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Colombian and U.S. Housing Programs: A Comparison

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Executive Summary

Citizens have a fundamental right to affordable housing, and subsidies are one of the various mechanisms used by governments to give this right to its people. In developed and developing countries alike, a nation’s housing market is closely tied to its economic performance, and housing policy successes and failures can often lift economies or help induce a downturn.

Colombia, for example, currently faces both the worst recession in its history and an acute housing shortage, with a housing deficit of 1.3 million units in 2001. To improve both economic and housing conditions, the Colombian government must find ways to more effectively meet housing needs—particularly for extremely low-income families—and it is in this area where subsidies will continue to play a central role.

This report compares and contrasts a Colombian subsidy program (Cajas de Compensacion Familiar hereinafter referred to as Private Social Development Funds, or PSDFs) with a comparable US program (the Housing Choice Voucher Program, also known as ‘Section 8’)—in order to assist the Colombian government in its efforts to provide affordable housing. It distills lessons learned from the U.S. program presents recommendations for the improvement of aspects if the Colombian program. Acknowledging that the PSDFs are just one part of the Housing Subsidy System of Colombia, this report will focus on correcting negative trends and generating improvements to its program design elements that may enable the PSDFs better address the delivery of subsidies in a more cost effective and efficient way.

THE AMERICAN AND COLOMBIAN PROGRAMS

The first section of this report explores America’s Housing Choice Voucher program and its origins, specifics, and challenges. The second section focuses on Colombia’s Private Social Development Funds and the program’s relevance for the Colombian subsidy system.

The United States: Housing Choice Voucher Program (Section 8).

Background. The Section 8 Housing Choice Voucher program subsidizes rent and is part of the subsidy mechanisms of federal housing programs created under the National Housing Act of 1937. Its objective is to find decent and affordable housing for low-income renters in the private market. Section 8 mainly assisted homebuilders and developers of new houses and of housing rehabilitation. A discrepancy between tenant income and the market price remained through the 1970s, however, and subsidies went primarily to developers, thereby allowing them to control the prices of the houses. As a result, Congress enacted the Housing Community Development Act of 1974 to address this monopolization of the market and to broaden the opportunities for the families to find more affordable housing. This in turn, shifted the emphasis to tenant-based subsidies and focused on the demand side of the rental market.

With the Housing and Urban Rural Recovery Act of 1983, Congress repealed support for both the Section 8 substandard rehabilitation program and for the new
construction program and focused on the existing housing stock. Subsidies have been given to the families in the form of certificates and in the form of vouchers since the 1980s. Congress made the Housing Choice Voucher permanent with the Housing and Community Development Act of 1987, and in 1998 Congress merged the Section 8 certificate and voucher programs into one program known as the Housing Choice Voucher Program. The three main changes to the new voucher program included tenant payments, portability and the eligibility of the families.

**Design Elements.** There are four main actors involved in the program: (1) the US Department of Housing and Urban Development (HUD) at the federal level, (2) Public Housing Agencies ("PHAs") at the local level, and the (3) tenant and (4) building owners at the recipient level.

The level of assistance for the Housing Choice Voucher Program is determined by two factors: (1) unit and (2) tenant selection. Regarding the unit selection process, at the federal level HUD is responsible for setting the *Fair Market Rent* ("FMR"), which is the average rental price for a unit that is reasonable compared with the prices of unsubsidized units in the same market. FMR uses a Rent Reasonableness Test, which compares unit with variables such as location, size, type, quality, facilities, management and maintenance of the units for a particular family composition. At the local level, PHAs must perform the Rent Reasonableness tests for all units under Section 8, and must also certify that the units meet HUD’s *Housing Quality Standard* ("HQS"). The HQS is determined by several factors including facilities, space, security, and environment. The tenant is responsible for finding a suitable unit that meets the HQS in a 60 day period or 120 days under special circumstances outlined by HUD.

With respect to the tenant selection process, the federal and local governments have two eligibility conditions: family income and federal/local priorities. Regarding the former, the HCVP is limited to families with worst case needs, which are those families earning less than 30 to 50 percent of the state’s median income. The tenant payment is determined by the difference between market rent and income earned and may increase or decrease independently.

**Assets.** Overall, the Housing Choice Voucher program has been an effective governmental tool for providing affordable housing to low-income families without excessively burdensome rent payments. The subsidy has also helped to expand the choices of families by giving them more freedom and independence in their decisions regarding where to live and how much to pay. Additionally, PHAs have more control over local payment and housing quality standards and therefore they may respond more effectively to changing market conditions and may cap the amount paid for a unit by performing the Rent Reasonableness Test. In addition, they have a fundamental role in unit and tenant selection policies, and they are allowed to determine local priorities to assure that the program is responding to local needs.

**Implementation.** The Housing Choice Voucher Program’s main implementation challenges are best observed through the program’s behavior in both ‘loose’ and ‘tight’ markets. A loose market is one in which offers exceeds the demand (buyer’s market), whereas in a tight market the demand exceeds the offers (seller’s market). In loose
markets, Voucher 8 tenants often have a very good level of acceptance because these markets provide a large number of vacant units at lower prices, voucher tenants are seen by landlords as a way to secure income. In tight markets, property values rise so the focus shifts towards wealthier families that can buy a new or renovated unit without a subsidy, leaving old housing for low-income renters and thereby shrinking their housing options. The administrative process that has to undertake the PHAs to update the FMR in a tight market is slower than the speed at which the market changes. Success rates have been found to be higher (80 percent) in a loose markets than in tight markets (61 percent). One problem common to vouchers in any market is administration.

**Where Does The Housing Choice Voucher Program Go From Here?** PHAs should:
1. work to provide adequate information to all actors of the program, 
2. expand the knowledge of landlords to make it more attractive for them to participate, 
3. help tenants in their decision making process and improve their capacity to move, 
4. address better local priorities, 
5. encourage involvement with the community to better address their concerns, 
6. elaborate community profiles that may allow the PHAs to better understand the demographic, economic and housing market (subsidized housing and unsubsidized) trends, 
7. develop more accurate policies and procedures for applicant screening, encourage responsible behavior among participating owners through training and technical assistance and 
8. better address the affordability needs of families.

The federal government should: (1) reorganize and streamline the Section 8 program, possibly by allowing other entities to administer the voucher, (2) provide more homeownership opportunities for moderate income households, (3) enlarge and preserve the housing stock, (4) demolish deteriorating units, and (4) build new low-income housing.

**Colombia: Private Social Development Funds (PSDFs).**

**Background.** The two main institutions that subsidize low-income housing in Colombia are PSDFs and the INURBE (the National Institute for Low-income Housing and Urban Reform). PSDFs are not-for-profit private institutions that provide social services to their members who are public and private sector employees (comprising the working sector). By law all corporations must affiliate their employees with PSDFs, which are subject to government oversight. The INURBE, provides housing subsidies to entrepreneurs (the informal sector). Its resources come directly from the national budget.

Since the first PSDF was created in 1954 its primary goal has been to improve the quality of life of Colombian families by addressing basic needs through the provision of in-kind and monetary subsidies or by delivering services. In the 1980s restrictive measures were implemented to prevent the proliferation of PSDFs, yet today there are 55.

In the 1990s, PSDF subsidies were given to developers for housing production but these projects were replete with cost overruns and corruption. In response, the government decided to introduce for the first time in Colombia the system of direct demand subsidies, the equivalent of U.S. tenant-based subsidies, to subsidize demand. During the Colombian economic downturn, the government was forced to reduce
subsidies by 80 percent between 1994-1998. During this period, PSDFs and the INURBE played an important role in addressing the housing deficit.

In 1999, the government established the Unified System of subsidies, which oriented the INURBE and PSDFs toward the same set of families, regulations, and operations. Through this system, the available housing listings of all PSDFs and the INURBE along with the waiting lists for tenants were unified into one list for each, though the single list of tenants has yet to be implemented.

**Design Elements.** There are three types of actors involved in the PSDF process: (1) the national government, (2) the PSDF and (3) the subsidy holder. The national government is responsible for calculating the amount of money companies must provide through their employees’ affiliations to PSDFs; PSDFs are responsible for delivering the subsidies and selecting recipients; the subsidy holder is responsible for finding a house, securing the down payment, and obtaining credit approval. Each PSDF must create its own Fund for Low-Income Housing (“FOVIS”) through which housing subsidies are delivered, and PSDFs use their FOVIS budget for three main activities: (1) the delivery of housing subsidies to the tenant, which is its main objective, (2) development of new houses, and (3) credit activities for members of PSDFs. Housing subsidy delivery, in turn, is determined by two factors: (1) the selection of the units, and (2) the selection of the eligible families.

Tenants may choose units out of the private market or from PSDF or INURBE developments that comply with a subsidy scale, which sets the cost of the house by comparing types of houses to the family credit capacity. Additionally, units must have Formal Legal Titles, which are certifications from developers to the PSDFs showing that the houses have public services and have been built on a legal settlement. Tenant selection is based on income and governmental requirements and priorities. Families income can not be greater than four minimum monthly average wages. Moreover, the government requires the family to have saved at least 10 percent of the total cost of the house and have an approved credit line for the remaining cost not covered by the subsidy. Priority will be given to women heads of households, composition of the family that suggests overcrowding, among others.

Once selected, a family has one year to find a house that complies with the program requirements. The subsidy is only given once, and applies towards the down payment on the house. The PSDF or INURBE pays the bank directly for the unit. The subsidy increases or decreases depending on the type of house the family is applying for, with a lower the type of housing requiring a higher subsidy (families applying for types one to three houses are those families with lesser financial capacity). This same scheme is used for delivering INURBE subsidies.

**Assets.** One of the primary strengths of PSDFs is their holistic approach to social service provision, by which their area-specific subsidies complement the larger social safety net in order to enhance quality of life. Priority is always given to families in the last quartile of income, but if there are not enough families falling under this category, PSDFs have the discretion to provide housing to families that are in a higher quartile of income under the subsidy limits. The main asset of PSDFs is the synergy created between government and the private sector. PSDFs are privately funded, which allows the government to
allocate resources in other programs serving more people with different needs, while still helping to subsidize housing. Project programs enable PSDFs to provide housing at a lower cost than the private sector since they have no financial costs, and credit programs support lower income families that are not eligible to get a bank credit but are above the limits for a higher subsidy.

**Implementation.** The population demanding subsidies is divided into two categories depending in the sources of income: employees with monthly salaries and entrepreneurs. Since PSDFs and the INURBE serve the working and informal sectors, respectively, the entire universe of people that require subsidies should in theory be covered. In reality, though, PSDFs and the INURBE only provide assistance to 4.5 percent of the potential families eligible to apply for a subsidy.

The most evident problem of PSDFs is intrinsic to their very nature. PSDFs are affiliate-based institutions that select their members, and these beneficiaries will always have priority over the rest of the working sector. A related problem stems from the geographic coverage of the PSDFs, which have a legal responsibility to deliver subsidies to low to moderate-income families but do not have a responsibility to provide a national coverage. Today, seven out of the 32 Colombian states do not have an established PSDF.

The beneficiary selection process is inequitable since the unified system is only working partially. Rather than being used as a selection tool—its main function—it is currently being used to provide statistics of families served per year by PSDFs.

Small PSDFs do not have sufficient income to cover demand for subsidies resulting in an inequitable distribution of subsidy delivery. Meanwhile, larger PSDFs more than cover the needs of their universe, resulting in the poor allocation of excess cash. This excess cash is used in development project programs instead of being passed unto smaller PSDFs to cover demand as defined by law.

The development projects are selected by each PSDF based on their priorities such as Housing Quality Standards. PSDFs have the discretion to determine HQS for the housing they provide. High land costs in some Colombian regions account for a large portion of the project’s total cost. Therefore, in order to attain the cost of the house established by the subsidy scale, some PSDFs as well as the private developers in general prefer to build better quality housing at a higher price within the subsidy scale by targeting higher income home buyers within the applicants for the subsidy. Some other PSDFs build Type 1 housing but with extremely poor materials and conditions in order to attain the established price for this type of housing. However, the Type 1 housing being offered is not sufficient to cover the demand, which is passed over to the INURBE. Considering that for every PSDF beneficiary there are 2.8 candidates, while for every beneficiary of the INURBE there are 5.6 candidates, it is wrongheaded that PSDFs should send more families to overload the INURBE’s capacity while looking for other mechanisms to cover the totality of the working sector. Furthermore, the amount of money required by families applying for a subsidy is twice as much as the amount that they are able to pay.

**Where Does the PSDF Program Go From Here?** In terms of program administration, the government must work to both implement PSDFs across the territory by enabling non-compensated PSDFs to secure funding for their FOVIS, and it should expand the
coverage of PSDFs to those regions where the program is not reaching. Moreover, PSDFs main objective must be the delivery of subsidies, and to this end the government should force PSDFs to operate on a regional, and not on a membership basis.

The beneficiary selection process should be done through the unified listing and not by individual PSDFs in order to prevent the misplacement of resources or poor distribution along the region. The unified system should not be used as an information tool but as an effective mechanism to select possible beneficiaries with a common basis. In order to equally distribute resources and avoid that large PSDFs use excess allocations in programs not mainly headed towards subsidy delivery, program design elements must enable the transfer of resources from large PSDFs to smaller ones within the same region. PSDFs should be allowed to develop housing programs because these strengthen the capacity to quickly develop low-income units to prevent informal housing. However, strategies towards each segment should be further studied and projects should be designed to address each sector independently rather than trying to use one strategy for different problems. More specifically, for Type 1 housing, a strategy should be developed by municipalities to waive the cost of the lot partially or totally. For families applying for Type 2 housing, PSDFs should provide families with the credit to buy a new unit. Thus they should continue with the financing program using 30 percent of the FOVIS but targeting it only toward this group. Finally the Type 3 housing market is generally covered since these families have broad choice and access to credit. PSDFs should further study the convenience to enhance rehabilitation programs, especially for rural areas were it is most needed.

Lessons from the U.S. Experience

The first lesson learned from the US. experience is that the program is conceived as a process and not as a result. In the U.S. model, design elements are constantly changing and adapting to new realities, and priority is given to the evaluation of impacts and success rates that may correct negative trends before they become problems. There is always a tendency to think that the PSDFs are not working. When seen as a process, however, by correcting program design failures the PSDFs may be directed toward all families in need. In the same way, PSDFs should be conceived as an institution that provides ideas to design programs for the most needy families, and not simply as an institution that delivers subsidies. Colombia should learn to design processes, not to restructure institutions.

In the US even though Congress repealed support for subsidizing developers and homebuilders, the government is considering re-implementing housing production programs in the light of the shrinking housing stock. Colombia has a housing deficit and must prevent informal settlements, and it is imperative to build units that meet demand. Since the private market is unable to build units at the required rate, it is important for the government to provide the necessary support in expediting the process by providing public housing programs. In that sense PSDFs and the INURBE are crucial in the development process and this strategy should not be seen as hindering but as responding to specific, current needs.

There should be a regional organization in Colombia outside the government that provides objective research and evaluation of housing programs, such as the National
Association of Housing and Redevelopment Officials ("NAHRO") and the Center for Law and Social Policy ("CLASP") in the U.S. It is crucial for PSDFs to have a better understanding of market trends, geographical tendencies, and target populations so that they design better plans that meet regional needs.

Another lesson from the U.S. model is that minimum standards should be set for PSDF program development in Colombia. One of the major assets of the HCVP is its clear definition and application of the Housing Quality Standards, Fair Market Rent, and the Rent Reasonableness Test. HQS should be established for each type of housing and a Rent Reasonableness Test may help the Colombian system improve the subsidy scale and therefore make it adjustable to local and market conditions.

Some have proposed channeling the whole delivery of subsidies through the PSDFs. It is of special concern that before facing this new and possible challenge, negative trends within the design elements of the PSDFs are corrected first, to avoid future malfunctioning of the program. A further study on the design elements of the PSDFs is recommended before continuing with any possibility of a merger.

**Lessons From The Colombian Experience**

The primary strength of PSDFs is their holistic approach to social service provision, in that their area-specific subsidies complement the larger social safety net in order to enhance quality of life. In this respect welfare reform successes are more easily attained when they compliment housing assistance. Welfare policy should include housing assistance as a strategy for success and housing policy should promote housing location options closer to job opportunities. PHAs should seek cooperation agreements with welfare agencies. Promote the economic self-sufficiency of public housing residents and voucher program participants that are receiving TANF benefits.

In its pursuit of its Consolidated Plan, the City of Baltimore should reorient its focus away from tourism-based approaches to housing rehabilitation toward creating family-based communities. The present ‘city as a theme park’ strategies focus on people who are leaving and does not create family-based communities, which entail networks and social infrastructures that are one of the main assets of housing programs. Toward this end, Baltimore should maintain and strengthen its public-private-third sector relationships, through which these groups should foment the clearing of slums, the rehabilitation of existing stock, and the creation of new units.
Introduction

A fundamental role of government is to ensure the well-being of its citizens, particularly those in social or economic distress, and towards this end governments utilize an array of tools in a variety of areas. One such tool is the subsidy, which aims to meet citizens basic needs in areas such as education, health and housing by bridging the gap between citizens means and the market price. Housing in Latin America comprises 15 to 20 percent of the Gross National Product\(^1\), and so policy failures and successes have the potential to damage or improve overall economic performance of the countries. For Colombian citizens, housing is a top priority; it is considered a fundamental right of every citizen and an effective mechanism to revive the economy. A major task of the Colombian government is to seek alternatives to alleviate housing needs for extremely low-income families and this is where subsidies have and will play a central role.

Today Colombia in the midst of a civil war, a presidential election on May, an unemployment rate over 20 percent and levels of consumption, demand, and public sector investment all at a standstill. Moreover the Colombian economy is in a deep recession, and after growing 1.6 percent year to year in 2001, it is expected to grow only 1.9 percent in 2002. Private investment was 6.6 percent of GDP in 2001, compared to 15.1 percent in 1994. One bright spot in this generally bleak picture, however, are subsidized credits for public housing which surged 27 percent year to year in January. Nevertheless, the rest of the construction sector is depressed and households are not taking out mortgages despite an abundance of credit. The central bank's interest rate cut last year to revive the economy was well-intentioned, but it will not do much to spur demand. Households are holding back from using credit to purchase durable goods.

This research aims to compare a Colombian subsidy program (The Private Social Development Funds PSDF) with a similar US program (the Housing Choice Voucher Program or Section 8) that could help the Colombian government in its efforts to provide affordable housing. The two programs have been selected

\(^1\) Inter American Development Bank, 1999
out of the subsidy systems of each country because they have proven to be the most effective and cost efficient in helping low-income families to find a suitable home.

The Colombian and United States subsidy programs are comparable because conceptually they respond to the same needs and strive for the same goal, yet the context in which the programs have evolved is ever changing. This report will focus on the design elements and the historical development of the two programs, the programs' implementation and what challenges they pose. It will aim to distill lessons from the US program and to apply them to the Colombian subsidy system.

**Context**

Since 1988 Colombia has experienced the worst recession in its history and because of population growth the housing deficit reached 1.2 million units in 2000. Currently, 75 percent of Colombians live in urban areas, and the median population growth for urban areas is close to 3.8 percent.\(^2\) The accelerated rate of urban growth is a result of the population displacement process produced by violent conflict, which forced many families to flee from the rural areas to the inner cities. Moreover, 40 percent of the country's GDP is concentrated in its four biggest cities: Bogota, Cali, Medellin and Barranquilla. Many families are moving to cities in search of a better quality of life, which typically requires access to education, infrastructure facilities (public services) and jobs. The Colombian government estimates that every year 100,000 thousand new families demand a house, while builders can only produce 67,000 units during the same period. As a result the proliferation of informal housing is one of the government's main housing concern. Currently, insufficient income denies poor households access to formal housing markets and, in turn generates a greater need for subsidies. Governmental housing subsidy programs and policies seem to fail in their endeavor.

In the US housing needs\(^3\) fell from 5.3 million renter households in 1997 to 4.8 million in 1999, largely as a result of the economic boom of the 1990s. This is the lowest share ever observed in the 21-year recorded history of families with worst-case needs. The economic boom generated an increase in income

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among very-low-income renters and an increase in rent, but because income growth exceeded rent increase among very-low-income renters the amount of worst case needs in the country dropped. This drop in worse case needs may be only temporary, however. The slowing of the economy that began last year will probably cause a reduction of income growth among very low-income renters and cause worst case needs to raise again. The current economic slowdown, on the other hand, could also limit rent increase in some areas of the country. It is unlikely that this may help lower-income households looking for affordable rental housing, though, since the number of units available and affordable to extremely low-income renters is shrinking. In the US there has been a continuing decline in the number of affordable and available rental housing units, which was particularly dramatic in 1997 to 1999.

To address these problems the U.S. Housing Choice Voucher Program since its creation has assisted very low-income families, the elderly and disabled to rent a decent, safe and sanitary housing in the private market. Similarly Colombian Private Social Development Funds (PSDFs) have aimed to improve the economic conditions and quality of life of low-income workers through the provision of in-kind and monetary subsidies or by delivering services.

The American and Colombian Programs

The first section of this report will explore the American program—the Housing Choice Voucher program, or Section 8—its origins, specifics and challenges. The second part will focus on the purpose of the Private Social Development Funds and its relevance to the Colombian subsidy system.

The United States: Housing Choice Voucher Program (Section 8)

Background. In 1947, the US Congress stated that the federal role in housing would be towards “the realization as soon as feasible of the goal of a decent home and a suitable living environment for every

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3 Families having severe rent burden and living in substandard housing (includes homeless)
4 Cajas de Compensacion Familiar
American family, thus contributing to the development and redevelopment of communities and to the advancement of the growth, wealth and security of the nation.” (HDR Handbook, 1995)

For this purpose, the Federal government implemented programs in three areas: housing, urban development and mortgages. These housing programs aimed to support housing production; assure proper management of the numerous projects financed by Federal Housing Administration (FHA); and provide subsidy mechanisms such as tax exemption bonds, direct loans, interest rate subsidies and rent subsidies. Here Section 8 was born. The development programs such as the Urban Renewal and the Model City programs aimed to establish and preserve well-planned communities, clear slums, improve the quality of urban life and provide financial and technical assistance to enable cities to plan and implement demonstration programs. The mortgages programs, on the other hand, encouraged the creation of the Federal Home Loan System and of the FHA to insure mortgages for the private lenders. Other programs provided mortgages to homebuyers with record of military services and loans for ownership and rental housing in rural areas.

The Section 8 Housing Choice Voucher program subsidizes rent and is part of the subsidy mechanisms of the Federal government housing programs created under the National Housing and development Act of 1937. The program aimed to assist very low-income families, the elderly or disabled to rent decent, safe and sanitary housing in the private market.

At the conceptual level the Housing Choice Voucher program has remained almost unchanged since 1937. At that time the program aimed to expand housing opportunities for low-and-medium income renters, bridging the gap between cost of developing, owning or operating a house and the amount that low-to-moderate income households could afford. Historically the Housing Choice Voucher Program has had to adjust to changing realities and has faced two major problems. The first, supply-side problem, was that there were not enough houses to alleviate the housing deficit. Once this was accomplished the second, demand-side problem concerned how the program could ensure that the market price of the houses was affordable for the families.
In 1947, as stated by the Congress "The general welfare and security of the Nation and the health and living standards of its people require housing production and related community development sufficient to remedy the serious housing shortage, the elimination of substandard and other inadequate housing through the clearance of slums and blighted areas." (HDR Handbook, 1995)

To address this problem, the Section 8 program focus towards assisting homebuilders and developers of new houses and of housing rehabilitation. At this time Section 8 consisted of three subprograms: the substandard rehabilitation program, the new construction program and the program for tenant rents in existing housing.5

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5 The Section 8 tenant-based certificate and voucher program is predate to what we know as the Housing Voucher Program.
By the 1970's, more than 15,000 projects were built under the Section 8 production-based programs. The general housing supply expanded but there was still a discrepancy between tenant income and the market price, raising doubts about the programs' cost-effectiveness. Also, subsidies went primarily to developers, which allowed them to control the prices of the houses. In order to counteract this monopolization of the market and to broaden the opportunities for the families to find more affordable housing, the government enacted the Housing Community Development Act of 1974. This act shifted the emphasis to tenant-based subsidies, so that the recipient of the subsidy was the family and not the developer. This subsidy assistance focused on the demand side of the rental market and enables a family to rent privately owned apartments while the market had to compete with quality and price.

With the Housing and Urban Rural Recovery Act of 1983, Congress repealed support for both the Section 8 substandard rehabilitation program and for the new construction program. The Section 8 program was targeted towards existing housing, allowing tenants to lease in existing units using the housing stock. Section 8 tenant-based housing assistance program gained bipartisan support because it avoided the cumbersome bureaucracy of public construction and ownership.

The Section 8 tenant-based program effectively improved affordability because it provided low-income families with the means to find an acceptable unit without excessively burdensome rent. Moreover, it allowed the government to serve more families because it was less costly to subsidize a family renting in existing units than it was to construct or operate new units.

Subsidies have been given to the families in the form of certificates and vouchers since 1984. The Section 8 certificate or voucher tenant-based program was intended to cover the difference between the income of the family and the market rent for the unit. However, the program had some limitations that narrowed the family's choice of housing, and to address these shortcomings a Housing Voucher Demonstration Program was added to Section 8. This 12-site experiment, serving a total of 30,000 households, introduced some changes to make the program more flexible. The Housing and Community

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6 Housing and Urban Rural Recovery Act Section 8(0)
Development Act of 1987 made the Housing Choice Voucher permanent. During this time a family could receive a voucher in exchange for a certificate. In 1998 because both programs were so similar, Congress merged the Section 8 certificate and voucher programs into one program with a single set of regulations, called the Housing Voucher Program.

Merger of The Voucher and Certificate Programs

The main changes to the new voucher program included flexibility elements to enable families more opportunities to choose where to live and how much to pay, while restricting the subsidies to families with the greatest needs. The three main differences between the Section 8 certificate and voucher tenant-based programs were: the tenant payments, portability, and the eligibility of the families.

Tenant Payments. While the certificate holder payments were fixed (which provided no incentive for tenants to look for cheaper units), the voucher program instead has no fixed payments. Under this program, the tenant has to pay the difference between the rent and 30 percent of the family's adjusted monthly income. The adjusted income is the annual income (which is all income received by all household members) minus a percentage for each family member other than the head of the household or their spouse. Another percentage is derived, however, if there is a minor or disabled member in the house and if there is excessive medical expenses, such as child-care or if any income is coming from child support, housing assistance or others.

In the voucher program, the amount of the subsidy changes according to income fluctuation; in the certificate program, by contrast, payments are fixed and a family cannot lease above the program rent limits even if the family is willing to do so. This, in turn, limited tenant choice and made it nearly impossible for the program to cope with market changes. In the voucher program, though, tenants under specific circumstances may rent above the program limit, making it easier to cope with market variations. Paying this extra amount above the established rent thereby gives families expanded freedom of choice, and they may choose to live in a less distressed neighborhood. It is important to note that the difference between the market price and what the tenant is willing to pay is absorbed entirely by the tenant, whereas this difference is not charged to the HUD subsidy, which is unaffected by the tenant’s decision.
Portability. While the Certificate program prohibited the portability of the certificate from the state in which it was issued, vouchers allow families to use the voucher to rent a unit in a locality different from where the voucher was issued. In the latter case, the family choices are broader because families have the opportunity to move for instance where jobs are or closer to family or friend who may be able to help with child care and other social supports. This is a very important step towards the independence of the families because it allows them to move freely without losing the benefits of the subsidy.

Eligibility Of The Families. The new voucher program is more restrictive than the certificate in determining eligibility and it is limited to very low-income families. Thus despite the possible 9 million households that have difficulty paying their rent and may be in need of a subsidy, the new voucher program focuses on the 4.9 million households with the greatest needs. Though this could be a controversial measure since subsidies should alleviate the affordability problems of all citizens, it is a wise decision because it is aiming at worst case needs families, which are less likely to be able to quickly solve their housing problems. According to HUD, 1999 families with worst case needs are those families living in substandard housing or paying more than 50 percent income in rent.

Responsibilities of The Actors Involved in the Housing Choice Voucher Program.

There are four main actors involved in the program: the US Department of Housing and Urban Development (HUD) at the federal level, the Public Housing Agencies (PHAs) at the local level and the tenant and the building owners at the recipient level. HUD is responsible for covering the cost of the program and allowing the PHAs to make the payments. HUD usually invites the PHAs to submit applications when new funds arrive and it also monitors PHAs administration to ensure compliance with the program rules.

PHAs receive funding from HUD for administering the voucher, review family applications, issues the vouchers to eligible families and determine the amount tenants have to pay. Every year they review all

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7 HUD is a Cabinet-level agency established by the Department of Housing and Urban Development Act of 1965. HUD is in charge of the administration and funding of Section 8 voucher programs at the federal level.
voucher tenants and approve leases for new tenants, make housing assistance payments to owners and reimbursements to tenants if necessary. PHAs must always inspect units before leasing to ensure that the unit is in compliance with equal opportunity requirements and they must also provide technical assistance to families.

The PHAs conduct periodic reexaminations of all voucher holders and have the power to determine admissions and continued assistance to the program as denial of admissions or the termination of assistance. They may also terminate the contract or sanction the tenants if, for example, any family member commits a drug-related crime. They, also have the capacity to sanction “bad” landlords if they are not in compliance with the program policies. PHAs may sanction tenants or landowners for actual or threatened domestic violence, intimidation based on race, color, religion, sex, nationality, risk of reprisal for information provided on criminal activities, inability to use critical elements of the unit, or participating in certain other Federal programs amongst others.

Tenants are responsible for finding an acceptable unit within 60 days from the time the voucher is issued. They must provide information for annual examination, allow the PHAs to inspect the unit with a reasonable notice from PHA and may not sublease. Also, they must pay a security deposit, sign a one-year lease, pay the rent on time, maintain the unit in good conditions and notify PHAs of any changes. Landlords need to provide a house with all the necessary conditions determined by the Housing Quality Standard (HQS).

**Design Elements.**

The level of assistance for the Housing Choice Voucher Program is determined by two factors: a) unit and b) tenant selection, which sets the eligibility conditions for families.

**Unit Selection Process.** For the unit selection at the federal level, the HUD is responsible for setting the *Fair Market Rent (FMR)* for existing housing. The FMR is the average rental price for a unit that is reasonable compared with the prices of unsubsidized units in the same market. FMR is based on a Rent

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8 PHAs are state, local or tribal public housing agencies created by state law. According to HUD (FY 2001 Budget
The Johns Hopkins University Institute for Policy Studies

Reasonableness Test, which compares unit with variables such as location, size, type, quality, facilities, management and maintenance of the units for a particular family composition. The calculations for the FMR are based on the data from the American Housing Survey. FMRs are set for every metropolitan and non-metropolitan area, counties or equivalents such as Puerto Rico. Usually the rent should not exceed the FMR, however under special circumstances PHAs which are responsible for administering the voucher at local level, may approve rents that exceed from 10 to 20 percent of the FMR with the purpose to adjust to increases or decreases in the market. The process by no means affects the amount of rent a landlord could charge. The family is allowed to lease a more expensive unit above the FMR but cannot pay more than 40 percent of its income in rent.

At the local level PHAs must certify that the subsidized unit is in compliance with the Local Rent Reasonableness Test. The Rent Reasonableness Test prevents landlords from renting higher prices to Section 8 tenants than to non-subsidized families. PHAs must perform the Rent Reasonableness tests for all units under Section 8. PHAs must also certify that the unit meets HUD's Housing Quality Standard (HQS). The HQS is determined by variables such as the sanitary facilities of the unit; adequate space for food preparation and refuse disposal space and security; and an appropriate thermal environment with safe heating and cooling, illumination and electricity. The house must have a strong structure (which means that is has been built with proper materials), be free of hazardous materials (such as lead paint) and have good air and water quality. Also considered are its accessibility and the neighborhood. The tenant is responsible for finding a suitable unit that meets the HQS in a 60 day period or 120 days under special circumstances established by HUD.

**Tenant Selection Process.** In addition to the unit selection process, the Federal and local governments have two eligibility conditions for recipient selection: family income and federal or local priorities.

- **Income.** The Housing Choice Voucher program is limited to families with worst case needs, which are those families with income less than 30 to 50 percent of the state median

Summary) there are more than 2,500 PHAs issuing vouchers nationwide.
Colombian and U.S. Housing Programs: A Comparison

Since the merger of the two programs in 1998, one of the key features of the Housing Choice Voucher program is that both of the percentages of the market rent and the income may increase or decrease independently. If the family income increases the subsidy will decrease, but if the family income exceeds the 50 percent of the local media income then the voucher will be passed to another family. As long as the family earns less than the program limit, they will continue to receive the subsidy. This is extremely important because the subsidy will not expire until the family is capable of increasing their income.

- **Federal and Local Preferences.** Since problems may differ from one state to another, priority given to eligible tenants is determined by the particular needs of a locality. Public Housing Agencies may rank the participants and may give priority depending on local interests. The applicants are then put onto a waiting list, and selection depends on the urgency of the needs. Federal and local preferences may involve involuntary displacement (which includes natural disasters), governmental actions or preference to minorities over other subsidy applicants.

**Tenant Payment.** Tenant payment is determined by the difference between 30 percent of the families adjusted income and the unit market price value taking in consideration the FMR for that certain unit.

**Outcomes of the Housing Choice Voucher Program**

Overall the Housing Choice Voucher program has been an effective tool for the government to furnish decent homes to low-income families without excessively burdensome rent payments. The subsidy has also helped to expand the choices of families by giving them more freedom and independence in their decisions regarding where to live and how much to pay. Some factors influencing family decisions are school quality, employment opportunities, accessibility to transportation and nearness to family or relatives. The subsidy may also help in the effort to decentralize poverty because families may choose a higher rent in less distressed neighborhoods, thereby indirectly contributing to racial and economic integration. The voucher is
portable of the voucher to other states, providing more chances to move where there are more opportunities to improve the family’s standards of living. FMR provides a greater choice of selection in that it permits tenants (under certain circumstances) to lease above the FMR level when the FMR is too low for an area undergoing local market changes. It encourages the utilization of existing stock and it promotes housing market enlargement because it gives a more important role to the rent market. Also, it has allowed the government to serve more people, because it is less costly to subsidize a family renting in existing units than it is to construct or operate a new unit. HUD believes that assisted housing construction is far more expensive than Section 8 tenant-based assistance. Since 1970, the government has not considered construction of new public units as a cost-effective alternative, with the exception of dwellings for elderly population or persons with disabilities. In these cases it should be noted, project-based assistance can provide special accommodations and services not available in the existing rental market.

PHAs have more control over local payment standards and housing quality standards. Therefore they may respond more effectively to changing market conditions, and may control paying more than a unit is actually worth by performing the Rent Reasonableness Test. They also have a fundamental role in unit and tenant selection policies. PHAs have the ability to determine program admissions, continued assistance and denial, and use the Housing Quality Standards to assure decent housing. Finally they are allowed to determine local priorities to assure that the program is responding to local needs. In that sense the program also serves a large variety of family types because it is a complementary used in relocating and providing replacement housing for public housing units that are being demolished or disposed, witness relocation programs, and in other areas.

**Housing Choice Voucher Program Implementation**

The HCVP depends on a good and large housing stock and relies in the capacity of the family to find a decent unit within the program requirements in a determined amount of time. With regard to the housing stock the numbers of rental units affordable (defined as requiring the family to pay less than 30 percent of its income for housing costs) to poor families has declined, from 85 units for every 100 poor families in 1987 to
75 units for every 100 such families in 1999 and the number of units that are both affordable to these households and available for rent is even lower: in 1999, there were only 39 such units for every 100 renters limiting the options of HCVP recipients.

The major factors that have contributed to the shortage of low-income housing are: (1) the lack of affordable housing caused by the market (since it has been targeted towards higher income homebuyers leaving renters behind) and (2) the lack of available housing caused by deterioration and demolition of housing stock.

The market has been targeted towards higher income homebuyers. Prosperity brings an increase in demand, for if affordability increases then rental prices rise. Wealthier buyers demand new homes or renovate them in older neighborhoods, in both cases raising their value. Low-income families are not able to afford these new houses thereby they have to move to other neighborhoods with less opportunities. The market target moves towards other income buyers that probably have the capacity to buy a new or renovated unit without the need for a subsidy leaving old housing in distressed neighborhoods for low-income renters.

Increasing deterioration of stock. Most old units fail to meet the HUD’s Housing Quality Standards because of their substantial deterioration. Baltimore’s housing stock for low-income renters, for example, was mainly built before 1980 and a substantial percentage of these units have not been renovated. As table 2 shows, out of the total 303,706 units only 20,798 or (6.8 percent) was built after 1978 while 41 percent of the units were built before 1940 and are considered ‘frequently poor’.

<table>
<thead>
<tr>
<th>YEAR BUILT</th>
<th>NUMBER</th>
<th>% OF TOTAL</th>
<th>CONDITION OF HOUSING STOCK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-1940</td>
<td>125,171</td>
<td>41.2</td>
<td>Frequently poor</td>
</tr>
<tr>
<td>1940-1949</td>
<td>56,481</td>
<td>18.6</td>
<td>Fair to good</td>
</tr>
<tr>
<td>1950-1959</td>
<td>53,068</td>
<td>17.5</td>
<td>Fair to good</td>
</tr>
<tr>
<td>1960-1969</td>
<td>29,692</td>
<td>9.8</td>
<td>Fair to good</td>
</tr>
<tr>
<td>1970-1977</td>
<td>18,496</td>
<td>6.1</td>
<td>Good</td>
</tr>
<tr>
<td>1978 or newer</td>
<td>20,798</td>
<td>6.8</td>
<td>Good</td>
</tr>
<tr>
<td>Total</td>
<td>303,706</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Housing Quality Standards include such things as lead-paint free units but it was not until 1980 that lead-paint was prohibited. Maryland continues to rank among the most toxic states in America due mainly to lead poisoning, with 85 percent of poisonings involving people living in Baltimore. The Baltimore Consolidated Plan also shows a table with the estimate number of housing units with lead paint by income (extremely low, low, and moderate, and the tenure type (renter versus owner). According to the Baltimore Housing Authority 13,000 units failed inspection in 2000.

Table 3. Baltimore City Estimated Units With Lead Paint

<table>
<thead>
<tr>
<th></th>
<th>REENTER UNITS</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely Low and Low Income</td>
<td>66,119</td>
<td>Moderate Income</td>
<td>32,051</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total Renter Units</td>
<td>98,170</td>
</tr>
<tr>
<td></td>
<td>Owner Occupied Units</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extremely Low and Low Income</td>
<td>53,347</td>
<td>Moderate Income</td>
<td>35,392</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total Renter Units</td>
<td>88,739</td>
</tr>
<tr>
<td></td>
<td>TOTAL UNITS</td>
<td></td>
<td>186,909</td>
</tr>
</tbody>
</table>

Demolition of Public Housing. Vacant deteriorated housing units in neighborhoods are a contributing factor to the deterioration of the community itself. In the case of vacant public housing, both federal and local governments esteem place great importance on the clearance of houses in extreme bad conditions. Of the 61,000 public housing units which will be demolished in HUD’s long-term plan, only 42,000 units will be replaced, leaving the remaining units to be built by the private developers. A total of 61,000 public housing units will be demolished in five years as part of HUD’s long-term plan in the country. According to Baltimore Consolidated Plan (CP) it is expected that 5,000 structures will be demolished between 2000-2005 in the inner core of the city. In Baltimore since there is an astronomical increase of vacant units therefore, enough available housing to meet the demand, not all of the units meet the housing quality standards. Of those houses in the private market that do meet the quality standards, many are new or renewed units and are too expensive for many families.
If there is a decrease in housing both affordable and available to low-income renters, this also means that voucher tenants will have more difficulty in finding a suitable unit that meets the program’s standards. However, the level of difficulty is not the same for all tenants because it depends on the behavior of the market. Therefore, success rates of the program are linked to the tightening or loosening of the markets. A loose market is one in which offers exceed the demand, whereas in a tight market, the demand exceeds the offers.

### Table 4. Time To Lease for Successful Households by Market Tightness

<table>
<thead>
<tr>
<th>TIME TO LEASE</th>
<th>VERY TIGHT MARKET</th>
<th>TIGHT MARKET</th>
<th>MODERATE MARKET</th>
<th>LOOSE MARKET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Than 30 Days</td>
<td>14%</td>
<td>15%</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>30 To 59 Days</td>
<td>26%</td>
<td>20%</td>
<td>31%</td>
<td>35%</td>
</tr>
<tr>
<td>60 To 119 Days</td>
<td>28%</td>
<td>35%</td>
<td>35%</td>
<td>31%</td>
</tr>
<tr>
<td>120 To 179 Days</td>
<td>21%</td>
<td>19%</td>
<td>12%</td>
<td>6%</td>
</tr>
<tr>
<td>180+ Days</td>
<td>11%</td>
<td>11%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Average Search Time</td>
<td>94 Days</td>
<td>93 Days</td>
<td>69 Days</td>
<td>59 Days</td>
</tr>
<tr>
<td>Median Search Time</td>
<td>76 Days</td>
<td>82 Days</td>
<td>57 Days</td>
<td>50 Days</td>
</tr>
</tbody>
</table>

Source: ABT Associates composite vacancy measure, and Successful Lease Up and Unsuccessful Data modules from tracking System. Sample size: 1,780. Weighted to reflect national totals.

**Loose Market:** In a loose market, there is a large number of vacant units meaning that the tenant can choose from a larger variety of housing. Therefore, success rates in finding a unit are higher than in a tight market. The average success rate for loose markets in 1999 was 80 percent and the average search time was only 59 days, which is just under the program limits. Voucher tenants have a very good level of acceptance by households in looser markets because they are seen as an opportunity to secure rent. But this may also produce that the FMR that should be usually the floor in that is the lowest possible fair rent because prices get lower in a loose market could end up being the ceiling, and landlords could end up charging more money to voucher holders than to unsubsidized renters.

**Tight Market:** In a tight market, there is a shortage of available units. Sixty-one percent was the success rate for 1999 and the average search time was 93 to 94 days, almost double than in the loose market. In a tight market, rent prices may increase very quickly and this is why a key element to the Housing Choice Voucher program is to provide flexibility to rent above the FMR. Since the Public Housing Reform Act of 1998, PHAs were allowed to set payments above 120 percent of the FMR for certain areas where there is
difficulty in finding housing in general or finding outside high poverty neighborhoods. HUD has approved over 400 FMR exceptions to date. Hence, there have been many complaints from PHAs arguing that their FMRs are still way below the market needs. The administrative process that has to undertake the PHAs to update the FMR is slower than the speed at which the market changes. There are always complaints of the FMR for big cities such as Los Angeles or New York where market changes are very common. In this case many families cannot find a suitable unit in the programs time frame. In a tight market owners prefer to rent their units to households that can afford to pay for the rent with out any need for a subsidy rather than to accept voucher holders that are in the need for the subsidy nor do they want their units to be monitored by the government.

According to a 2001 U.S. House of Representatives report the average utilization of vouchers has fallen from 96.7 percent in FY1999 to an estimated of 92.4 percent in FY2001. HUD’s ‘Study on Section 8 Success Rates’, states that in general, successful households take very long (in average 83 days) to find suitable units. One quarter of successful households took more than 120 days to lease a unit. According to HUD, “in place” families, or families that rent in their same unit where they have been living, tend to lease the unit faster than movers, but even then it takes them a long time (an average of 59 days) to become successful recipients. Elderly household of families with disabled members comprise the larger share of tenants renting in place, in contrast to young families which comprise the larger share of succeeding by moving.

Problems Common to Vouchers in any Market.

Administration of The Voucher. One problem common to vouchers in any market is administration. The relation between the PHAs and the community is crucial to the program’s performance, because in many cases --wrongly or rightly-- the program has been blamed for neighborhood decline when PHAs are blamed for:

- Insufficient efforts to assist families to move to different neighborhoods that according to the community may generate concentration of tenants in certain neighborhoods.
Colombian and U.S. Housing Programs: A Comparison

- Inadequate attention to rent reasonableness tests and housing quality standards.
- Unresponsiveness to community complaints and limited involvement in the neighborhood.

All of these problems have generated misperceptions and misinformation regarding the voucher program. The program is perceived as part of a problem instead of being part of the solution for low-income families. A 1999 HUD-commissioned study by Abt Associates found that in the Baltimore community, for example, concerns and complaints centered mainly on poor upkeep of rental units, unresponsive landlords and disruptive tenant behavior. For other sites, however, most were over declining property values and school scores, high crime rates. Concentration of voucher tenants\(^9\) in neighborhoods was also attributed to poor administration of the PHAs.

Expiration of federal subsidy contracts for privately-owned units and lack of federal funding for any new housing vouchers. The FY2000 appropriation for Housing Choice Voucher program provided US$10.8 billion to renew expiring contracts and enabled 60,000 incremental vouchers. However, according to HUD, Chicago’s waiting list by itself could consume all 60,000 new vouchers.

Waiting time. For families that still do not have a voucher, time may discourage most families to apply to the program. The national waiting list for the voucher averages 28 months before actually receiving the voucher, and for large cities it can be much longer. In New York City and Washington D.C. in 1999, for example, receiving a voucher could take up to eight years according to HUD. According to HUD, nearly half of all voucher holders (44 percent) waited a year or more for their voucher, including 20 percent who waited more than three years. In 2002, Baltimore’s waiting list has been 14,562, which is more than the number of vouchers issued in that same year. This indicated that the demand for vouchers is twice what the government is providing.\(^10\)

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\(^9\) Concentration of voucher tenant has been a key issue when considering the programs performance and one of the mayor community concerns.

\(^10\) The number of voucher issued for 2000 is 14,054 (Baltimore Housing Authority)
Recommendations

Effectiveness of the HCVP relies on (1) properly informed actors to prevent misunderstandings concerning the program (2) its ability to meet affordability needs of the tenant while coping with the market changes and (3) good and large housing stock that help’s the participant families find suitable homes among a wide variety of housing choices.

PHAs Should:

1. Provide Adequate Information To All Actors of the Program.
   - Help tenants in their decision making process and improve their capacity to move
   - Expand the knowledge of landlords to make it more attractive for them to participate
   - Better address local priorities

   - **Help tenants in their decision making process and improve their capacity to move**

Regarding the tenant decision making process, the two main problems for the tenants are real housing choice and information. The Senate Appropriations Committee expressed its concern in the H.Rept. 107-159 report that families with vouchers often have little choice in their rental decisions, leaving them in distressed neighborhoods and in substandard housing. Also, there is a general unawareness and lack of information among tenants regarding neighborhood possibilities.

Families often need assistance to become familiar with new communities and to identify willing landlords. PHAs do not get additional administrative fees from HUD for this purpose and the housing search is cost intensive ($1,000 to 3,000 per family), hence they can use their regular administrative fees for the housing search, few have sufficient funds to provide such help. To address this problem government should promote closer alignment between housing and welfare policies and programs, for example a recent study on TANF Reauthorization elaborated by the Center on Budget and Policy Priorities suggests that using TANF Funds to improving the families efficiency search for available units in this case nearer to were jobs are.
Explain that such one-time expenditures are likely to be more cost-effective than an equivalent expenditure to increase ongoing voucher payments, although this too are necessary.

Success rates may decrease due to the ability of the family to search for and find a unit. Some factors are the ability of a disabled or a working person to look for a house, how much time or effort is required, and the difficulty in finding a unit for the size of the family. In order to improve the success rates of voucher utilization PHAs must provide mechanisms to help voucher families find a unit in less time or in an easier way.

- **Expand the knowledge of landlords to make it more attractive for them to participate**

With regard to landlord participation, knowledge of HUD programs are not as widespread as one might expect. In fact regarding to the voucher program according to HUD only one in six owners of single family knew the program well. This information was included in a HUD 1997 report on information about Section 8 collected in the Property Owners and Managers Survey (POMS).

PHAs should develop more accurate policies and procedures for applicant screening working closely with the local and state police to develop criminal background checks and educate the landlords about how to select a good tenant. Regarding landlords, especially in soft markets, they often do not screen because they believe that with so many vacancies they may secure rent by renting to voucher tenants. To prevent this PHAs must encourage responsible behavior among participating owners through training and technical assistance. PHAs should also provide as much information as possible on prospective tenants as they can. For this they should try to get full and accurate information from the families, by improving employees interviewing skills, developing effective forms and conducting regular verifications. However, if after taking all the necessary precautions there is still negative behavior by tenants and compelling evidence, PHAs should initiate counseling for the family, issue warnings and finally deny or terminate housing assistance. On the tenants’ behalf PHAs need to provide them with all the necessary information on their rights.
- **Better Address Local Priorities.** PHAs have the authority to give priority to local interests. For example, in Baltimore priority has been given mainly to single elderly people or elderly couples and to families with children. However, there is a large population of non-elderly single people with excessively burdensome rent payments who should be covered by the program, but because more emphasis is placed on the other groups, the latter group is less likely to obtain a voucher. Priority is also given to families earning 30 percent of the median income while there is also a large percentage of families earning 50 percent of the median income which should also be covered by the program but who again are left unserved because priority is given to families earning 30 percent of the median income. The Baltimore Consolidated Plan (CP) aims to correct this situation. It does make sense that since problems may be different from one state to another, priority to eligible tenants is determined by particular needs of a locality. PHAs as the local authority may establish a ranking system among the participants and may give priority depending on the local interests but variations on the selection of Housing Voucher recipients from one state to another has generated problems amongst families that feel excluded from the program or are not being helped properly.

2. **Provide information on the performance of the program in an effort to reassess community concerns.** Community Profiles that may allow the PHAs to better understand the demographic, economic and housing market (subsidized housing and unsubsidized) trends and other trends affecting particular neighborhoods like crime rates, school scores. The Profiles may help the tenant more efficiently and encourage involvement with the community in order to better understand their concerns and therefore identify trends that may call for program adjustments. It is also important to encourage mobility education programs for participants like the ones of the Voucher Success Fund, to address concerns of discrimination, lack of transportation among other things.

3. **Meet the Affordability Needs of Families.** The Housing Choice Voucher program must be capable of meeting the affordability needs of the tenant. This means that it must improve operational aspects of the program (administration of the voucher) so it can respond adequately to changing conditions in tight markets. One of the major complaints of voucher holders are that PHAs are constantly battling about FMRs. Since the administrative process PHAs must undertake to update the FMR is slower than the speed at which the market
changes. Also, the Rent Reasonableness Test is only performed once a year. It is of utmost importance to find a mechanism to simplify procedures so FMR can more easily cope with market changes. Approving rents that are too high or too low can create problems. If it is too high, HCVP participants may outbid unassisted renters, inflating area rents and contributing to an increase in the concentration of HCVP participants. Also, when FMR is higher than market rent it provides no incentive for owners to improve properties beyond HQS. On the other hand, if the FMR is too low, owners may not have incentives to participate in the program, or units that could be available to voucher tenants could be severely limited. To avoid these problems, the PHAs database should provide information on rents for standard units of various sizes, types, locations, age and conditions as well as utilities, services and others provided by the owner. Data should also be organized by market areas and should cover as many neighborhoods as possible. Finally the data should be part of a system that is usable by the PHAs in determining reasonable rents. According to the HUD study, rent reasonableness has been a weakness for many PHAs in that they need improvement in procedures and/or training of the staff. All this information and procedures should be discussed with the community in order to identify the best reasonable rents. To set FMR PHAs should always rely on the Rent Reasonableness Test to avoid keeping payment standards artificially low for example.

4. Enlarge And Preserve the Housing Stock. Vouchers depend on the existing stock. Even though there is a housing surplus, supply of low-cost housing available to low-income families is shrinking. The surplus includes housing in deteriorated condition or inadequate for the Housing Choice Voucher Program. To encourage voucher utilization it is necessary to provide the conditions for the families to find a suitable home at an affordable price within the program’s time frame. At the program level more detailed studies should be carried out to determine whether the time allowed to find the unit is adequate, taking in account the problems that families may encounter. The federal government should also assure a good housing stock in order for the program to work most effectively.

The federal level government should continue to develop aggressive plans, programs and projects to enlarge and improve the housing stock. This strategy requires more than a program, because by itself no program has the capacity or the scope to solve the problems of the stock; moreover they should not work in
isolation and must be encompassed in clear housing policies. In order to improve housing stock it is necessary to have strategies and plans to rehabilitate very low-income existing housing, which is the Section 8 programs main target. This must involve the active participation of the private sector, demolish extremely deteriorated units that may be an obstacle to the improvement of the neighborhoods, and build new low-income housing when needed.

- **Generate Programs To Rehabilitate Very Low-Income Existing Housing.** To preserve the existing stock of affordable rental housing may help the stabilization of deteriorating units to prevent demolition. Federal and local governments however should encourage public private efforts and partnerships with corporations and nonprofits which are becoming increasingly active in housing preservation. However, to avoid proliferation of programs aimed at families with worst case needs and small institutions whose struggle to obtain operating funds, distracts them from their primary mission. HUD should instead promote articulation and cooperation between institutions.

In a study conducted by the Brookings Institution and the Center on Budget and Policy Priorities it has been suggested to enact the National Housing Trust Fund, through which more than 1800 organizations will commit to build and preserve 1.5 million units of rental housing for low income families in the next 10 years and provide federal funds to match state or local preservation grants.

- **Demolish Deteriorating Units.** It is important to help bring the demand and supply in sync. Strategies should always aim to avoid demolition. However, if it is necessary, the demolition must be accompanied by a post demolition plan to quickly turn vacant lots into something else.

- **Build New Low-Income Housing.** The voucher utilization issue has led to discussion about the need for reviving a HUD rental housing production program which stopped in 1970. To address this problem Congress in 2000 planned to increase Low Income Housing Tax Credits (LIHTC) by 40 percent in an effort to stimulate affordable rental housing production by a projected 30,000 units a year. The Center on Budget and Policy Priorities also suggests to create financial incentive for developers to locate family units in job growth
areas, by authorizing the provision of additional credits to developments in areas with relatively higher rates of job growth that serve extremely low-income families with children. To assure that this units are build in this areas state could give preference to community revitalization areas.

Also private institutions and corporations, realizing that only so much aid is going to come from the government, are already taking matters into their own hands. Many communities have also created programs to finance low-cost housing developments. But as with the programs to renovate low-income housing, they need to be working together in a more articulated way.

- **Provide Homeownership Opportunities for Moderate Income Households.** To support subsidy to the rent has been a very good way for the government to serve more people but as President Bush stated during his campaign it makes more sense to help people buy homes than to subsidize rental payments forever. Heading toward this direction rent subsidies should be used for buying homes. In early 2001, HUD Secretary Martinez said that among the new initiatives would be the proposal that homeownership opportunities would be expanded for lower income and minority families.

**Reorganize and streamline the Section 8 program.** Senate Appropriations Committee report ‘VA-HUD Independent Agencies Appropriations Act for Fiscal Year 2000’, contained language directing HUD to examine whether Section 8 would run more cost effectively if they allowed other public private institutions to administer the voucher. Currently there is a proposal for conducting competition of administration recommended to rely in a system that monitors Section 8 including the Housing Choice Voucher Program called SEMAP. PHAs performance is monitored to identify weaknesses that could turn into problems, and they are given a score out of 100. If the score for a certain PHA is less than 60 out of 100, a corrective action plan must be submitted, failure to correct deficiencies can result in default of the Annual Contributions Contract. However while the PHAs keep administering the voucher program it is of utmost importance that they immediately correct administrative failures.
In general terms much can be done by the PHAs to improve the performance of the HCVP, but ultimately in order to reach a long term plan, PHAs must see the big picture, work in consensus with all other actors, understand that the program cannot work in isolation of a broader strategy, and take the necessary steps and prompt action to resolve problems at the administrative level. The Housing Choice Voucher Program should head toward understanding the difference between program compliance and true problem solving.

**Colombia: Private Social Development Funds**

This section will describe Colombia’s Private Social Development Funds (PSDFs), the challenges faced in its fifty years of existence and its relevance to the Colombian subsidy system.

**Background.** The PSDFs are part of the Colombian housing subsidy system and follow the European post-war scheme in which the government provides social services through the private sector. In general terms according to law 21 of 1982, PSDFs are not for profit private institutions that provide social security services and that are subjected to government control. PSDFs are private institutions that profit from membership fees of corporations affiliating their employees to the fund. By law all corporations must affiliate the employees’ with a fund and must provide four percent over the employees salary to the fund. The private sector can create as many PSDFs as needed as long as they have a minimum number of employees and industries as members. The profits obtained by these funds are for subsidizing housing, education, health care and recreation, among other programs for moderate to low-income families in the working sector.

The government’s role is to ensure that by law all private corporations affiliate their employees to one of the funds and to establish the amount that must be contributed. By doing this they secure funding for the PSDFs. Through Superintendence of PSDFs, the government determines the percentage of the total budget of each PSDF that must be used for the different areas: education, health, recreation and housing. The government controls the programs and allocation of budget.
The PSDF initiative had almost immediate governmental support because it provided the means to serve more families with few resources. Law 188 and 249 Act of 1957, supported the establishment of PSDFs by the private sector. Through it 23 PSDFs were created in different regions of the country. Even though the program is privately funded since it has to follow governmental policies, to establish certain coherence between PSDFs, in 1963 the Congress formulated the standard design elements of the program for all PSDFs.

PSDFs operate regionally and corporations choose to which PSDF they want to affiliate their employees in regions were there are more than one PSDF. In states where there is only one PSDF employees must be affiliated to that one. Housing subsidies are one of the newest programs of PSDFs. On the other areas they have been delivering subsidies for more than 40 years. PSDFs together with the INURBE (National Institute for Low-income Housing and Urban Reform) are the two main institutions that subsidize low-income housing in Colombia. PSDFs aim at delivering housing subsidies to public and private sector employees (the working sector) and the INURBE to entrepreneurs (the informal sector). As the National Institution for Housing, the INURBE coordinates the National System of Public Housing and oversees low-income housing and urban reform policies. Its resources come directly from the national budget. PSDF subsidizes first time homebuyers not rent.

The first PSDF—Confama—was created in 1954 by the National Association of Industries (ANDI)\textsuperscript{11} and the Worker Union of Colombia (UTC)\textsuperscript{12} with the participation of employees from 45 industries. Confama’s main objective was to alleviate the economical hardship of low-income workers through subsidy mechanisms. Today, PSDFs’ primary goal is to increase the quality of life of the Colombian families by addressing basic needs through the provision of in-kind and monetary subsidies or by delivering services.

The program determines target population to be private or public workers. To promote an equitable distribution of resources, the subsidy mechanism redistributes the profits obtained by the PSDF among the most neediest members of the PSDF. Allocations mainly go to subsidies for families with worst case needs among the families that require a subsidy.

\textsuperscript{11} Asociación Nacional de Industriales
In 1988, restrictive measures were implemented to prevent the proliferation of PSDFs. PSDFs are required to have at least 500 member companies and a minimum of 10,000 workers. Despite this limitation, by 1988 68 PSDFs quickly emerged, and 55 by 2000. Currently, of the 32 states, only 7 states lack PSDFs. Fourteen have PSDFs that provide housing subsidies. Bogota, Colombia’s largest city with 9 million inhabitants, has three PSDFs Colsubsidio, Cafam and Compensar. Currently, PSDFs cover 40 percent of all

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Colombian corporate employees. Restrictions were also added to the eligibility of families in the 1988 law, stipulating that a family applying for a subsidy could not earn more than four Minimum Monthly Average Wages (MMAW).\(^{13}\) One minimum monthly average wage is equivalent to US $140 for fiscal year 2001. With this measure the target population was defined even more sharply.

Law third of 1991 enabled the PSDFs to deliver housing subsidies, up until then services were delivered in other areas such as health and education but not clearly for housing. Today almost all PSDFs provide subsidies in health, education, housing and recreation.

PSDFs must create a Fund for Low-Income Housing (FOVIS) through which housing subsidies may be delivered. The superintendence of PSDFs establishes the share of the total budget of PSDFs that has to go to housing programs. The amount varies among PSDFs because it is calculated on the basis of the budget received in the fiscal year compared to the amount of affiliates of the PSDF. This estimate is done yearly. Each PSDF owns its FOVIS. Some PSDFs are considered “non compensated”, which means it is a PSDFs that is exempted from having a FOVIS since its budget is to small that the government allows them not to have one.

In the 1990s, PSDF subsidies were given to developers for housing production, but these subsidized projects were replete with cost overruns and corruption. The government then decided to introduce for the first time in Colombia a system of direct demand subsidies, or the equivalent of tenant-based subsidies in the United States. Law Third of 1991 was crucial because it established the National System of Low-Income Housing. This enables PSDFs to deliver housing subsidies by focusing on the demand side rather than the developer side, and provides a more important role for the private market. Recently, PSDFs have been allowed to use 20 percent of their FOVIS allocations for developing of new units.

\(^{13}\) MMAW is determined by the government for every fiscal year.
In late 1990’s, during the Colombian economic downturn, the government was forced to reduce subsidies from 80 percent between 1991-1994 to 58 percent from 1994-1998. In this period PSDFs and the INURBE played an important role in finding solutions to the housing deficit. PSDFs became the second main source for delivering government housing subsidies. The government also assumed responsibility for taking care of both public and private sector employees (the working sector) as the INURBE was in charge of the entrepreneurs (the informal Sector).

In 1999, the government established the Unified System of subsidies, to which the INURBE and the PSDFs were to respond with the same set of regulations, processes and operations to deliver the subsidies to selected families, and to select beneficiaries throughout the process that avoided duplication of efforts and encouraged transparency. Through this system, the available housing listings of all PSDFs and the INURBE were to be unified into one single list and the same was to be done with the waiting lists for tenants. Currently the single list of tenants has not been implemented. Each PSDF selects its subsidy recipients and the results are then placed in the common listing.

Currently there are plans to restructure the INURBE and to further articulate the tasks of the PSDFs within the Colombian subsidy system. The Housing Department of the Ministry of Development participation is taking a more active role in the policy-making process and administrative endeavors, and strengthening the participation of PSDFs in the delivery of subsidies. For the upcoming elections, leading presidential candidate Mr. Alvaro Uribe Velez has said that if elected, he will aim to channel the delivery of housing subsidies from the government through PSDFs.

**Actors Involved in The PSDFs.** There are three types of actors involved in the PSDF process: the National government, the PSDF and the subsidy holder. The National government is responsible for setting the amount of money over the salary that the companies must provide throughout the affiliations of their employees to the PSDFs. The Superintendence controls the PSDF’s budget and determines the amount of the total budget that has to go to the FOVIS, as well as approving the PSDF development programs. The Ministry of Development determines all policies and regulations regarding the PSDFs’ subsidies. PSDFs are
responsible for delivering the subsidies and selecting recipients. They must examine the applications and pay the subsidies. They must also make sure that the house selection complies with the program requirements. The subsidy holder is responsible for finding a house, securing the down payment, and obtaining credit approval.

Design Elements

PSDFs use their FOVIS budgets for three main activities: First, the FOVIS budgets provide for the delivery of housing subsidies to homebuyers (which is its main objective), for buying new houses, subsidies for rehabilitation and updating and to built in owned lot. Second they are used for production activities such as development of new houses (up to 20 percent of the FOVIS allocations). FOVIS allocations can be used to buy a lot, or for the construction of new units. Allocations used for development purposes must be returned finalizing the year. The third main activity is for helping the families buy a house in cases in which family budget does not meet the amount needed to obtain a credit from normal financial institutions. Allocations used for this purpose must be returned to the FOVIS within a five-year period. Housing subsidy delivery is determined by two factors: the selection of the houses and the selection of the eligible families.

Selection Of The Unit. The family may select a house out of the private market from developments done by the PSDFs or INURBE. All PSDF programs must be approved by the Superintendence of PSDFs and the Ministry of Development on a yearly basis.

All low-income housing developments of the private market, INURBE or PSDFs that wish to be considered for any subsidy program must comply with a subsidy scale (see below). The subsidy scale is determined by comparing types of houses to the family credit capacity. Units must have Formal Legal Titles, which means that developers must provide certifications to the PSDFs that the houses have public services and have been built on a legal settlement. PSDFs are under an obligation to post in their available housing listings any request from developers that meets these two standards.
Subsidy Scale. The scale is developed in order to establish the type of house that a certain family can afford, given its income. Prices of the houses vary between 30 MMAW to 135 MMAW. This means that the cost of the house cannot exceed \(-US \$ 16,700\) if the developer wants to include the units to be included in the PSDF list. The scale sets the cost of the house by comparing types of houses with family credit capacity. For example; if the family earnings are between one and two MMAW, defined as extremely low-income families, the subsidy scale will allow them to apply for a type one or two house, which are the less expensive houses with higher subsidies.

The table below shows the subsidy scale, the amount of subsidy in MMAW allowed for each type of new unit and the amount of subsidy allowed for building in owned lots, which are limited to type one, two and three houses.

Table 6: The Price Scale For New Houses

<table>
<thead>
<tr>
<th>HOUSING TYPE</th>
<th>PRICE OF UNIT</th>
<th>SUBSIDY AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>TYPE 1</td>
<td>30 MMAW *</td>
<td>25 MMAW</td>
</tr>
<tr>
<td>TYPE 2</td>
<td>50 MMAW</td>
<td>25 MMAW</td>
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<tr>
<td>TYPE 3 **</td>
<td>70 MMAW</td>
<td>20 MMAW</td>
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<tr>
<td></td>
<td></td>
<td>25 MMAW</td>
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<tr>
<td>TYPE 4</td>
<td>100 MMAW</td>
<td>20 MMAW</td>
</tr>
<tr>
<td>TYPE 5</td>
<td>120 MMAW</td>
<td>20 MMAW</td>
</tr>
<tr>
<td>TYPE 6</td>
<td>135 MMAW</td>
<td>20 MMAW</td>
</tr>
</tbody>
</table>

Source: Caja de Compensacion Familiar Compensar

Table 7: The Price Scale For Units To Be Constructed

<table>
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<tr>
<th>TYPE</th>
<th>PRICE OF UNIT</th>
<th>SUBSIDY AMOUNT</th>
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</thead>
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<tr>
<td>1</td>
<td>30 MMAW *</td>
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<tr>
<td>2</td>
<td>50 MMAW</td>
<td>25 MMAW</td>
</tr>
<tr>
<td>3</td>
<td>70 MMAW</td>
<td>25 MMAW</td>
</tr>
</tbody>
</table>

Source: Caja de Compensacion Familiar Compensar

* Minimum Monthly Average Wage for current fiscal year.
** 25 MMAW in local areas of more than 500,000 inhabitants, and 20 MMAW in localities with less than 500,000.
**Formal Legal Titles.** All developers that want their houses to be included in the PSDFs subsidy available housing listings must provide proof that the unit has met all legal requirements, such as a local permit (includes evidence of public services, zone-free of landslide disasters, flooding) and ownership certificates amongst others. The same information must be provided in cases where a family already owns a lot and is applying for a building on it.

**Tenant Selection.** All families that want to participate in the program must place themselves on the tenant waiting list of the PSDF they belong to. In order to be placed on the list the families must comply with the subsidy program requirements. To be eligible for a subsidy a family cannot have earnings above four MMAW, have a house during the eligibility process, or have any of the member of the household who received a housing subsidy before. If the candidates are applying for a subsidy to build in an owned lot they must provide information that their lot has formal legal titles, in addition to complying with the same requirements as families applying for a new unit. While each PSDF only subsidizes families affiliated with its system and with formal entailment to the labor market, INURBE subsidizes families who do not have a formal entailment with the labor market, defined as independent workers.

PSDFs members must have a study and approval from a financing agency that indicates their credit capacity and the amount they could have access to. They must also have a programmed savings account, which must cover 10 percent of the house price. Priority is given to female heads of households, families with higher number of members in a family and higher levels of poverty, families that have applied for a housing subsidy previously, and families with longstanding savings account. Each PSDF and INURBE list ranks the families with the greatest need for a subsidy, and then places the selected beneficiaries of the subsidy in the Unified beneficiary listing. At the time tenants are posted in the tenants listings they are allowed to use the unit available listings, which include all developments of the private market, PSDFs or the INURBE, to look for a unit.

**Determination of Assistance Level.** Once selected, a family has one year to find a house that complies with the program requirements. The subsidy is only given once, and it is used for paying the down
payment on the house. The PSDF or INURBE pays the bank directly for the unit. The subsidy increases or
decreases depending on the type of house the family is applying for: the lower the type of housing the higher
the subsidy, because families applying for types one to three houses are those families with the least financial
capacity. The same scheme is used for delivering INURBE subsidies. Priority is always given to members of
the PSDF and to those families applying for the first type of houses, which are families with worst case needs
that comply with the program requirements. However, if there are not enough families applying for the first
type of homes, PSDFs have the discretion to give subsidies to families with higher income within the PSDF’s
income limits. The tenant is required to be able to cover 10 percent of the total cost of the house from savings
and must have approved bank credit for the total cost of the house minus the 10 percent of the down payment
and the subsidy amount.

**Outcomes of The Private Social Development Funds**

One of the primary strengths of PSDFs is their holistic approach to social service provision, in that their
area-specific subsidies complement the larger social safety net in order to enhance quality of life. Regarding
the design element of the program, priority will always be given to families in the last quartile of income
applying for house types one or two. If there are not enough families applying for very low-income housing
then PSDFs have the discretion to provide assistance to families that are in a higher quartile of income under
the subsidy limits. This procedure should enable all families within the subsidy limits to have access to the
subsidy while giving priority to the most needy. Also, all PSDF income is redistributed to assure an equitable
distribution of the subsidies.

By having unified set of regulations, PSDFs and the INURBE should be able to improve the number of
families served, because PSDFs are obliged to cover their waiting list while any remainder allocations should
immediately pass to other PSDF listings until the total worker demand is covered. If there is some unused
budget it by law must be passed to the INURBE to help families from the informal sector or entrepreneurs.
This is done to assure that all allocations are used to serve the greatest number of families possible.
Probably the main asset of PSDFs however, is the synergy created between government and the private sector. PSDFs are privately funded, which allows the government to allocate resources to other programs serving more people with different needs, while still helping to subsidize housing. The affiliates of the PSDF benefit from the program because it is a good way to improve their quality of life by having easier access to housing, education, health and recreation. PSDFs funding source is secured in the sense that membership is compulsory. This is an example of PSDF’s private institutions providing a public service since they are delivering subsidies that are part of the governmental responsibilities using resources from the private sector.

Private Social Development Funds Implementation

There is a growing discontent within the current Colombian government regarding the program performance, raising questions about support for its continued existence. If it is true that it has contributed to helping families with worst case needs to find a decent home in the private market, many families still have a serious affordability problem and are being left unattended. To address this problem the Colombian government has made plans to mobilize resources of about 3.4 billion pesos (approximately US$1.5 billion) for subsidizing the development of new houses for the 1998 to 2002 period.

The population demanding subsidies is divided into two categories depending in the sources of income: Employees with monthly salaries and entrepreneurs. PSDFs by law are to provide subsidies to both public and private sector employees (the working sector) as the INURBE to the entrepreneurs (the informal Sector). According to this, the whole population that requires subsidies should be covered by the PSDFs and the INURBE. Currently of the total households in Colombia, 68 percent earn less than four minimum monthly average wages and comprise the population that requires urgent housing subsidies; of this population 37.5 percent are entrepreneurs. Among the entrepreneurs 37 percent are independent workers and the other 34 percent are employees in the construction sector or work in informal works and 26 percent are unemployed or inactive.
Comparing the potential demand of the families applying for a subsidy in 2000 with the number of subsidies given for that same year, PSDFs and the INURBE only provide assistance to 4.5 percent of the potential families eligible to apply for a subsidy. This suggests that despite of the governmental efforts, the subsidizing entities are leaving the vast majority of the population that applies for subsidies unserved.

The most evident problem of PSDFs is intrinsic to its definition. National policies about subsidies are based on a target population consisting of all families in the working sector that earn four or less MMAW, meaning that the target population is defined by income level. However, PSDFs are affiliate-based institutions so the target population must be members. Members of the PSDF will always have priority over the rest of the working sector. The contradiction affects the functioning of the program as a whole, reducing the program effectiveness in 1) the geographic coverage 2) the beneficiary selection process, which generates an unequal distribution of subsidies 3) the development of the PSDFs' programs and target-setting, and 4) the credit capacity of the families and the cost of the houses.

**Geographic Coverage Of The PSDFs.** Even though PSDFs have the responsibility by law to deliver subsidies to low to moderate-income families they do not have responsibility for having a national coverage. Policies regarding the creation of PSDFs refer to the minimum number of corporations and workers that need to be affiliated to the PSDFs, not to geographical terms such as the necessity to have a PSDF in every region of Colombia. Out of the 32 Colombian states seven do not have an established PSDF. Although most of the remaining states have at least one, not all of them provide housing programs. Some PSDFs are considered “non compensated.” This is a term that refers to PSDFs that are exempted from having FOVIS. For example, in certain regions of the country PSDF members have very large families, mainly children. In these areas the assistance will be delivered through cash subsidies, and will absorb almost all of the PSDFs allocations, leaving so little of the budget for housing that the government exempts them from having a FOVIS. In other regions that have undergone natural disasters such as the coffee region during the 1999 earthquake, subsidies are targeted to relief. Currently there are six PSDFs not having FOVIS, primarily of the latter type.
To avoid proliferation of PSDFs the 1988 law set the number of workers and of corporations needed to create a PSDF applied uniformly across the country, limiting the creation of new PSDFs where they are needed. While control of proliferation may be appropriate for the eastern part of the country, the western part may require flexible measures should be provided, considering the lack of PSDFs in south-west Colombia.

Between 1999 and 2000, PSDFs issued 40,443 subsidies and the INURBE 33,275. Of those only 4,270 and 23,591 respectively were for families applying for 30 MAW houses (the lowest income class). This percentage is very low in the case of the PSDF compared to the total amount of subsidies given to the houses of 120 MAW (fifth highest of the six income class). It is clear that all families do not have the same access to subsidies. Out of the funding obtained by the PSDFs during 1999 to 2000, less than 25 percent went for extremely to very low-income families. In general, families with higher earnings are receiving more help than the lower segments.

The FOVIS allocation varies depending on the size of the PSDF. It is estimated according to the total budget to be received in a fiscal year according to number of affiliates of each PSDF. For the 2001 allocations four PSDFs provided up to 26 percent of their total budget to the FOVIS, five provided 25 percent, two provided 17 percent, 19 provided ten percent and 19 the five percent. Each PSDF manages its own FOVIS. The difference in the amount of money available from each PSDF also causes variations in the provision of subsidies and their distribution along the needy families at the subsidy tenant level and at the programs level.

**Beneficiary selection process is inequitable.** The eligibility selection process is not done on a national or regional basis but on a membership basis. Each PSDF chooses its beneficiaries. Even though the unified system should determine which candidates are selected based on national or regional criteria, the system is only working partially. Since each PSDF elects its candidates and then places them on the general list, the unified system is currently being used only to compile statistics of served families per year by PSDFs, not as a selection tool, which should be its main function. This generates disparities in subsidy delivery among PSDFs.
Poor Allocation of Excess Cash. The director of housing of CONFAUNION, a medium to small PSDF which serves mainly Palmira in the Valle del Cauca, reports that out of 104 applications for a subsidy in 2001 only 23 were actually issued mainly because they did not have the resources to help more families. In large PSDFs like CONFANDI in Cali, the capital in the same region, their subsidy offer exceeded the demand. By the 1999 law when this happens the remainder budget should be distributed among other PSDFs with uncovered demand. This is rarely though, not because there is not a remainder but because larger PSDFs use their extra resources in other programs such as the development of new houses to keep its budget.

PSDF Programs. PSDFs are allowed to comprise up to 20 percent of their FOVIS to the development of low-income housing 20 percent of the FOVIS and PSDF have the authorization to be constructors of these units. PSDFs ability to develop housing enables them to provide houses at a lower cost than the regular market since they are serving as financial institutions. This means that they are not undertaking financial costs and in this way more families can be served out of the PSDFs total demand members. But this has also censed PSDFs to target their subsidy delivery towards its own housing programs, and this may be happening due the project selection policies.

Project Selection Process. In the case of medium to small PSDF like CONFAUNION, when asking about the selection process of their development projects, they replied that each PSDF board of directors decides the type and the scope of the project based on a market study and on a membership profile of the PSDF. Then it is submitted to the Superintendence and the Ministry of Development for approval. For example, their membership profile suggested that CONFAUNION majority had a moderate income and where demanding new units. In this case in accordance to their demand, programs should be targeted towards type three new units. These units according to the subsidy scale meet the market value accessible for a moderate income homebuyer according to the profile study. This program decision on target population and type of housing makes sense if they were only to provide subsidies for their members however according to the law PSDFs should give priority to low income working families in general even if the majority of their member families is around type three houses. PSDFs priorities tend to contradict regional priorities since projects are designed on the basis of membership needs and on local priorities.
Thus, there is still a need for type one houses in each PSDF that should be addressed firstly. But when projects have no restrictions regarding unit numbers for a certain type of housing it provides no incentive to targeting to specific needs to very low income families that need type one housing. Despite membership priorities there are still low-income families to be addressed even if it is in a small proportion compared to other PSDFs. CONFAUNION does not develop units type one because they believe this houses do not meet their housing quality standards.

Housing Quality Standards (HQS) are crucial to determine the price of the house and the better quality the more expensive it is as well. HQS are determined by the Plan de Ordenamiento Territorial (POT) Urban Development Plan for each city which includes standards such as the size of the lot and the minimum area of the house, as well as requirements concerning public services and established legal requirements as legal titles, local permit and ownership certificates amongst others. Each PSDF determines all other policies or HQS regarding their developments through what they believe a fair quality unit and for it they set a price.

For example CONFAUNION’s policy regarding HQS is that they would rather built suitable units at a higher price than try to build type one houses. In that for that region the price of the lot will consume practically three fourths of the total cost of the type one house according to the subsidy scale. Leaving so little money to build the house that it will be done in a precarious way. Large institutions are more likely to build houses type one but the quality standards of these houses are very poor.

In regard to the role of the private market since it is the principle responsible for nurturing the offer of low-income houses. The Director of housing in the Bogota-based COMPENSAR said that that housing quality standards were to be determined by the market and that families were free to choose among units, and he also said that tenants have acquired knowledge in establishing their own quality standards. This means that to cope with the land prices private market in this region will have to target towards higher income families in that these families have a higher credit capacity therefore more options of buying a house at the
cost they will have to sell them. Because they have better credit capacity the private sector also has a certain level of security to their business activities.

Considering that the minimum requirement for a low-cost lot is 70 squared meters for the Valle del Cauca compared to other regions were it is 60 according to the Urban Development Plan of the region. The difference creates a substantial increase in the cost of the land. According to CONFAUNION it will cost the PSDFs around US$ 3000 to buy a decent lot with all necessary public infrastructure but the cost of a house type one cannot exceed US$3711 leaving them with practically no budget to develop a type one house. Therefore, to build a decent unit with their HQS will require that the house price will rise up until a type three house and exceeding type one and two units. Since this PSDF will not built a new type one housing, their decision regarding these group of low-income family requesting a subsidy for type one housing is to channel them through the program of building in owned lot in which the lot is provided by the family.

The subsidy is used by the PSDF to build the family a unit of 40 squared meters in the owned lot which is the minimum required by the Urban Development Plan of the city. Family application process has to be done collectively in that in order to apply no less than ten families and no more than 100 families members of the PSDF must gather in a single application. Collective applications for this program is important in the sense that the legal procedures and the legal process and the construction are slow and PSDFs have to hire staff to perform these duties. In that sense it is more cost-efficient to group several houses and develop a multifamily project than to develop the project individually. But since the legal paper work will take the same amount of time for ten houses of the build in own program than from 500 new units developed by the PSDF, they prefer to build the latter than the former. For 2001 no more than three of these built in own lot projects were developed by the former PSDF while many new developments were being built. Also, families have difficulty applying collectively in that they have to be of the same PSDF. Some times in a small PSDF to find more than 10 families that owns lots and that meet PSDFs subsidy requirements is not an easy task.

All though priority should be always given to low-income families applying for type one housing, when families cannot apply through built in own lot program or in the new housing ones. Most small PSDFs
not covering partially or totally the demand, especially small PSDFs rely on the INURBE to cover these families. Thus, for every PSDF beneficiary there are 2.8 candidates while for every beneficiary of the INURBE there is 5.6 candidates, or double the PSDFs demand according to the Ministry of development. It is contradictory that PSDFs should send more families to overload the INURBE’s capacity while looking for mechanisms to cover the totality of the working sector by itself while the INURBE purpose is to take care of the informal sector. The cooperation of larger PSDFs, in this case, is necessary to expand their scope so they can work on a regional basis and be limited to the city in which they provide their subsidies.

This case illustrates that the program design, subsidy delivery and beneficiary selection criteria is arranged according to necessities of PSDF members and not to regional or national demands. The impression is that PSDFs are working in isolation and are responding to very narrow needs of certain population. In this case contributing factors behind the program’s low success rates are: Poor regional coherence, priorities are set on a local and membership basis, lack of knowledge and articulation among PSDF strategies and programs.

**Credit Capacity.** To be an employee entails a certain financial stability and endowment capacity, a basic requirement for any Colombian formal financing channel for housing credit loans or subsidy. Banks for example finance employees with high earnings among low-income population, and in a very restricted way, employees with median income capacity. Historically there have been few financial institutions that finance very low-income families and among them are some NGOs and micro-credit institutions. Unfortunately these small institutions are not very stable legally and financially. They are not legally stable in that they have not been incorporated into the financial regulatory system because they are not financially viable. This means that since small institutions or NGOs depend mostly on grants, their budget is pinned to specific programs or projects under a time frame for the funding. Credits will therefore be subjected to fluctuations.

Families that are members of the PSDF still have problems accessing subsidies because they lack access to credit, considering that paying for housing should not exceed 30 percent of a family’s income.
According to the IPC Consultants in Colombia the earnings of a family for 2001, between minus one to two MMAW is US$62 and for a family with earnings between two and four MMAW is US$186. Calculating the amount of credit a family will have access to under the current Colombian System, a families under one to two MMAW will have access to US$188 and families between two to four MMAW will have access to US$1540. The total cost of a Type 1 house for families earning under one or two MMAW is US$3711 and for Type 2 house for families with earnings between two to four MMAW will be US$6186 according to the subsidy scale. This means that to have access to houses Type 1 and 2, the credit required from these families is double the credit they are able to pay as shown on the Table 8. The unassisted households with worst case needs in need of assistance do not have the endowment capacity and savings.

Table 8: Credit Requirements Under the Subsidy Scale

<table>
<thead>
<tr>
<th>HOUSING TYPE</th>
<th>PRICE OF UNIT</th>
<th>PRICE (US$)</th>
<th>SAVINGS REQUIRED (10% OF THE TOTAL COST OF THE HOUSE)</th>
<th>SUBSIDY (US$)</th>
<th>CREDIT REQUIRED</th>
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<tbody>
<tr>
<td>TYPE 1</td>
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<td>371</td>
<td>3,093</td>
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<td>TYPE 5</td>
<td>120 MMAW</td>
<td>14,844</td>
<td>1,484</td>
<td>2,474</td>
<td>10,886</td>
</tr>
<tr>
<td>TYPE 6</td>
<td>135 MMAW</td>
<td>16,700</td>
<td>1,670</td>
<td>2,474</td>
<td>12,556</td>
</tr>
</tbody>
</table>

Source: Inter-American Development Bank and IPC Consultants, September, 2001

The lack of capability of some PSDFs families to meet the financial requirements is another contributing factor to targeting the population that receives subsidy to higher income families among the ones that need subsidy. Since is PSDFs do not receive enough applications for Type 1 or Type 2 houses they have the discretion to move up the subsidy scale and provide higher income families with the subsidy. As a result most of the families needing a housing subsidy with worst case needs will not be able to meet the amount of credit required to apply for a subsidy because the market prices for the houses they are applying to are unreachable for them. Therefore, the families will not be able to comply with all the necessary requirements.
for obtaining a subsidy. This is a probable reason why Nestor Rodriguez, Compensar’s 14 Sub-director of Planning, stated that out of Compensar’s 286,000 affiliates only ten percent were able to acquire a housing subsidy.

To address this problem PSDFs are allowed to transfer up until 30 percent of their FOVIS budget towards financial programs in order to help families reach the credit needed. This is specially for families that are not covered by the banks and/or regular institutions, since the amount of credit they request is too small for a financial institution and to high to be covered by the subsidy. Families applying for Type 2 housing, for example who lacks the saving capacity nor credit of those applying for Type 3 housing and the benefits of families applying for Type 1. In this case a PSDF may use up to the 30 percent of its FOVIS, returning it after five years.

**Recommendations.**

**Geographically.** The implementation of PSDFs across the whole territory is crucial, and the government should providing the means for non compensated PSDFs to secure funding for their FOVIS and expand the coverage of PSDFs to the regions where the program still is not reaching. Government should avoid proliferation of PSDFs but without affecting the capacity of creation of new PSDFs. It is true that certain controls should be provided specifically for the eastern part of the country and for the capital where there are nine PSDFs out of the 55. For the western part more flexible measures should be taken into account considering that this part of the country is less populated and there are fewer PSDFs in south west Colombia. This is an urgent need if the government wants to continue their reliance in the provision of subsidies through PSDFs.

**Beneficiary Selection.** Should be done through the national unified listing and not by each PSDF, in order to prevent misplacement of resources or poor distribution along the region. This unified system should not be used as an information tool but as an effective mechanism to select possible beneficiaries.

14 Compensar is one of the three PSDFs in Bogota.
insuring equal opportunities. This will preclude beneficiary selection from being based on the amount of allocations of the PSDF and local priorities.

**PSDF's Main Objective Must Be The Delivery of Subsidies.** In the same way the government sets the amount of allocations that should go to the FOVIS, it should also set the amount of families of each segment that should be addressed by the PSDFs on a regional and not membership basis, where PSDFs of the same region share benefices as well as responsibilities. To equally distribute resources and prevent large PSDFs from using them in other programs, design elements must include the provision of resources from large PSDFs to smaller ones within the same region while relying on the INURBE.

**Housing Programs.** PSDF should be allowed to develop housing programs because this strengthens their capacity to quickly develop low-income units to prevent informal housing. Also, because they do not undertake extra financial costs, PSDFs can provide housing at a lower price than regular market. However these programs have to be sufficiently targeted to avoid higher income homebuyers to be favored over low-income ones. This could be accomplished by redefining the design elements of the development programs in:

- Planning strategies on a regional basis not on a membership basis.
- Designing restrictive measures regarding unit numbers for type of housing
- Rethinking the amount of FOVIS allocations that may be used for developing units for large PSDFs in an effort to force them to provide smaller ones with their spare allocations for subsidy delivery which is PSDFs main purpose
- Developing and designing different strategies regarding types of low-income families, because strategies should be different for families applying for each type of housing.
Address Each Sector Independently.

- **Type 1 Housing.** Government should: (1) waive the cost of the lot for Type 1 housing to avoid construction in areas that are likely to undergo landslide disasters, earthquake and flooding (2) Develop and enlarge the program of built in own lot (3) Simplify the process of collect applications for the built in owned lot program and (4) Provide families the opportunity to gather from regional PSDFs and not only from one PSDF.

- **Type 2 Housing.** PSDFs must be capable of providing potential tenants with the credit facilities to buy a new unit without having to ask for a subsidy to a bank. Thus, they should continue with the financing program with 30 percent of their FOVIS but still targeting towards only this group.

- **Type 3 Housing.** And discussed above, this market is generally well covered. These tenants have rather large housing choice among developments and the private market and they also have access to credit through a bank. In any case, strategies towards each segment should be further studied and projects should be designed to address each sector independently instead of trying to address them with the same strategy.

**Housing Rehabilitation.** The government’s target is towards the development of new units aiming in reviving the economy by generating employment through out the construction with good results considering that it has been the first sector to reactivate from the economic downturn. Very low-income families comprise a big percentage of the families that live in houses with quantitative deficit however qualitative the deficit is concentrates in the rural areas of the country. The qualitative deficit also suggests, rehabilitation programs are greatly needed.
Table 9. Housing Condition in Urban and Rural Areas

<table>
<thead>
<tr>
<th>HOUSING CONDITION</th>
<th>URBAN</th>
<th>RURAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good (%)</td>
<td>85.3</td>
<td>39.2</td>
</tr>
<tr>
<td>Deficient (%)</td>
<td>13.2</td>
<td>56.5</td>
</tr>
<tr>
<td>Shack (%)</td>
<td>1.5</td>
<td>4.3</td>
</tr>
</tbody>
</table>

*Source: Banco de la Republica. Financiacion de Vivienda. Agosto 2001*

PSDFs should further study enhancing rehabilitation programs, especially for rural areas where it is most needed. Unfortunately there is not complete information on the cost for updates but it does seem that there are no clear strategies or policies for rehabilitation of housing. Determination of subsidy amount is set by the subsidy scale, but there is not a subsidy scale for updates. Nor is there enough information on the cost of rehabilitating a unit against the cost of building a new unit.

**Lessons From The US Experience**

PSDFs should not only be budgetarily controlled by the Superintendence and the Ministry of Development but there should be an institution outside the government that operates regionally to analyze PSDF projects. This outside organization or institution should be able to provide the government with accurate information on success rates of the program and design corrective measures when needed. Two examples of such organizations in the US are the National Association of Housing and Redevelopment Officials (NAHRO) or the Center for Law and Social Policy (CLASP). For PSDFs to design yearly plans that respond to regional needs, and not PSDF priorities, it is crucial that they have a better understanding of market, geographical trends and target population. These organizations are intended to protect the interests of the community and serve as a bridge between the PSDFs’ offers and the community demands, and they may also serve local and national authorities to their policy making process.
One of the major assets of the Housing Choice Voucher Program is its clear definition of the Housing Quality Standards, which help determine suitable units according to minimum habitability conditions; also, the Fair Market Rent and the Reasonableness Test which allows to determine what is fair and what is not. In Colombia minimum standards should be set for PSDF program development. On the one hand, Higher income homebuyers, will always be targeted by the private market and small PSDFs. On the other hand, larger PSDFs will be the only ones providing new Type 1 housing but in unsuitable areas (high risk zones) and in a precarious way in an attempt to meet the value of the house determined by the subsidy scale. HQS should be established for each type of housing, and the government should avoid the construction of new type one units unless the municipality waives partially or totally the cost of the lot by using expansion territories or other mechanisms that reduces land cost. Expansion territories are unused properties in the inner city or expropriated territories being used by the national government to encourage local governments to invest in low-cost housing. Expansion territories are located within the inner cities and have full coverage of basic public services, This is significant because much of a house's cost derives from building infrastructure facilities such as public services and infrastructure (water supply, energy, roads etc.) Policies for very low-income households could be heading towards reinforcing program such as Urbanization of Expansion Territories, and with this program the total cost of the house could be lowered by probably 20 percent. Policies should also help to prevent displacements to city outskirts in territories that are very vulnerable to earthquakes, flooding and landslide disasters.

The Fair Market Rent is set by Rent Reasonableness Test and may fluctuate according to the market changes, as RRT provides the understanding of market trends in an effort to better adjust FMR to changing realities. In the same way there should be a mechanism that performs Reasonableness Tests for units in the Colombian system that may help improve the subsidy scale and therefore make it adjustable to changes in the market and in local conditions.

But probably the main lesson learned from the US experience is that the program is conceived of as a process and not as a result. Its design elements therefore are constantly changing and adapting to new realities, and priority is given to evaluations that may correct negative trends before they turn into problems.
For example, a strong emphasis in construction provided a very large housing stock and led to the elimination of the Section 8 'New' program. Since the current housing stock for low-cost housing is shrinking, however, it is likely that the Voucher New program will be reinstalled to again match offers with demand. Colombia has a housing deficit and has to prevent informal settlements, and it is imperative to construct units that meet the demand. Since the private market is not able to build units at the speed required, it is important that the government provides the necessary help to expedite the process by providing public housing programs until there is sufficient stock. In that sense PSDFs and INURBE are crucial to the development process, although when one conceives of the program as a result and not as a process there is the tendency to think that the programs are not working. Many consultants commonly argue that enabling PSDFs to perform development projects is wrongly headed, in that this targets the wrong population segment. When seen as a process, however, program may be directed towards all families in need by correcting program design failures. In the same way, PSDFs should be conceived as wellsprings of ideas to design programs for worst case need families and not as simply institutions that deliver subsidies. Simply put, Colombia needs to learn to design processes not to restructure institutions.

**Lessons From The Colombian Experience**

High housing costs can leave families with insufficient income for other basic necessities such as education, health or child care. Families that pay to great a share of their income in housing frequently have to move (often to inadequate or even harmful housing, as in the case of lead paint in Baltimore), diminishing their economic prospects, and adversely affecting their children. Thus one of the primary strengths of PSDFs is their holistic approach to social service provision, in that their area-specific subsidies complement the larger social safety net in order to enhance quality of life. PSDFs understand that assuring housing subsidies is the first step towards a stable and efficient employee, and healthier, better educated, a wealthier citizens and families.

Housing policy is one dimension in a larger safety net. Welfare reform successes, for example, are more easily attained when they compliment housing assistance. As Sard and Waller note in their 2001 report *Housing Strategies to Strengthen Welfare Policy and Support Working Families*, "welfare policy should include housing assistance as a strategy for success and that housing policy should promote housing location
options closer to job opportunities." Therefore PHAs should seek cooperation agreements with welfare agencies, and promote the economic self-sufficiency of public housing residents and voucher program participants that are receiving TANF benefits.

In its pursuit of its Consolidated Plan, the City of Baltimore should reorient its focus away from tourism-based approaches to housing rehabilitation toward creating family-based communities. The present 'city as a theme park' strategies focus on people who are leaving and does not create family-based communities, which entail networks and social infrastructures that are one of the main assets of housing programs. Toward this end, Baltimore should maintain and strengthen its public-private-third sector relationships, through which these groups should foment the clearing of slums, the rehabilitation of existing stock, and the creation of new units.
REFERENCES


