Response to Senate Committee on Banking, Housing and Urban Affairs request for legislative proposals to increase economic growth

Summary

We commend the Committee's interest in proposals to increase economic growth. We propose that the Committee support forthcoming legislation to be introduced by Senators Jack Reed (D-RI) and Roy Blunt (R-MO) to strengthen and expand HUD's Family Self-Sufficiency (FSS) Program, which promotes employment and savings for families who receive federal housing assistance. (A draft of the bill, provided by Senator Reed's office, is attached. Senator Blunt has agreed to co-sponsor legislation consistent with this draft bill.) The bill would make four key changes:

1. Expand eligibility for FSS to residents of privately-owned properties receiving Project-based Rental Assistance (PBRA);
2. Spur innovation in the FSS program by allowing HUD to set aside 5% of the funding made available for program coordinator costs to expand FSS programs with strong outcomes and innovative program design and partnership models;
3. Improve the program's efficiency and impact by streamlining the program's administration and implementing performance based funding metrics; and
4. Increase substantially the number of families able to participate in FSS through increased funding for FSS coordinators and allowing private owners to draw on reserve funds.

Congress has included the expansion to privately owned properties and administrative streamlining as part of annual appropriations bills. It is important to make these changes permanent, however, by incorporating them in the statute that governs the FSS program, in order to ensure that the policy changes will remain in place and to encourage more private owners to initiate FSS programs. Congressional action is also needed to achieve the other goals.

Adopted by Congress as part of the National Affording Housing Act of 1990 (also known as the Cranston-Gonzalez Act), the FSS program was proposed by HUD during Jack Kemp's tenure as Secretary and has always had strong bipartisan support. FSS has the potential to support hundreds of thousands of low-income families living in federally subsidized housing to increase their income, reduce their use of public assistance, and build savings, thereby enabling these families to move up and out of poverty and contribute to economic growth.

FSS leverages housing assistance as a platform for economic mobility

The FSS program combines three key components in order to incentivize work and help participants build savings: stable affordable housing, one-on-one coaching or case management to help participants achieve their employment and financial goals, and an escrow savings account tied to rental payments. The escrow account functions as follows: as with all participants in HUD rental assistance programs, the rents of FSS participants usually increase as their earnings increase. However, FSS participants who increase their earnings are eligible to capture this corresponding increase in rent in an escrow account, held by the housing authority or a private owner. FSS participants can use the funds in their escrow accounts toward their employment and financial goals – common uses include education, job training, or responsible homeownership – if they have met the conditions of graduation. In order to graduate, the

FSS participant must be employed and have achieved the goals they defined when they enrolled in the program, and no one in the household can be receiving temporary cash assistance (Temporary Assistance for Needy Families, or TANF).

Impact on economic growth: Studies of FSS indicate a positive impact on household income and savings, as well as a strong rate of both voluntary exits from housing assistance and transitions to homeownership

By expanding the scope and impact of the FSS program, the Reed-Blunt bill would promote economic growth by increasing employment rates, earnings, and savings for HUD-assisted families. Studies of the FSS program indicate a positive impact on household earnings and savings, and a strong rate of voluntary exits from housing assistance and successful transitions to responsible homeownership. A 2011 study of FSS participants by HUD's Office of Policy Development and Research (PD&R) found that program graduates increased their incomes by $13,488 on average over a four-year study period – which represents a 17% annual growth rate in household earnings.[1] HUD also reports that FSS graduates who build savings in their escrow account do so at an average of $6,500 – a significant sum for low-income families to invest in asset-building goals. Moreover, 36% of graduates have chosen to leave housing assistance within one year of graduation, and 11.76% of graduates have gone on to purchase a home.[2]

Among innovative FSS programs, results are even more significant. Compass Working Capital ("Compass"), which has pioneered a new, asset building model for the FSS program, operates several high-impact FSS programs in partnership with public housing agencies and private owners around the country.[3] Compass reports higher enrollment rates compared to traditional FSS programs (Compass serves 22% of eligible families in its FSS programs, compared to less than 4% nationally), as well as stronger graduation outcomes than traditional FSS programs: 50% of Compass FSS graduates choose to exit subsidized housing, 23% of graduates become homeowners, and graduates save an average of $8,394 in the FSS escrow account. This bill, by making permanent the extension of FSS eligibility to private owners, opens the program to a market of organizations that has the potential to spur further innovation by bringing new ideas, practices, and resources to the program's strong fundamental design, thereby driving stronger outcomes for participants.[4]

FSS increases ability of housing-assisted consumers to participate in the economy and contribute to economic growth

The FSS program significantly improves the ability of participating households to participate in the economy by providing a combination of incentives and one-on-one coaching. These provisions in turn drive increases in workforce participation, earnings, and savings, as well as improvements across a range of financial health metrics – thereby enabling participants to overcome barriers to participation in economic life. FSS increases utilization of mainstream banking products and other high quality financial

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[1] "Housing More People More Effectively Through a Dynamic Housing Policy," Jeff Lubell, Abt Associates, December 2014.

[2] FY2017 Congressional Justification for FSS.

[3] Compass operates FSS programs directly at eight sites in Massachusetts, Rhode Island, and Connecticut. The organization also provides training and technical assistance on FSS to partners in Maine and Mississippi, with additional partnerships planned in Illinois, Missouri, and Pennsylvania.

[4] Preservation of Affordable Housing (POAH) and the Caleb Group – the first two organizations to launch FSS programs at private properties – have demonstrated strong early outcomes in the first year of operating their programs, including enrollment rates at POAH sites that far outpace the national average for FSS.

products and services, while also reducing the use of check cashing and other negative financial products and services.

For example, households enrolled in Compass Working Capital's FSS program have increased their credit scores and reduced collection debt: after two years in a Compass FSS program, 65% of participants increased their credit score by an average of 49 points, and 74% of families reduced, or maintained zero, collection debt. Improved credit and reduced debt are key factors in households' ability to access debt financing to buy homes or support new business ventures. This translates to more frequent, responsible consumer uptake of products and services from local financial institutions in communities where FSS is operated, as well as a reduction in the use of predatory financial products or services. For instance, Compass reports a 23 point reduction in the percentage of clients who use at least one predatory financial product or service after two years in the FSS program.

Finally, credit history can also impact employment and rental opportunities, since employers and landlords now often consider credit scores when reviewing applicants. As such, improved credit serves as a powerful mobility tool for low-income families by enabling families to move to higher opportunity neighborhoods and expanding the pool of jobs for which they qualify.

Secretary Carson has publicly stated support for the FSS program, and HUD has worked to strengthen the program in recent years

During his confirmation hearing process, Secretary Carson stated in Questions for the Record from Senator Reed: "I believe strongly in FSS."[5] In recent years, HUD has demonstrated a renewed commitment to strengthening the program. For instance, with financial support from national philanthropy, HUD convened a national Community of Practice from 2015-2016 to identify best practices in the FSS program. Based on input from these experienced FSS practitioners and a review of available evidence from FSS and related fields, HUD has developed a new written guidebook on promising practices for FSS and an online training to help local FSS programs strengthen their practices. These materials are expected to be available shortly.

HUD has also taken a number of steps to strengthen the FSS program and FSS reporting in response to a report published by GAO in 2013, calling for improvements to data collected on self-sufficiency programs. These steps include: (a) the development of new procedures that will improve the accuracy of HUD's electronic records on FSS and (b) the development of a performance measurement system to rate the performance of FSS programs. Based on HUD's progress in these areas, GAO has closed its findings on FSS and marked the recommendations as implemented.[6] Furthermore, PD&R is also evaluating various program models "to support the FSS program through the period of the study with the commitment of modifying the program to support further evidence-based outcomes as they are identified."[7]

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[5] "Questions for Dr. Benjamin Carson, Secretary-Designate, U.S. Department of Housing and Urban Development from Senator Reed," page 3.
[6] See http://www.gao.gov/products/GAO-13-581#summary_recommend for more information on GAO's findings and HUD's response.
[7] FY2017 Congressional Justification for FSS.

Reed-Blunt legislation would support broader adoption of the FSS program by public housing agencies (PHAs) and private owners, increase the program's impact, spur innovation, and encourage more data-driven approaches to operating the program

Despite documented successes of the program, FSS is utilized by only a fraction of the households nationwide who receive federal housing assistance. There are an estimated 2 million households who receive HUD housing assistance that could be expected to work, because the head of household is working age and does not have a documented disability.[8] However, only about 72,000 households participated in the FSS program in the most recent year reported by HUD, a participation rate of less than 4%.

The Reed-Blunt bill will expand the scope and impact of the FSS program by extending permanent authority to private owners, investing in innovative and data driven models, and strengthening and streamlining the administration of the FSS program. Expanding the scope and impact of the FSS program would help bring a greater share of these 2 million households into the economic mainstream. A stronger FSS program also has the potential to create greater turnover among residents of subsidized housing and free up scarce housing assistance for other families in need.

Key provisions of the legislation

1. **Expand to Project-Based Rental Assistance (PBRA):** The bill makes permanent the expansion of FSS eligibility to households receiving Section 8 Project-based Rental Assistance if owners opt to offer the program. PBRA serves somewhat similar populations to public housing and vouchers, but a smaller share of the non-elderly, non-disabled households receiving PBRA report earnings than in the PHA-administered programs.[9] But until recently, residents were not able to enroll in FSS. The expansion of FSS to PBRA has been included in recent appropriations bills, but it also needs permanent authorization. In August 2016, HUD issued a Notice implementing the appropriations legislation. Owners hesitate to start FSS programs if the authority needs to be extended every year in the appropriations bill.[10] Therefore, making the extension permanent could go a long way toward creating the conditions for PBRA owners to adopt FSS and raise the funds to fully support the program. This could make the asset-building benefits of FSS available to many more residents of subsidized housing, and also leverage additional investment in the program by PBRA owners.

2. **Spur innovation:** The bill creates incentives for program administrators to innovate and improve their programs by allowing HUD to set aside 5% of the funding made available for FSS coordinators to expand FSS programs that are particularly innovative. That could include, but would not be limited to, rewarding

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[8] "Integrating Asset Building and Financial Capability Strategies into Subsidized Housing Programs: The Family Self-Sufficiency Program and Beyond," Compass Working Capital, October 15, http://www.compassworkingcapital.org/what-we-are-learning, page 5. People with disabilities who seek to participate in the FSS program are eligible to do so.

[9] Barbara Sard, "Most Rental Assistance Recipients Work, Are Elderly, or Have Disabilities," Center on Budget and Policy Priorities, July 18, 2013, http://www.cbpp.org/research/most-rental-assistance-recipients-work-are-elderly-or-have-disabilities.

[10] To date, there are 49 private projects with plans filed with HUD to institute FSS programs. 39 of those developments are former public housing projects that are converting to Section 8 PBRA under the Rental Assistance Demonstration. 7 of the 10 remaining projects are owned by Preservation of Affordable Housing (POAH), a Boston-based leading private developer and early adopter of FSS. POAH owns properties in Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, Rhode Island, and Washington, D.C.

programs that produce stronger participant outcomes, develop strong partnerships to expand services available to participants, leverage technology to provide services to hard to reach populations, or establish public-private models to leverage local resources in support of a strong FSS program.

3. **Improve program efficiency and impact:** The bill permanently combines two separate FSS programs into one key provision that will make it easier and more efficient for PHAs to operate strong FSS programs. Appropriations bills in recent years have fixed this problem on a temporary basis, but the underlying authorizing statute needs to be amended to thoroughly integrate public housing agencies' administration of FSS for the families they serve through the public housing and Housing Choice Voucher programs. The bill also includes key provisions that will ensure stronger program impact. First, it broadens the scope of the supportive services that may be offered to participants, in order to further help families improve their economic circumstances and increase earnings, a goal of the program. The bill also ensures that all families whose household income is between 50% and 80% AMI are also eligible to build savings in the FSS escrow account. In addition, it calls for the development of performance based metrics to be integrated into the program's funding structure.

4. **Expand enrollment:** The bill would substantially increase the number of families able to participate in FSS through increased funding for FSS coordinators, flexibility for private owners to draw on reserve funds to support FSS administrative costs, and incentives to attract private financing.

Conclusion

Individuals who work hard to build a stronger future for themselves and their families are the backbone of our economy and a critical component of any strategy to foster economic growth. The opportunity to build a stronger future – to be able to provide a better life for your children – is also central to the American Dream. By leveraging housing as a platform for economic mobility through a stronger and more expansive FSS program, we can enable a greater share of families to pursue that dream. And when families are able to increase their income, reduce their use of public assistance, enter the economic mainstream, and contribute to economic growth, we all stand to benefit.

Submitted By:

Barbara Sard
Barbara Sard, Vice President for Housing Policy
Center on Budget and Policy Priorities

Kris Siglin
Kris Siglin, Senior Vice President, Policy
Housing Partnership Network

Sherry Riva, Founder and Executive Director
Compass Working Capital

Andrew Spofford, Chief of Staff
Preservation of Affordable Housing

Attachments:

- Draft legislation
- Summary of some of the promising initial FSS results from Compass Working Capital