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Office of Management and Budget
Request for Information (RFI)
"Methods and Leading Practices for Advancing
Equity and Support for Underserved Communities
Through Government"
BY E-MAIL TO: https://www.regulations.gov/

Response to OMB RFI: Methods and Leading Practices for Advancing Equity and Support for Underserved Communities Through Government

Thank you for the opportunity to respond to this RFI. My comments today focus on Area 4, Financial Assistance. As can be seen in my attached brief biography, I have been active in helping to improve delivery of federal financial assistance for over 30 years, including as a consultant on financial issues to the Treasury Department (Financial Management Service), Office of Management and Budget, Government Accountability Office, Congressional Budget Office, Department of Housing and Urban Development (Federal Housing Administration and Ginnie Mae), Farm Credit Administration, Department of Education, Department of Energy, Small Business Administration, Social Security Administration (Advisory Commission), Agency for International Development, and the Budget Committee of the U.S. House of Representatives.

Area 4: Financial Assistance

Policy Overview:

Federal agencies manage financial assistance programs, including grant and loan opportunities, that have the potential to channel resources to underserved communities. Housing assistance is among the most important types of federal assistance. Thus, it is urgent to provide financial support to people and households, especially in the aftermath of the COVID pandemic and its harsh economic consequences for so many people. In addition, with respect to federal housing assistance, it is important to make progress to support people who seek to move from disadvantaged neighborhoods to obtain greater equity of opportunity. The federal government needs to try to avoid delivering its housing assistance in a way that reinforces residential segregation. This happens when federal support is available predominantly to households residing in segregated areas rather than for many who would prefer to move if comparable federal assistance were available to them outside of their high-poverty neighborhoods. (See, e.g., Myron Orfield and Will Stancil, "Why are the Twin Cities so Segregated," *Mitchell Hamline Law Review*, 2017).

A. Federal Grant Programs

<u>RFI Questions Addressed:</u>

- How might agencies identify opportunities to adjust current practices in their assistance programs to achieve equity-oriented results?
- What kinds of data should agencies collect and use to assess equity in their grantmaking and financial assistance practices?

From the perspective of social equity, an especially important form of federal grant assistance is federal housing assistance, and particularly the Section 8 housing voucher program. There is considerable published evidence that Section 8 assistance is available to many fewer households than need it. The need is especially pressing because of the substantial losses that disadvantaged households and communities have suffered because of COVID.

In addition to providing shelter, federal housing assistance is essential to help create and reinforce ladders of opportunity, such as access to better quality schools and networks of opportunity, especially for younger children currently living in disadvantaged neighborhoods. As an Urban Institute report notes, "Without remedying residential segregation …school segregation is unlikely to ever go away." (Urban Institute, "Segregated Neighborhoods, Segregated Schools? More than 60 years after Brown v. Board of Education, why does school segregation persist?" 2018). The point of such assistance is to offer opportunity for people and households who possess the initiative and desire to seek access to better schools and other locality-based advantages.

There is ample evidence, especially with recent evaluations of HUD's Moving to Opportunity demonstration program, how schooling and other developmental opportunities of life in more integrated neighborhoods can benefit disadvantaged children, and especially younger children. To help direct HUD assistance to improving equity in opportunity, HUD should annually publish reports on:

(1) The number of households receiving Section 8 assistance compared to the number of qualified households in that geographic area that need such assistance; and
(2) The extent that Section 8 assistance promotes housing integration by providing assistance to allow minority households to live in more integrated neighborhoods in each locality, compared to the volume of Section 8 assistance provided in segregated high-poverty neighborhoods.

Useful measures of integration can be found in Richard H. Sander, Yana A. Kucheva, and Jonathan M. Zasloff, *Moving Toward Integration: The Past and Future of Fair Housing*, Harvard University Press, 2018. Based on this data HUD then can adjust its program delivery to reduce the extent that its Section 8 grant program reinforces segregated neighborhoods. As a recent Brookings study concludes, "Housing authorities could apply a general preference for families with young children or limited preferences (setting aside some portion of their resources) when drawing from their waitlist to improve access for families who stand to benefit the most from assistance." (Brookings Institution, "Neighborhoods and opportunity in America," September 19, 2019).

Pell Grants are another important means of improving equity of opportunity. One statutory problem of data collection with respect to higher education deserves attention even though it does not fall fully within the scope of this RFI. Needed is repeal of Section 134 of the Higher Education Act, 20 USC Sec. 1015c, "Database of Student Information Prohibited," which prohibits gathering of information for a federal student unit record system. While publication of data would need to protect Personally Identifiable Information about particular students, the federal government needs to gather such information to try to ensure, or at least encourage, that Pell Grants go to students engaged in a course of study that is likely to be successful. Publication of school performance information, based on data-based evidence about the success of students attending individual schools, can be important in informing students about their options before committing their time and resources to seek a particular course of study.

B. Federal Loan and Loan Guarantee Programs

General comment:

There is an immediate need for forbearance in federal loans and loan guarantees to alleviate the harsh economic conditions that have affected many disadvantaged borrowers in the aftermath of COVID. However, that issue is beyond the scope of this RFI.

RFI Questions Addressed:

- How might agencies identify opportunities to adjust current practices in their assistance programs to achieve equity-oriented results?
- What kinds of benchmarks and assessment techniques would support equitable grantmaking and financial assistance efforts?
- What kinds of data should agencies collect and use to assess equity in their grantmaking and financial assistance practices?

Experience has shown that credit assistance, such as through the Federal Housing Administration's single family mortgage insurance program, can be a two-edged sword for borrowers, and especially disadvantaged borrowers. On the one hand an FHA mortgage may offer an opportunity to purchase a home that helps to provide financial security as well as a healthy and safe place for a household to live. On the other hand, if a homeowner can't make timely mortgage payments, and defaults on the mortgage, serious harm can occur both before and after the home is foreclosed upon.

Defaulting families come under considerable emotional and financial stress as they struggle to save their home. Tension can resonate throughout the household and particularly in children. Leaving the home under duress from an impending default will disrupt the household, especially as family members may be forced to move to relatively unattractive quarters and children may need to attend less-desirable schools. Researchers have documented how health effects, economic hardship, and food insecurity increase under these circumstances. If the home is left vacant, and especially if it is foreclosed on, there can be significant adverse effects on other home values and crime in the neighborhood as well as increased defaults on other houses in the area.

As was seen with subprime mortgages in the Financial Crisis, borrowers from disadvantaged groups tend to suffer disproportionately from lending programs, both public and private, that offer credit that they cannot sustain. This often may result from the much lower available resources to back up a disadvantaged household in cases of financial stress compared to the financial reserves that other households may have available. Poor people need grants rather than credit that, if unwisely provided, may serve to harm them yet further. HUD has learned this lesson several times in its history.

Publication of improved data and analysis can help FHA to calibrate the essential cost-benefit balance: between (1) benefits of an FHA mortgage that offers an opportunity for homeownership, and (2) the costs of possible default on the FHA home mortgage. FHA already possesses data allowing it to rank its loans according to creditworthiness. For the flagship Section 203(b) program, FHA should undertake a careful benefit-cost analysis of the marginal loan, i.e., the single least creditworthy loan, that it helps to finance each year, weighing the benefits of homeownership to borrowers against the costs to borrowers and neighborhoods of defaults and the painful struggle facing borrowers who try to avoid default. If benefits and costs are seriously out-of-balance, then FHA can adjust its credit standards either up or down so that the marginal FHA loan provides net positive benefits to borrowers and neighborhoods. Once the data are at hand, it will be important to publish the information according to race and ethnic group so that the social equity implications of the FHA program become more transparent to potential borrowers and policy analysts.

Another important measure can be the duration of a federal loan. How long does it take for an FHA borrower to default on the mortgage? Similarly, how long does it take for a student borrower to drop out of school after taking out a loan? There has been much good work done on appropriate measures of loan duration, both for home mortgages and for federal student loans. (For the former, see, Andrew Caplin, Anna Cororaton, and Joseph Tracy, "Is the FHA Creating Sustainable Homeownership?" *Real Estate Economics*, Vol. 43 No. 4, 2015, pp. 957–992; for the latter, see, e.g., Council of Economic Advisers, "Investing in Higher Education: Benefits, Challenges, and the State of Student Debt," July 2016). Needed now is for government to generate and regularly publish such data, to include analysis of borrowers by race and ethnic group, and then to use the information to inform policymaking. To reiterate the policy issue: credit is a valuable tool of government, but also one that can harm borrowers who lack the capacity to sustain their burdens. Data on duration of federal loans is likely once again to show that disadvantaged people and households can be disproportionately harmed by taking on credit that they cannot sustain.

Finally, with respect to locality-based federal assistance, the Administration is to be commended for restoring the rulemaking process for HUD's AFFH regulation, "Restoring Affirmatively Furthering Fair Housing Definitions and Certifications." When effective, the regulation would call upon localities to conduct a standardized assessment of their Fair Housing needs and to commit to take meaningful action to further their fair housing goals. This is a classic "nudge" approach of inducing communities to survey their fair housing needs to generate important information and then propose how they will move towards addressing those needs, rather than having HUD turn to enforcement penalties such as denial of financial assistance, except as a last resort.

C. Measuring Gaps in Management of Federal Financial Assistance Programs

RFI Question Addressed:

- What kinds of training and capacity building within agencies would support equitable grantmaking and financial assistance efforts?

Federal agencies have been undergoing significant reductions in staffing in recent years, and this is especially true for agencies that furnish federal grants and loans. However, there is one aspect of program management that, if strengthened, can help programs to deliver their benefits in a more equitable manner. That is the provision of effective counseling. It is now well known, for example, that the Moving to Opportunity pilot program of using Section 8 assistance to increase integration rather than reinforce segregation, can provide significant benefits for Section 8 voucher holders. Noteworthy, however, is that tenant counseling has been needed to ensure that tenants move to receptive apartment buildings and to reassure prospective tenants of that fact. Given the relatively low cost of such counseling compared to the overall cost of the Section 8 subsidy, this would seem to be an effective use of federal resources. (See, e.g., Maria Krysan and Kyle Crowder, "Promoting Integrative Residential Choices: What Would It Take?" Harvard Joint Center on Housing Studies, 2017). It would be worthwhile for HUD to publish benefit-cost calculations for adding appropriate counseling staff to the administration of Section 8 vouchers.

One other area where the cost-effectiveness of counseling can and ought to be measured is the provision of borrower assistance by the Veterans Benefits Administration. It has long been known that default rates for the VA loan guaranty program are lower than those of FHA single-family mortgage borrowers with equal creditworthiness. (See, Laurie Goodman, Ellen Seidman, and Jun Zhu, "VA Loans Outperform FHA Loans. Why? And What Can We Learn?" Urban Institute, July 2014). Needed now is a rigorous benefit-cost study to determine the extent that the VA's high-quality intervention and counseling program of borrowers in financial difficulty contributes to this result. The results again are likely to be of greatest significance to the disadvantaged borrowers that the FHA serves.

Thank you for publishing this important RFI and for the opportunity to respond.

Respectfully submitted,

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Thomas H. Stanton is a Fellow of the Center for Advanced Governmental Studies at Johns Hopkins University. He teaches the Center's core course for the MBA/MA in Government and received the award for Excellence in Teaching. Mr. Stanton formerly served as a member of the board of directors of the National Academy of Public Administration (NAPA), and for many years as Chair of the NAPA Standing Panel on Executive Organization and Management. In 2017 NAPA awarded him its George Graham Award for Exceptional Service to the Academy. Mr. Stanton is a former President of the Association for Federal Enterprise Risk Management (AFERM) and received the AFERM Hall of Fame Award. He served as a career member of the federal Senior Executive Service for over four years.

Trained as an attorney, Mr. Stanton has built a practice focused on improving the capacity of public institutions to deliver services well, with specialties relating to organizational and program design, federal credit and benefit programs, government enterprises, regulatory oversight, and Enterprise Risk Management. He has produced analyses and recommendations for numerous federal offices and agencies. The Government Accountability Office, Congressional Budget Office, Office of Management and Budget, Farm Credit Administration, Department of Education, Department of Housing and Urban Development, Small Business Administration, and the Financial Management Service of the Treasury Department all have requested him to help provide analyses relating to the design and administration of federal credit and financial programs. Mr. Stanton has been an invited witness before many congressional committees and subcommittees.

Mr. Stanton's writings on public administration have appeared in publications including *Public Administration Review*, *The Administrative Law Journal*, *American Banker*, and *The Wall Street Journal.* He edited, with Benjamin Ginsberg, *Making Government Manageable: Executive Organization and Management in the 21st Century* (Johns Hopkins University Press, 2004). He also edited, *Meeting the Challenge of 9/11: Blueprints for Effective Government* (M.E. Sharpe Publishers, 2006). In 2020 and 2021 he has been teaching a course at the Yale Alumni College based on his book, *American Race Relations and the Legacy of British Colonialism* (Routledge, 2020).

Mr. Stanton's publications on government and the financial markets include two books on government-sponsored enterprises (GSEs). The concerns expressed in A *State of Risk* (HarperCollins, 1991) helped lead to enactment of several pieces of legislation and the creation of a new federal financial regulator in 1992. His book, *Why Some Firms Thrive While Others Fail: Governance and Management Lessons from the Crisis* (Oxford University Press, 2012), builds on his service with the Financial Crisis Inquiry Commission.

Mr. Stanton holds degrees from the University of California at Davis, Yale University, and the Harvard Law School. He is fluent in German and has conducted research in several different countries. The National Association of Counties presented him its Distinguished Service Award for his advocacy on behalf of the intergovernmental partnership. He received the Jesse Burkhead award for writing the best article in *Public Budgeting & Finance* in 2008. Further information about Mr. Stanton can be found at www.thomas-stanton.com.