FOIA Number: 2014-0224-F

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[October 2, 1997 - Memorandum from Andrew Cuomo - Subject: Housing and Urban Development - Veterans Administration Appropriation Bill: An opportunity for the administration to applaud major housing reform, saving taxpayers millions] [loose]

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U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-0001

THE SECRETARY

October 2, 1997

MEMORANDUM

TO: ERSKINE BOWLES, CHIEF OF STAFF
BRUCE REED
GENE SPERLING
THURGOOD MARSHALL, JR.
ANN LEWIS
PAUL BEGALA
RAHM EMANUEL
JOHN HILLEY
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FROM: ANDREW CUOMO

SUBJECT: HUD-VA APPROPRIATION BILL: AN OPPORTUNITY FOR THE ADMINISTRATION TO APPLAUD MAJOR HOUSING REFORM, SAVING TAXPAYERS MILLIONS

As you know, Congress is poised to pass the HUD-VA appropriations bill. This bill includes the most significant housing reform legislation enacted by Congress during the Clinton Administration and presents the President an opportunity to claim victory on an issue that HUD, Congress and the housing industry have been grappling with for four years.

This bill addresses the Section 8 housing crisis by:

Balancing the Budget while meeting our priorities -- CBO says the legislation saves $562 million dollars, plus hundreds of millions in additional savings in future years from lowering rent subsidy costs. These savings allow continued spending on domestic priorities, including the environment veterans.

Preserving affordable housing – The legislation will preserve decent, affordable housing for 850,000 low-income Americans well into the 21st century.

Protecting against waste, fraud and abuse in government programs – The legislation significantly reduces inflated federal subsidies to landlords.

Background

Twenty years ago, to entice private landlords to build affordable housing, the Federal government signed twenty-year contracts promising to provide rent subsidies to the owners' low-income tenants. To entice lenders to make loans for construction of these projects, FHA insured their forty-year mortgages. The loans assumed that the federal rent subsidies would continue indefinitely.

Today, in many cities, the rents we pay to support low-income tenants in these projects are "out of whack" with market rents. For example, in Las Vegas, the market rent on a unit is $340. But HUD -- and taxpayers -- pay $820. In other words, we are over-subsidizing landlords at twice market rate, while waiting lists for affordable housing remain several years long. In an era of scarce resources, we cannot afford to use housing dollars so inefficiently.

The multi year contracts prevented HUD from cutting rents, but now the contracts are expiring. However, if we simply cut rents, many owners will default on their mortgages. Default could mean an explosion of families with no place to go, devastating deterioration in impacted communities, loss of valuable affordable housing stock built at taxpayer expense, and multibillion dollar claims to the FHA insurance fund – and to the American taxpayer. The Mark to Market legislation solves this problem by restructuring the debt, permitting us to lower the rent subsidies to market rents for thousands of projects. As a result, it prevents insurance costs and saves on future rent subsidies.

Administration Opportunity

We would like to propose two opportunities surrounding passage of this legislation:

Oval Office or White House Signing Ceremony -- An official signing ceremony at the White House would provide the opportunity for the President to take credit for resolving a critical housing issue in a practical way that saves taxpayer dollars and protects low-income families. It also would provide an opportunity for the President to show the Administration working in cooperation with Congressional leaders of both parties. Senators Mack and Sarbanes and Appropriations Subcommittee Chairs Senator Bond and Congressman Lewis deserve special praise for their role in bringing this controversial issue to resolution.

Or:

HUD celebration and press conference immediately following congressional passage and prior to the President's signing of the appropriations bill -- Passage of legislation that preserves and protects the government's investment in affordable housing, while reducing excessive costs, was HUD's top priority. While Mark to Market is a significant victory on both of these fronts, if no particular emphasis is sought, it will be engulfed by the larger message of the appropriations passage. Therefore, we suggest a special celebration **before** the bill is signed, ideally a press conference here at HUD with the Vice President, Members of Congress and relevant interest groups.

Please let me know if we should move ahead with either of these options. I would be glad to discuss either proposal with you further.