States direct the Department of the Treasury, in coordination with the various federal banking agencies, to assess the impact of current and pending regulatory requirements on the affordability and accessibility of mortgage credit.** The Treasury Department should develop a plan to align these requirements as much as possible to help get mortgage credit flowing again. A top official within the Treasury Department or in the White House should be tasked with day-to-day responsibility for coordinating the implementation of this plan.

## The Continuing Value of Homeownership

**Homeownership will continue to be the preferred housing choice of a majority of households.** According to research performed for the commission, the national homeownership rate is likely to remain above 60 percent for the foreseeable future. Millions of Americans continue to see homeownership as a critical cornerstone of the American Dream with benefits well beyond the financial investment. This sentiment is especially strong within the growing Hispanic community.

**Despite the collapse of the housing market, the commission strongly believes that, when responsibly undertaken, homeownership can produce powerful economic, social, and civic benefits that serve the individual homeowner, the larger community, and the nation.** A combination of proper regulation, adequate liquidity, and the right incentives in the private market can help ensure that

homeownership remains a vital housing and wealth-building option. When coupled with reasonable down payments, solidly underwritten, fixed-rate mortgages—as well as straightforward adjustable-rate mortgages with clear terms and limits on adjustments and maximum payments—can also open the door to homeownership and its benefits for individuals with modest wealth and incomes.

**Housing counseling can improve prospective borrowers' access to affordable, prudent mortgage loans, especially for families who otherwise might not qualify or who may experience other barriers to conventional lending.** Four key elements are necessary: (1) a strong counseling infrastructure; (2) clear standards; (3) an understanding of the proper role for counselors; and (4) the adoption of best practices for integrating counseling into the mortgage market. The commission supports continued federal appropriations for housing counseling and recommends that all stakeholders who benefit from a borrower's access to counseling services be expected to contribute to the cost of the service.

## Affordable Rental Housing

**The nation's 41 million renter households account for 35 percent of the U.S. population.** In the coming decade, the number of renters is likely to grow significantly as members of the Echo Boom generation form their own households for the first time and as members of the Baby Boom generation downsize from their current homes. Growing pressure for rental housing may push rents further out of reach for the low-income households that are least able to afford it. Our nation's housing system should aim to minimize the trade-offs these households often face when seeking affordable housing—in terms of neighborhood quality, access to good jobs and high-performing schools, and spending on other essentials like health care and nutritious food.

### **Federal Assistance Falls Far Short of What's Needed**

**Nationally, a majority of extremely low-income renter households spend more than half of their incomes on housing.** For the most part, renters live in housing that meets basic quality standards. However, nearly half of renters at all income levels report paying more than 30 percent of their income for rent—the federal standard for housing affordability. Among extremely low-income renters (those with incomes at or below 30 percent of area median income), the situation is far worse. Nearly 80 percent of these lowest-income households report spending more than 30 percent of their income for rent, and nearly two-thirds spend 50 percent or more.

**There are far more extremely low-income renters than available units they can afford.**

#### **Federal housing assistance meets only a fraction of the need.**

Federal assistance programs currently help approximately five million low-income households afford housing. However, only about one in four renter households eligible for assistance actually receives it. Because demand so far outstrips supply, these scarce rental subsidies are often allocated through lengthy waiting lists and by lotteries.

### **Responding to the Crisis**

**The commission recommends that our nation transition to a system in which our most vulnerable households, those with extremely low incomes (at or below 30 percent of area median income) are assured access to housing assistance if they need it.** Assistance should be delivered through a reformed Housing Choice Voucher program that, over time, limits eligibility to only the most vulnerable families.

**The commission recommends increasing the supply of suitable, affordable, and decent homes to help meet both current and projected demand.** To achieve this goal, the commission recommends:

- Expansion of the Low Income Housing Tax Credit (LIHTC) by 50 percent over current funding levels and the provision of additional federal funding to help close the gap that often exists between the costs of producing or preserving LIHTC properties and the equity and debt that can be raised to support them.
- Additional federal funding beyond current levels to address the capital backlog and ongoing accrual needs in public housing to preserve the value of prior investments and improve housing quality for residents.

**The commission recommends federal funding to minimize harmful housing instability by providing short-term emergency assistance for low-income renters (those with incomes between 30 and 80 percent of area median income) who suffer temporary setbacks.** This assistance, delivered as a restricted supplement to the HOME Investment Partnerships program, could be used to help cover payment of security deposits, back rent, and other housing-related costs to improve residential stability and prevent homelessness.

**These recommendations, if fully implemented, would help to meet the needs of an additional five million vulnerable renter households and contribute to the elimination of homelessness—through production, preservation, and rental assistance.**

**The commission recommends a new performance-based system for delivering federal rental assistance that focuses on outcomes for participating households, while offering high-performing providers greater flexibility to depart from program rules.** The commission proposes a new performance-based system that will evaluate housing providers' success in five key programmatic

areas: (1) improving housing quality; (2) increasing the efficiency with which housing assistance is delivered; (3) enabling the elderly and persons with disabilities to lead independent lives; (4) promoting economic self-sufficiency for households capable of work; and (5) promoting the de-concentration of poverty and access to neighborhoods of opportunity. Providers that achieve a high level of performance across these five areas should be rewarded with increased flexibility to depart from standard program rules, while substandard providers should be replaced. The federal government spends tens of billions of dollars annually to support the nation's valuable infrastructure of publicly and privately owned rental housing. Neither landlords nor program operators who fail to provide tenants with homes and services of reasonable quality should benefit from this investment.

### Funding the Solutions

**In light of today's difficult fiscal environment, the commission recognizes that a transition period will be necessary before these recommendations can be fully implemented.** The commission therefore recommends that its approach for meeting the needs of the nation's most vulnerable households be phased in over time.

**The commission supports the continuation of tax incentives for homeownership, but as part of the ongoing debate over tax reform and budget priorities, the commission also recommends consideration of modifications to these incentives to allow for increased support for affordable rental housing.** The commission is aware of the difficult issues that will need to be addressed in the coming years to balance federal budget priorities. The federal government currently provides substantial resources in support of housing, the majority of which is in the form of tax subsidies for homeownership. The commission supports the continuation of tax incentives for homeownership—recognizing the

## Growing pressure for rental housing may push rents further out of reach for the low-income households that are least able to afford it.

importance of this tax policy to homeowners in the United States today. The commission notes that various tax benefits provided to homeowners, including the mortgage interest deduction, have been modified over the years. In the ongoing debate over tax reform and budget priorities, all revenue options must be evaluated. In that context, the commission recommends consideration of further modifications to federal tax incentives for homeownership to allow for an increase in the level of support provided to affordable rental housing. Any changes should be made with careful attention to their effects on home prices and should be phased in to minimize any potential disruption to the housing market. A portion of any revenue generated from changes in tax subsidies for homeownership should be devoted to expanding support for rental housing programs for low-income populations in need of affordable housing.

### The Importance of Rural Housing

**The U.S. Department of Agriculture (USDA) bears primary responsibility for administering housing assistance in the nation's rural areas that, under the current definition used by USDA, are home to one-third of the U.S. population.**

Overall, rural areas tend to have higher poverty rates and lower incomes, so although housing costs are often lower than in other parts of the country, a substantial portion of rural households spend an unsustainable share of income on rent or mortgage payments. USDA offers both rental housing and homeownership programs to enable lower-income residents of rural areas to afford high-quality homes.



**The commission supports current approaches to the administration of housing support in rural areas.** More specifically, the commission recommends that housing assistance in rural areas continue to be delivered through USDA and the standards currently used to define “rural areas” maintained through the year 2020.

**The commission also recommends enhancing the capacity of USDA providers to serve more households.** Modest incremental funding for the Section 502 Direct Loan program, in particular, would enable USDA to provide homeownership assistance to more low-income rural households at relatively low cost. In light of recent elevated delinquency rates, however, the commission believes that any additional federal support for the Section 502 Direct Loan program should be conditioned on a thorough program evaluation. USDA providers should also be provided with resources to improve the delivery of technical assistance and the technology used to process loans, collect data, and monitor program performance.

## Aging in Place: A New Frontier in Housing

**The aging of the population will necessitate major changes in the way we operate as a nation, including in the housing sector.** While the number of Americans aged 65 and older is expected to more than double between 2010 and 2040, we are still largely unprepared to meet the needs of the overwhelming numbers of seniors who wish to “age in place” in their own homes and communities. Industry groups have begun to educate their members about ways to improve the safety of existing homes through relatively simple modifications, and the importance of applying universal design principles in the construction of new homes. States and localities have also risen to the challenge, targeting programs to deliver health care and other supportive services to the naturally occurring retirement communities where older residents are aging in place.

We are still largely unprepared to meet the needs of the overwhelming numbers of seniors who wish to “age in place” in their own homes and communities.

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**The commission recommends better coordination of federal programs that deliver housing and health care services to seniors.**

The U.S. Department of Housing and Urban Development (HUD) and the Department of Health and Human Services (HHS) should jointly identify and remove barriers to the creative use of residential platforms for meeting the health and long-term care needs of seniors. In evaluating the costs of housing programs that serve frail seniors, Congress and the Office of Management and Budget should identify and take into account savings to the health care system made possible by the use of housing platforms with supportive services.

**The commission supports better integration of aging-in-place priorities into existing federal programs and urges a more coordinated federal approach to meeting the housing needs of the growing senior population.**

The scope of the U.S. Department of Energy's Weatherization Assistance Program should be expanded to include home assessments and modifications for aging in place. In addition, steps should be taken to provide effective guidance to ensure consumers understand the mechanics of reverse mortgages, including the risks and benefits of these products. A White House conference could bring together top federal officials and key players in the private and public sectors to draw national attention to the issue of senior housing and to catalyze development of a coordinated approach to aging in place.

## Concluding Thoughts

Our nation's housing system is broken. Homeownership remains out of reach for far too many families who stand prepared to assume its financial and other obligations, while limited access to affordable mortgage credit impedes our nation's economic recovery and future growth. The country's lowest-income households continue to suffer under the crushing burden of high rental housing costs that are rising even more as rental demand increases. And we are not equipped to respond to the desires of millions of Americans who wish to stay in their own homes and age in place during their senior years.

The commission hopes that this report provides some valuable guidance on how best to respond to these challenges and will serve as a catalyst for action.

Visit [www.bipartisanpolicy.org/housing](http://www.bipartisanpolicy.org/housing) to view the full report.

Founded in 2007 by former Senate Majority Leaders Howard Baker, Tom Daschle, Bob Dole and George Mitchell, the Bipartisan Policy Center (BPC) is a non-profit organization that drives principled solutions through rigorous analysis, reasoned negotiation and respectful dialogue. With projects in multiple issue areas, BPC combines politically balanced policymaking with strong, proactive advocacy and outreach.



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