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H.R. 3995—THE HOUSING AFFORDABILITY FOR AMERICA ACT OF 2002

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

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April 24, 2002

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H.R. 3995—THE HOUSING AFFORDABILITY FOR AMERICA ACT OF 2002

WEDNESDAY, APRIL 10, 2002

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND
COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to call, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Marge Roukema, [chairwoman of the subcommittee], presiding.

Present: Chairwoman Roukema; Representatives Kelly, Miller, Cantor, Grucci, Tiberi, Frank, Carson, Lee, Schakowsky, Jones, Sanders, LaFalce, and Israel.

Chairwoman ROUKEMA. Today, we're having this hearing obviously on H.R. 3995, the Housing Affordability Act, we hope will be of 2002. These issues are certainly at the top of my agenda and always have been, because I guess I come from that old-fashioned school where my parents always taught me that owning your own home was the American dream. It was part of being a true American to own your own home, and I keep thinking that every time we have a new piece of housing legislation. Certainly the country is facing, however, despite the fact that we have a growing number, 68 percent of the homeownership rate, which is an amazing increase in homeownership, nevertheless, we still have an affordability problem for low- and moderate income families and that certainly is what this series of hearings that Mr. Frank and I have been sponsoring or focusing on. Our subcommittee hearings have focused on what community activist housing experts, local and Federal Government officials and representatives of the real estate industry and the homebuilding industry, as well as mortgage industries. We've had a few of those hearings already, and this is a continuation of that.

Certainly we believe that, or I believe that H.R. 3995, the legislation that's under consideration today, is a good one and not necessarily perfect, but we would like to hope that we can have a really solid piece of legislation in this Congress so that we can get what we would I guess call mid-course corrections in housing programs that are some are under-used, and some are duplicative, and we want to have less regulation if possible.

The bill includes a housing production program and preservation program within HOME that is targeted toward low-income families. In addition, this legislation provides flexibility and increases opportunities for local governments and local decisionmakers so that they can better meet the needs of their individual communities. That's certainly what we're hoping to do here.

There has been under FHA the program that was originally designed to encourage lenders to make credit available, we have been notified or recently learned that there needs to be strength added to it and less regulation, because the needless regulation—at least it seems to be needless in some respects—are adding to the cost of homeownership and we would hope that this legislation H.R. 3995 requires Federal agencies to do a housing impact analysis of any new rule that has an economic impact of $100 million or more.

The Homeownership Opportunities Act for Public Safety Officers and Teachers, H.R. 3191, has also been incorporated into this legislation to make homeownership more available to those public servants.

Today's hearing will specifically focus on the HOME Program Housing Production. New production of affordable single and multifamily housing is essential to the goal of expanding homeownership and affordable rental opportunities. H.R. 3995 creates a separate production program within HOME targeted toward low-and extremely low-income levels. HOME is the largest Federal block grant to State and local governments and it is designed exclusively to create affordable housing for these low-income households. And so we are amending the HOME program to establish a housing production program to increase the production and preservation of mixed income rental housing for the very low, 50 percent of median income, and extremely low-income families, 30 percent below the level of median income in the area.

I won't go into more of that, I mean, of those specifics. I'm sure they will come up in the discussion with the people who are testifying today. But let me just say that H.R. 3995 includes a provision that establishes—and here I'm going to ask some questions hopefully, or listen very carefully for what is being said by our panelists concerning a thrifty production voucher. This thrifty voucher could be used in conjunction with the new construction or substantial rehabilitation. I don't believe that this thrifty voucher is carefully identified and defined as a different type of voucher, because it's based on the property operating costs, but we're going to be asking, exploring if not in questions today, certainly exploring through the legislative process how those vouchers would work and who would approve the vouchers and how they specifically are differentiated from the other vouchers that are presently in the law.

It has been stated that the thrifty production vouchers can be combined with any capital subsidy program so as home or low-income housing tax credits, but I'm not quite sure exactly how that would work and we'll have to explore that in more detail. We will go into a lot of these questions. They're not insurmountable problems. They're not unanswerable questions, but we will use this hearing today to refine some of the parts of the program and certainly those who are here with us today have good, practical experience in the real world with these issues. So it's not theoretical, but it's a real world explanation of how we can increase the American dream and expand the American dream for all of our citizens.

And with that, I would turn to the Ranking Member Congressman Barney Frank.

Mr. FRANK. Thank you, Madam Chair. I am very pleased that we are moving into a stage where we are actually going to be marking up legislation. We have a housing crisis, and it's important to note that we have a debate in this country, as to whether or not when you get great private sector performance, and when the level of prosperity in the private sector, as we measure it, is fairly high. The question is does that then not mean that Government doesn't have to do anything? I am generally skeptical of that proposition, but nowhere is it less valid than regard to housing. We have just come through a period in which we have proven results, given the inevitable unevenness of prosperity. Great prosperity, even for most Americans, exacerbates the housing crisis for many Americans.

We have a housing crisis in many parts of this country today for lower income people, which leaves them worse off than they were before the great decade of economic prosperity happened. And so it is obvious that if the Government does not significantly increase its role, then we will not achieve that goal of housing. And I agree very much with what the Chair said. I was pleased when she said in the middle that we're talking about homeownership and rental housing. I do think we have to guard against the tendency to devalue rental housing. Low-income people need to have good rental housing; the American dream is a home, not homeownership. Homeownership is good for some people, it is heavily tax favored. If we have a subsidized rental housing for low-income people the way we subsidize through the Tax Code homeownership, we would have probably a surplus of low-income homes. No one is thinking we're going to get there, but it is important to mention rental housing.

Now there will be some specific questions that we will have; our colleagues have got a proposal which I have cosponsored. There are some things in the bill. We'll be hearing from the Millennium Housing Commission. I thought that was supposed to be this millennium, I'm not sure, they were uncertain.

[Laughter.]

Mr. FRANK. But we will hear from them at some point and all of those specifics will be very important, and I thank the Chair for the hearings last year and for responding, because basically almost everybody, I think all but one witness last year over a broad range, said you need a production program. And the Chair and I have both over the years noted that while the Section 8 program does some good, in some markets it is not suitable and is not the best way to go and that you need a range of housing programs, because not every housing market has a one-size-fits-all.

Indeed, I think it's very clear and we ought to do a little classic economics here. Given the voucher program as a tenant-based-only, as long as there is no project based where it's not an incentive to build, in tight housing markets, what you do with Section 8 is add to demand in a way that is guaranteed not to add supply. Now that helps equity, but it also drives up costs. So that in tight housing markets, a voucher-only program by classical economic supply and demand is a very insufficient policy.

The question though that really has to be addressed if it's not fully within our jurisdiction, but we're what, more than ten percent of the House, so we can influence this; it's money. You can't build bricks without straw and you can't build houses without money. And we can all try to be efficient and we can all talk about thrifty vouchers and cheap this and inexpensive that, but you still need some money.

And I just want to summarize a statement. We've been having meetings with a variety of groups, a wide variety of groups, advocacy groups, business groups that are in the housing business, people who are trying to get housing rented, local officials, and I want to read the statement and particularly I want to read the list of signers.

More than 15 million families in this country have critical housing needs. Too many are homeless. About one in every seven households do not have a decent affordable place to call home. We believe that to correct this problem, a significant and sustained commitment to increased funds for housing in both urban and rural areas should be made at the national level. A reasonable downpayment on that commitment would be an increase of $15 billion in the coming fiscal year's budget for housing and community development. This can include both tax expenditures and outlays benefiting low- and moderate income families which can leverage State, private and local funds beyond the $15 billion. This is signed by the National Housing Conference, the Mortgage Bankers Association of America, the American Association of Homes and Services for the Aging, the Public Housing Authorities Directors Association, National Affordable Housing Management Association, National Alliance to End Homelessness, the Council of Large Public Housing Authorities, Citizens Housing and Planning Association of Boston, the Housing Assistance Council, the National Leased Housing Association, the National Low Income Housing Coalition, the Council for Affordable and Rural Housing, the McAuley Institute, the Consortium for Citizens with Disabilities Housing Task Force, the National Community Development Association, the Local Initiatives Support Corporation, the U.S. Conference of Mayors, the Enterprise Foundation—I bet for once you're glad I talk too fast—the National Rural Housing Coalition, the Corporation for Supportive Housing, the National Fair Housing Alliance, the Alliance for Retired Americans, the National Association of Counties, the National Association for County Community and Economic Development, National Association of Local Housing Finance Agencies, Network, a National Catholic Social Justice Lobby, National Community Reinvestment Coalition, National Council of State Housing Agencies, the Center for Community Change, the National Housing Trust, the Council of State Community Development Agencies, the National Multi-Housing Council, the National Apartment Association and the National Association for Affordable Housing Lenders.

This is the key question that has to be part of our deliberations. Yes we have some good proposals on the table to go forward, but without increased resource it won't work, and we simply cannot have a policy of cannibalizing existing programs to support new ones. There is a need for new money and this is part of what we have to do, but it has to be put in the context of the need for resources.

Chairwoman ROUKEMA. I thank the Ranking Member. I will acknowledge the fact that Congressman LaFalce, the Democratic leader on the Full Committee has joined us today and although I'm going to ask unanimous consent that all other opening statements be included in the record and that we go directly to the panel, I would give Congressman LaFalce the opportunity as the leader of the Committee Ranking on the Full Committee to make his opening statement.

Mr. LAFALCE. Well, I thank the gentlelady very much, and I would like to begin by commending the Chairwoman of the Housing Subcommittee for her diligence in developing an Omnibus Housing Bill, H.R. 3995. The bill includes a great number of very constructive provisions to address the issue of housing affordability, and I think that by the time we report it out of subcommittee, Full Committee, and the floor of the House and get it signed into law, the Roukema Housing Bill will be a great testament to your great congressional career.

I also personally appreciate the inclusion in the bill of a number of individual bills that I've introduced: specifically, H.R. 674, with respect to FHA loans for teachers, police and firemen; H.R. 858, to permanently authorize the FHA downpayment simplification formula; and H.R. 3926, which would prohibit the implementation of the 50 percent hike in the fees charged by Ginnie Mae. And I have a few others too that I think should be included in order to make it an even better bill, Madam Chairman, and will make an appointment with you for a cup of coffee to perhaps discuss those in your office.

But before I close, I'd like to address the issue of affordable housing production, which is the major focus of today's hearing. Clearly in many parts of this country, rents are skyrocketing, vacancies are near zero percent, and low-income families and seniors are having an extremely difficult time finding an apartment to rent. And in many areas, simply having a Section 8 voucher is not enough for a low-income tenant to be able to find a place to live. So we need to build new affordable housing, and the provisions that are the subject of today's hearing certainly address such needs.

But I'd also like to point out that these types of housing conditions do not exist in every part of the country and do not exist even in every urban area. There are a great many older urban areas, like those I represent, where a more pressing need is not building new housing but rehabilitating the existing housing stock. And there are many, many parts of the country where affordable housing preservation, in the narrower sense of the word, is not a critical concern because it's just not that attractive to opt out of assisted housing when market rents are not an attractive option.

Therefore, I reiterate some of the comments that the Ranking Member, Mr. Frank, made. As we deliberate proposals to create new HUD programs, and as we consider proposals to revise existing programs, we must maintain flexibility in our policies to make sure they work for all communities nationwide. Where in one community the highest priority may be to build new housing, in another it may be to rehabilitate the housing we have. Where in one community it may be the highest priority to find new housing for the very lowest income families, in another, a major priority may be to bring middle income families into communities that are concentrated with poverty or to bring individuals who are extremely low-income into middle income communities.

We need to do a better job to facilitate a more integrated society and I don't know that we've done a good enough job there. One size does not fit all. In order to sustain support for whatever we authorize, our policies have to work for all communities, for all local market conditions. I look forward to these hearings, and I look forward to working with you in further subcommittee consideration of an excellent start in H.R. 3995.

I thank the Chair.

Chairwoman ROUKEMA. I thank Congressman LaFalce for his insightful statements. We will have more of a discussion or a debate whether public or private, but there are issues that we would want to discuss. Now I would ask unanimous consent that we go on to the panelists, but that all——

Ms. JONES. Madam Chairwoman.

Chairwoman ROUKEMA. Excuse me. Excuse me, but I was just going to say we're very limited in time with the votes that will be coming up, and we do want to begin to hear the panelists, but that all the opening statements would be made part of the record. Yes?

[Pause.]

Chairwoman ROUKEMA. Congresswoman Jones has a personal point to make for all the Members of the subcommittee for their information.

Ms. JONES. Thank you, Madam Chairwoman.

Just on behalf of the family of my staff of Rodney Pulliam, who was killed in a car accident in Frederick, Maryland, about 3 weeks ago, on behalf of his family, I wanted to thank all of the Members of the subcommittee who expressed their sympathy and sent cards and the like, and just ask for a moment in support of his family from all the staffers, just a fine young staffer for the Banking Committee, and particularly for Housing.

Chairwoman ROUKEMA. Yes, there'll be a moment of silence.

Ms. JONES. Thank you, Madam Chair.

Chairwoman ROUKEMA. Thank you, that was a terrible tragedy and we do appreciate your bringing to the attention so that we could properly pay homage to him and his family.

All right, the opening statements will be included in the record, and with that I will open the hearing for our two colleagues, Congressman Bernie Sanders from Vermont, and Congresswoman Barbara Lee from California. From east to west, shall we do that? East to west. Congressman Sanders.

STATEMENT OF HON. BERNARD SANDERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VERMONT

Mr. SANDERS. Madam Chair, thank you very much for holding this important hearing, and I am particularly grateful to you for allowing me to testify in support of the legislation that I introduced last June, to create a national affordable housing trust fund and that is H.R. 2349, and I also want to acknowledge the extraordinarily good work for many years that Mr. Frank has done in fighting for affordable housing as well.

The legislation that I introduced currently has 172 cosponsors. It is tripartisan—162 Democrats, 9 Republicans, and 1 Independent, and has been endorsed by more than 2,000. Mr. Frank started reading off a long list of people. Well, if I listed all of the people who endorsed this bill, we'd be here all day.

Chairwoman ROUKEMA. Please we'll include them in the record.

Mr. SANDERS. I will not. But I do want to say this. These 2000 groups represent national, State, and local organizations from one end of this country to the other. This is an effort that has been spearheaded by the National Low Income Housing Coalition and the National Coalition for the Homeless, and I want to applaud them for their grassroots efforts. But let me, just to give you an example of the diversity of support for this legislation, we have the AFL/CIO Housing Investment Trust Fund, the United Way, the Silicon Valley Manufacturing Group, the U.S. Conference of Catholic Bishops, Children's Defense Fund, Smart Growth America, Habitat for Humanity, Charter One Bank in Ohio, the Sierra Club's Challenge, the Sprawl Campaign, and the National Coalition Against Domestic Violence.

As you can see, H.R. 2349 is supported not only by low-income groups, not only by business leaders and by unions and by religious groups, it is supported by almost every type of organization that you can imagine. And the reason for that is that all over this country, in urban areas and in rural areas, people understand that we have a major housing crisis that has been neglected for too long and that the time is now for the United States Congress to step up to the plate and protect the interests of millions and millions of families.

Madam Chair, it is almost unprecedented to have an outpouring of support from such a broad array of groups, and I am very grateful for their support. According to the accounting firm Deloit and Touche, profits generated by the Federal Housing Administration are expected to exceed $26 billion over the next 7 years. Now Mr. Frank a moment ago said that if we are serious about building housing, we've got to be serious about putting real money into housing, and I agree. And this legislation puts real money into housing, and it begins in a serious way to address the national crisis that affects people in Congresswoman Lee's district, on the West Coast, and affects people in the State of Vermont.

HR 2349 would use the surplus to create an affordable housing trust fund, a trust fund. And by creating a trust fund, the United States Congress says, we are serious, there will be a dedicated amount of money every year to address the crisis in housing. And this trust fund allows States and non-profit organizations to build affordable housing rental units in mixed income locations, to construct affordable homes for low-to middle income citizens and to provide rental subsidies to low-income individuals. According to housing experts, if the FHA surplus was used to build affordable housing, we could more than triple, more than triple affordable housing construction next year and provide accommodations to more than 200,000 families every single year. In other words, we will be taking a serious step forward to address the housing crisis facing this country.

Madam Chair, there is an affordable housing crisis in this country. Millions of low-income citizens, the elderly, the disabled, and families with children are increasingly unable to afford decent housing. According to a study by the National Low Income Housing Coalition, 48 percent of the renters in my own State of Vermont are unable to afford the State median fair market rent of $619 including utilities for a two-bedroom apartment. What is going on in Vermont is going on throughout the United States of America.

Nationally, the affordable housing crisis is getting worse. According to a survey by the U.S. Conference of Mayors, requests for emergency shelter in 27 cities increased an average of 13 percent over the last year. In 75 percent of the cities surveyed, request for shelter from families with children increased by more than 30 percent. In the United States of America, children should not be sleeping out on the street, should not be sleeping in shelters; they should be sleeping in safe, affordable housing.

In New York City and Boston, they are experiencing a record number of homeless people. While homelessness is up by more than 20 percent in Kansas City, Chicago, Denver, New Orleans, and right here in Washington, DC.

In addition, according to a recent report by the National Housing Conference, 13 million Americans are paying more than half of their limited incomes on housing or are living in severely substandard housing. And that's an important point to reiterate. You know everyone, the TV cameras focus on homelessness. That is a national tragedy. But what we don't pay enough attention to is that millions of people are spending 50, 60 percent of their incomes on housing, and how do you have money available for other needs when you're spending so much on housing.

Madam Chair, H.R. 2349 begins to address this crisis by providing a reliable source of funding dedicated solely to producing affordable housing. Just as Congress provided a commitment to fund our highways and airports by creating a highway trust fund and an aviation trust fund, the time is long overdue to create a national, affordable housing trust fund.

Highways are important, airlines are important, housing in fact is more important. I should add that not only would a national affordable housing trust fund help solve the housing crisis, it would generate approximately $1.8 million decent paying new jobs and nearly $50 billion in wages according to a Center for Community Change Study.

As today's economy continues to sputter with layoffs and as millions of Americans are paying 50 percent or more of their limited incomes on housing, the creation of a national affordable housing trust fund is needed now more than ever.

Madam Chair, thank you very much for this opportunity. Let us go forward in a serious way, let's develop a national affordable housing trust fund. Thank you very much.

Chairwoman ROUKEMA. I thank the Congressman.

And Congresswoman Barbara Lee, be conscious of the time limit.

STATEMENT OF THE HONORABLE BARBARA LEE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Ms. LEE. Thank you, Madam Chair, and thank you very much for allowing us to present this morning or at least be witnesses this morning, and also want to thank you for really addressing the affordable housing crisis that affects millions of all our constituents from coast to coast in a very bipartisan fashion, and I want to thank and commend the leadership of our Ranking Member also for making sure that both sides of the aisle really continue to move in a bipartisan fashion in addressing this major issue.

Like my colleagues like yourself, I believe that the Congress must take action immediately. We just must make this housing crisis I believe a national priority. Certainly homeownership is key to realizing the American dream. This is the primary way that families individuals send their children to college, acquire some form of wealth to start a small business, but also, like yourself, I believe that any housing strategy must include provisions for those who may not necessarily be able to afford or want to purchase a home, and must include affordable rental programs as well as housing for the homeless as part of any housing initiative.

Now I represent a portion of Alameda County, which is in the East Bay on the sometimes I say the sunny side of San Francisco. It includes the cities of Oakland, Berkeley, Alameda, Emoryville, Albany and Piedmont. My district—and I share this with you, because I think this is an example of what's going on in California—we benefited from the high tech boom of the 1990s, but it dramatically increased the housing costs which spread from Silicon Valley throughout the region. So even though the housing market now has leveled off, housing still remains unaffordable.

According to the California Housing Law Project, one-third of California families spend over half of their income on housing. Data from the fourth quarter of the year 2000 indicates that nine of the ten least affordable metropolitan areas in California, of course led by San Francisco, Oakland, and my home city comes in at number eight. Now the housing wage in California is approximately $18.33 an hour. That's the wage that's required to afford the average two-bedroom apartment. The problem of course is that in California, our minimum wage is $6.25. So what do people who make the minimum wage? What do they do for housing? Where do they live?

We, as policymakers, must ask these questions, and more importantly we must come up with solutions. We have 1.45 million housing units in need of replacement in California and 60 percent of substandard housing is rental housing.

I could go on and on, but I want to save time for our rental housing experts to testify. But I think the point of it all is that we need a national housing production program. The National Housing Conference is recommending a $15 billion transfusion into our housing programs for this purpose to build, rehab, and preserve affordable rental housing, and I want to thank and commend my colleague from Vermont, Congressman Sanders, for introducing H.R. 2349. We've worked together on this and I think that he is exactly right when he talks about the fact that we need the resources and the funds. Using the funds from FHA and Ginnie Mae accounts that are above the statutory requirement makes sense because these funds have grown dramatically because of the housing boom. And it is sensible policy to put excess funds in these accounts back into affordable housing plans to help those who are being squeezed out of their home neighborhoods and away from their job centers.

On Monday of this week, the California legislature, in fact, I believe it was the Assembly, we approved a $2.1 billion housing bond to help deal with this issue. The Housing Trust Fund would help leverage this money, so this is just a start. California, like most States, is now facing serious budgetary pressures, so it's time that the Federal Government really helped States with this burden.

Finally, let me just say my colleague, our Ranking Member on the Ways and Means Committee, Congressman Charlie Rangel, he has introduced legislation making housing a constitutional right. And I fully support this. We live in the richest country in the world, and we should ensure that each and every person has access to decent affordable housing. To do that, however, Congress must put its money where its mouth is and dramatically increase funding for affordable housing programs nationwide.

I want to thank you, Madam Chair, for this opportunity to be with you today and thank you for the privilege of serving on your subcommittee, and I look forward to working with you on H.R. 3995 as well as H.R. 2349.

Chairwoman ROUKEMA. Thank you, Congresswoman. We greatly appreciate your insights and your contribution to this discussion from both of the Members and we look forward to working with you as we go through. And hopefully before this session is concluded in the fall, we will have a bill up on the floor. Thank you very much.

Mr. SANDERS. Thank you very much.

Chairwoman ROUKEMA. Now will the second panel come forward, please.

Thank you, we welcome you here today, and I will introduce each member in the order in which they are speaking, but I would like to State to those of you the usual procedure here, and that is that you will have 5 minutes in which to make an opening statement. Your written statements will by unanimous consent be introduced into the record, and your 5 minutes, of course, will be used to summarize your full statement, and then we will recognize Members, each of the Members of our subcommittee who have questions for you, and we will give them a maximum of 5 minutes to ask questions before this panel discussion is complete.

Also, I might also note that each Member of our subcommittee has the opportunity and the right to submit in writing further questions so that you can submit the answers in writing to those questions for the full record and those responses, those questions and responses will be available not only to the public, but to every Member of the subcommittee.

That having been said, I will now introduce you members in the order in which you will be heard. And our first witness is Javier Gonzales. Mr. Gonzales is the Commissioner on the New Mexico County Board of Commissioners in Santa Fe. He is testifying today on behalf of the National Association of Counties and the National Community Development Association for County, Community and

Economic development. Mr. Gonzales you have considerable experience in your State of New Mexico and you are speaking out on behalf of counties across the country. Mr. Gonzales.

STATEMENT OF JAVIER GONZALES, COMMISSIONER, SANTA FE COUNTY, NEW MEXICO, ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES, NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION, NATIONAL ASSOCIATION FOR COUNTY COMMUNITY AND ECONOMIC DEVELOPMENT, AND NATIONAL ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES

Mr. GONZALES. Thank you, Madam Chair. My name is Javier Gonzales and I'm a County Commissioner from Santa Fe County, New Mexico. Madam Chair, as you indicated, I currently serve as the President of the National Association of Counties. I'm appearing before you today on behalf of the National Association of Counties, the National Association of County Community and Economic Development, the National Association of Local Housing Finance Agencies, the National Community Development Association, and the U.S. Conference of Mayors.

We applaud the subcommittee's leadership on the important issue of affordable housing and thank you for inviting us to speak today on H.R. 3995, the Housing Affordability for America Act of 2002. The groups that I represent here today would like to congratulate you, Madam Chair, on the introduction of H.R. 3995. More importantly, we appreciate the advocacy and leadership that you have provided over the years on the issue of affordable housing. Today, I'd like to address three themes; the need for more affordable housing, elements of a housing production program, and our support of homeless assistance programs.

It is undisputed that communities are in need of more housing that is affordable for families and individuals. Research presented in 2001 by the U.S. Department of Housing and Urban Development indicates that nearly five million render households still pay more than half of their income for housing, or live in severely substandard housing. Many of these families are with children, the elderly, or they are disabled. In addition, HUD data states that the number of affordable housing units available to these households continues to diminish. The lack of housing availability causes demands and rents to increase. Further the report concludes that the private market is not producing enough affordable housing to meet demand.

It is clear that additional housing that is both affordable and available to low-income individuals must be produced. For this reason, we support H.R. 3995. It is an important piece of legislation because it provides additional resources to local governments to create affordable housing. Our organization strongly supports provisions of H.R. 3995 that create a program for the production and preservation of rental housing within the Home Investment Partnerships Program. We are long supporters of the Home Program, as you are aware, Madam Chair. The Home Program is already targeted toward low-income families, flexible for local jurisdictions to utilize and has a demonstrated track record of success.

Creating a funding stream for the production of housing within HOME makes sense, and mirrors a proposal developed jointly by our organizations. To date, there have been a number of bills introduced in Congress to increase housing production. These proposals are mainly focused on creating a national housing trust fund, a new and separate program from existing HUD programs that targeted all of the resources directly to just States.

In effort to avoid a situation where such a program would compete with HOME and to provide a fair share of funds to both local governments and States, our associations support a housing production element within the HOME program. Our proposal seeks to dramatically increase the production of affordable mixed income rental housing, and relies on the infrastructure currently in place within the HOME program. Our proposal would provide grants and loans for the construction, rehabilitation, and preservation of multifamily housing. All of the resources made available under our proposal would benefit very low-income families. Funds would be appropriated 60 percent to local participating jurisdictions, and 40 percent to States. That is what is proposed in H.R. 3995.

We also support the creation of the thrifty production voucher which can be used with capital subsidy programs such as HOME, the low-income housing tax credit, and the community development block grant program. This new voucher will work particularly well with the new home production program by providing a means for housing voucher recipients to access housing units made available through the program. Our organization also supports aspects of the bill addressing homeless housing assistance. We believe that Federal resources allocated toward programs that create temporary and permanent housing as well as supportive services for the homeless will enable local governments to better serve their communities.

We're very supportive of provisions in H.R. 3995 that shift the renewals for the supportive housing program and the shelter plus care program to HUD's housing certificate fund. This shift will allow more of HUD's homeless assistance funding to be used to create new permanent housing for the homeless as well as provide a consistent source of renewal funds.

In conclusion, Madam Chair, I want to commend the subcommittee for bringing attention to the issue of affordable housing and urge you to pass H.R. 3995 as quickly as possible. As local government leaders and community development practitioners, we are fully aware that decent affordable housing is crucial to the health, safety, and welfare of the citizens whom we represent. We appreciate the opportunity to be with you today. Thank you once again for your leadership and for inviting our testimony. I'd be happy to answer any questions that you or the subcommittee might have.

[The prepared statement of Hon. Javier Gonzales can be found on page 148 in the appendix.]

Chairwoman ROUKEMA. Thank you.

Our next member of the panel is Mary Brooks. Ms. Brooks is with the Center for Community Change, and she directs, as I understand it, you are the Director for the National Housing Trust Fund Project, is that correct? Yes. And we've been talking a lot about trust funds here so maybe you can give us some of your insights with respect to your own experience. Ms. Brooks.

STATEMENT OF MARY E. BROOKS, HOUSING TRUST FUND PROJECT/CENTER FOR COMMUNITY CHANGE

Ms. BROOKS. Thank you.

Chairwoman ROUKEMA. Again, I ask you to be conscious of the time limit.

Ms. BROOKS. Yes, I will. Thank you for inviting me to testify and I too applaud you for taking serious consideration of addressing critical housing needs in this country. I have been directing the Housing Trust Fund Project for nearly 20 years and have followed and worked with housing trust funds all over the country. I have been asked to testify about the experience of local housing trust funds, and attached to my written testimony are maps indicating where housing trust funds exist throughout the country.

There are few elements in life that are more pivotal than having a decent, affordable home, and housing trust funds address this need very directly. My intent today is to give you a picture of what the experience has been with local housing trust funds. There are presently more than 250 housing trust funds across the country in cities, counties, and States. These unique funds secure a dedicated source of public revenue to support critical housing needs. That single factor about housing trust funds is what is critical about their ability to succeed in addressing housing needs throughout the country.

The earliest of these housing trust funds was created in the 1970s, so we now have decades of experience with local housing trust funds. Today they commit nearly $750 million each and every year to addressing affordable housing.

In my written testimony, I've outlined the key characteristics of local housing trust funds, but the element that I want to focus on is indeed the dedication of a revenue source. Identifying public revenue that can be committed to local housing trust funds is at the core of these housing trust funds. For most city housing trust funds they have committed developer fees, property taxes, excise taxes, hotel/motel taxes. County housing trust funds have relied on document recording fees. State housing trust funds have used real estate transfer taxes, interest from real estate escrow accounts and also document recording fees. More than two dozen different sources of public revenue has been committed to local housing trust funds. These revenue sources come from businesses, from real estate, and from citizens themselves. And in fact some housing trust funds, while most of them are passed by a vote of the State legislature or county commissioners or city council, some of them have been passed by a public vote. St. Louis' housing trust fund recently was passed by 58 percent of the voters; St. Louis County an astounding 78 percent.

You don't need me to tell you how successful housing trust funds are. I can let them speak for themselves. Nebraska has awarded nearly $16 million to provide more than 800 units of housing and created more than 1700 jobs. New Jersey has committed almost $300 million to provide 16,000 affordable homes. Illinois commits $16-to $20 million each and every year from its housing trust fund.

Vermont has committed more than $38 million through its trust fund to provide nearly 2500 homes. Sacramento, California has committed more than $19 million to provide another 2,000 homes. St. Paul has put more than $27 million into 260 affordable housing projects, providing nearly 500 jobs. Chicago $37 million to subsidize 11,000 units. Pennsylvania has created a model program enabling counties within that State to create their own housing trust funds and it amounts to about $15 million a year.

We cannot do a meaningful housing program in this country without dedicating revenue to it. Increasing dollars for these housing trust funds has occurred over time. Their dollars are growing rather than reducing in more than half of the housing trust funds. We cannot solve the housing crisis without making a serious commitment of revenue. These 250 communities throughout the country have made a decision to dedicate revenue. They're asking the Federal Government to do the same, to do what they have done, to make a permanent commitment to providing decent housing for every American. The benefits are real, but they won't be real unless our commitment is real. If you create a national housing trust fund with a permanent stream of on-going revenue, we can make significant gains in addressing the housing crisis in this country. I think it's time to do so and I hope you do too. Thank you.

[The prepared statement of Mary E. Brooks can be found on page 155 in the appendix.]

Chairwoman ROUKEMA. I thank you, Ms. Brooks.

Our next panelist is William Faith. Mr. Faith is from Columbus, Ohio, and he's the Executive Director of the Ohio Coalition on Housing and Homelessness. And Mr. Faith it is my understanding that you are representing the National Low Income Housing Coalition today and speaking on their behalf. Mr. Faith. Again, 5 minutes.

STATEMENT OF WILLIAM FAITH, EXECUTIVE DIRECTOR, OHIO COALITION ON HOUSING AND HOMELESSNESS, ON BEHALF OF THE NATIONAL LOW INCOME HOUSING COALITION

Mr. FAITH. Thank you, Chairwoman Roukema. I want to thank you for the opportunity to testify today. I am Bill Faith. I'm testifying as the Chair of the Board of Directors of the National Low Income Housing Coalition. I am, in my day job, the Director of the Coalition on Housing Homelessness in Ohio. We have over 600 organizational members in the State of Ohio representing a range of organizations providing housing assistance to our citizens. Before I get into some of the details, I just want to acknowledge and express my gratitude to yourself and your staff as well as members of the Ohio Delegation, Mr. Tiberi, Ney, Oxley, Ms. Jones for your ongoing intervention with HUD to free up the OTAG and ITAG funding. I promised Mr. Jones I would not speak about this today in depth. I do think, though, that your help and intervention has moved that process along and we're hoping we're getting a lot closer to resolving the situation.

But I want to commend you also, Ms. Roukema, for convening this hearing today to discuss H.R. 3995 as well as H.R. 2349. I'm pleased to follow the testimony of Mary Brooks who is really the mother of the housing trust fund movement in the United States.

She is the nation's foremost expert on housing trust funds and this valuable source of funding for affordable housing across the country. She has worked with us in Ohio where do have a State housing trust fund and several of our cities do as well. What Mary's research validates is that the critically important role that State and local trust funds play to the overall inventory of housing production and preservation that is required. However, we did a calculation over the last few days and in Ohio, all of our housing trust funds that we have generate about $30 million a year, which is probably better than average in the States. But that's only about 40 percent of Ohio's total home allocation, so while it's an important contribution, it does not come close to meeting the need. A substantial increase in investment is also required.

The National Low Income Housing Coalition understands that there's not a single solution to the affordable housing crisis, but rather multiple layers of interventions are required. First, we must preserve the viable subsidized housing stock that we already have. Gains made in adding to the supply of affordable housing through new production should not be offset by losses in the existing stock. Ohio has the third highest number of Section 8 project-based units in the country outside of California and New York. Despite efforts by our State in dedicating tax credits, bond financing, home dollars, housing trust fund dollars, and other resources to preserving this stock, we still have 58,000 units with over 150,000 elderly, disabled, or low-income residents that are in jeopardy of being lost to the affordable housing supply. More money's needed to be able to purchase and renovate these buildings and to keep them affordable over the long term. We are pleased that your bill, as well as H.R. 2349, recognize preservation as an eligible activity and we applaud that.

Second, we must increase low wage workers' purchasing power in the housing market with increased housing assistance or housing vouchers. We must improve the housing market's response to voucher holders by breaking down barriers to successful voucher use by low-income people.

Third, we must build new housing, and I also want to emphasize in some markets it's equally important to rehabilitate existing housing. In many parts of my State in the old industrial areas, the stock is there; it's just not in a condition that's desirable. There are housing affordability problems for many low-and moderate income people, the data is overwhelming. The most acute affordable housing shortage is for households that are extremely low-income or incomes less than 30 percent of the area median. Both your bill, H.R. 3995, and H.R. 2349 create new sources of funding for housing production and preservation that serve the lowest income people.

Chairwoman ROUKEMA. Mr. Faith, your time is up. Can you summarize, please?

Mr. FAITH. Well, I want to quickly, one thing I'd like to do for the record is update the list of endorsers that Mr. Sanders talked about for the National Housing Trust Fund proposal.

Chairwoman ROUKEMA. We will put them in the record. We will put them in the record.

Mr. FAITH. There's now 2101 endorsers from throughout the United States.

Chairwoman ROUKEMA. Don't read all of them please.

[Laughter.]

Mr. FAITH. I won't read any of them, but I would like to submit the list for the record.

Chairwoman ROUKEMA. Thank you. Thank you. Thank you.

[The prepared statement of Willaim Faith can be found on page 166 in the appendix.]

Chairwoman ROUKEMA. Now, Ms. Hadley. Ms. Hadley is a Commissioner from Minnesota Housing Finance Agency and she is here today testifying as representing the National Council of Housing Finance Agencies. And as you know, or as we should all remember and be refreshed that National Council of Housing Finance Agencies is at least 30 years old or longer and has coordinated and has been a Federal advocate for the programs for all of those 30 years, and we look forward to working with you in the foreseeable future endlessly. Ms. Hadley.

STATEMENT OF KATHERINE G. HADLEY, COMMISSIONER, MINNESOTA HOUSING FINANCE AGENCY, ON BEHALF OF THE NATIONAL COUNCIL OF HOUSING FINANCE AGENCIES

Ms. HADLEY. Thank you, Madam Chairwoman and Members of the subcommittee. I'm Kit Hadley, Commissioner of the Minnesota Housing Finance Agencies. I'm testifying on behalf of the National Council of State Housing Agencies which represents the Housing Finance Agencies in the 50 States. First I want to thank you, Madam Chair, Congressman Frank, and the many other Members of the subcommittee who have cosponsored H.R. 951, the Housing Bond and Credit Modernization and Fairness Act and encourage those of you who have not yet cosponsored to consider supporting this important legislation.

NCSHA commends the Chair for recognizing the urgent housing needs of the lowest income families and households, and for proposing new Federal resources for producing rental housing for them. My comments this morning are focused on our belief that the HOME program is not the best mechanism for delivering these resources.

I want to address three of the reasons why we recommend that any new rental production program be delivered by the States. First, States are uniquely positioned to coordinate and target scarce resources. States are close enough to real housing issues and needs that have enough perspective to bring a statewide or regional focus to problems that cannot be solved within municipal boundaries. Housing markets, labor markets, transportation and transit systems extend beyond municipal boundaries. Human services are funded by States and counties. The challenge of producing very affordable housing near new jobs and transportation, promoting economic integration in communities throughout the metropolitan area, and coordinating homeless prevention and assistance efforts on a metro-wide basis cannot be addressed as efficiently and effectively by numbers of separate local jurisdictions. State housing agencies can bring together resources, sister stage agencies, and local partners in ways that the Federal Government and local governments cannot.

States are partnering now with organizations that use TANF funds in welfare reform efforts, Medicaid waiver funding and other types of human services funding to produce assisted living and supported housing for people with mental illness, chemical dependency and developmental disabilities.

The second argument in favor of State administration is that small allocations to many jurisdictions will dilute a new rental housing production effort. Funds available under any reasonably anticipated budget scenario will be too scarce to be divided among more than the 50 States. We need production at scale. New construction and substantial rehabilitation is expensive and small allocations of money won't get us there. For example, in the Twin Cities' metropolitan area, four urban counties formed a consortium to become a participating jurisdiction for the HOME program. Given the allocation agreement among the four of them, even if a new Federal housing production program is funded at the $2 billion level, the jurisdiction that receives the most money under this formula could fully fund eight units of housing for extremely low-income people.

Small allocations to the nearly 600 jurisdictions that receive home funds will add to the fragmentation and cost of affordable housing development, both in the development phase and in the long-term compliance and oversight phase.

Finally, the third reason for State administration has to do with capacity. Look at the biggest production financing tools of the last 20 years, the ones that have actually produced real housing. States have consistently been the only parties that have delivered all three of these; the housing credit, rental housing bonds, and certain FHA multifamily insurance programs. States have the sophisticated underwriting finance and asset management capability to ensure the responsible use of scarce Federal resources. At whatever level a new Federal rental production program is funded, it will still be necessary to bring together multiple sources of mortgage and subsidy funding. States already do this, and in fact are the only point in the funding and delivery system where all the major resources can be accessed in one place.

I appreciate the opportunity to comment on this important proposal. NCHSA looks forward to working with the subcommittee as it considers H.R. 3995. Thank you.

[The prepared statement of Katherine G. Hadley can be found on page 189 in the appendix.]

Chairwoman ROUKEMA. I thank you for your testimony, and the focus at the State agencies.

Now, our final panelist today, at least on this panel is Catherine Racer. Ms. Racer is the Director of the Massachusetts Department of Housing and Community Development. I might observe that I believe Congressman Frank thought he would be back by this time. Perhaps he's been unavoidably delayed undoubtedly, but perhaps he will come in as you continue to testify. And you are testifying today not only on behalf of the experience you've had in Massachusetts, but also on behalf of the Council of State and Community Development Agencies, and you certainly have worked long and hard on community development of affordable housing with these State agencies, yes, the State Community Councils, yes.

STATEMENT OF CATHERINE RACER, ASSOCIATE DIRECTOR, MASSACHUSETTS DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT, REPRESENTING THE COUNCIL OF STATE COMMUNITY DEVELOPMENT AGENCIES

Ms. RACER. Right. Thank you very much. Thank you, Madam Chair and distinguished Members of the subcommittee. Thank you so much for the opportunity to testify.

Chairwoman ROUKEMA. Turn your microphone on, please? Yes. All right, we'll start over. We'll give you a couple of extra seconds.

Ms. RACER. Sure.

Chairwoman ROUKEMA. Go ahead.

Ms. RACER. I used up about 15 seconds. OK. Thank you, Madam Chair and distinguished Members of the subcommittee and thank you so much for the opportunity to testify before you today. My name is Catherine Racer. I'm an Associate Director of the Massachusetts Department of Housing and Community Development. And, as the Chair indicated, I am testifying today on behalf of the Council of State Community Development Agencies or CSCDA regarding H.R. 3995. It was a particular honor for me to hear both Madam Chair's opening remarks and the opening remarks of Congressman Frank since I live and vote in the Massachusetts Fourth CD.

First I want to thank the subcommittee for holding this hearing and drafting a bill that addresses many of our country's housing problems. We appreciate your efforts greatly and our State member agencies stand ready to work with you to address our collective housing needs. With a strong proven track record of successfully administering housing programs, States are uniquely positioned to address the myriad housing needs facing America's communities. Today, CSCDA would like to focus its remarks on three primary components of H.R. 3995; first, proposed changes to the HOME program, second, the need for a separate rental housing production program, and third, the thrifty production vouchers.

CSCDA fully supports the changes to the HOME program proposed in H.R. 3995 with the exception of the proposed set aside for a new production program within HOME, which I will address in a moment. HOME is an extremely efficient and effective housing program responsible for creating hundreds of thousands of units across the country while leveraging nearly four dollars for every HOME dollar invested. The flexibility in the HOME program that allows States to address varying housing needs is the key to its success and H.R. 3995 will enhance the existing program. We applaud your efforts to streamline the program and promote the flexibility necessary for States to effectively address the unique housing needs of their communities.

Specifically, we support your proposal allowing the use of State or area median income for rent determinations. This flexibility will spur the development of affordable housing particularly in rural areas currently under served. Along the same lines, the removal of fair market rents as the basis for home rents will enable more housing development in the areas where the FMR is artificially low and cannot support the required debt service for housing projects. In addition, we strongly support the provision allowing States to charge monitoring fees to cover compliance monitoring costs. This will provide States with the ability to ensure that HOME projects remain in compliance and affordable to low-income people over time.

Second, while HOME is an excellent housing resource, and we greatly appreciate your focus on rental housing production, we oppose any set asides within the existing HOME program. COSCDA agrees there is a need for rental housing targeted to very low-and extremely low-income people, but we believe that a set aside within HOME is not the best mechanism for targeting extremely low-income people. In addition, we are concerned that this proposal would result in a set aside for production without adequate additional funding. Instead, we strongly support the creation of a separate, State administered rental housing production program. COSCDA firmly believes that States have a proven effective delivery system for producing affordable housing, particularly rental housing for extremely low and very low-income people. States have the resources and tools necessary to significantly leverage other funds to maximize Federal resources for rental housing production. States also are uniquely positioned to develop a comprehensive strategy for rental housing production that is fully integrated with existing housing programs.

The creation of a separate production program administered by States will allow for strategic targeting of significant resources on a statewide basis. In Massachusetts we fully commit all our HOME funds each year with a significant percentage going to rental housing. Even so, the need for additional housing production remains immense. We welcome a separate production program which would complement the production efforts already underway with HOME. We hope you will consider endorsing a separate program as the bill moves forward.

Third, in order to develop housing targeted to extremely low-income people, H.R. 3995 creates thrifty production vouchers. Capital subsidies alone generally cannot support housing for extremely low-income people. Therefore COSCDA believes these vouchers may serve as valuable and a cost effective tool for reaching extremely low-income people. COSCDA believes that any effort to create a thrifty production voucher should assure maximum compatibility with existing production programs as well as any new housing production initiatives.

Lastly, while the focus of this hearing is HOME and thrifty production vouchers, because the bill contains provisions related to the Community Development Block Grant, and the McKinney-Vento Homeless programs, we would like to offer a few brief comments. First, with regard to CDBG, we hope the subcommittee will consider authorizing a dedicated stream of funding within CDBG for training similar to the current structure under HOME. With this training personnel from HUD, the State and local agencies, as well as non-profits, will be better able to effectively meet CDBG's goals.

Madam Chair.

Chairwoman ROUKEMA. Can you summarize, please.

Ms. RACER. Yes. In addition, COSCDA urges the subcommittee to provide States with flexibility between administrative and technical assistance funds within CDBG. Finally, H.R. 3995 reauthorizes the existing structure of the McKinney-Vento Homeless Assistance programs. COSCDA firmly believes that consolidating these programs and distributing the funds by formula allocation is a better approach.

We hope the subcommittee will reconsider its position and we will look forward to an opportunity to testify before your subcommittee on these issues. Thank you very much, Madam Chair.

[The prepared statement of Catherine Racer can be found on page 198 in the appendix.]

Chairwoman ROUKEMA. I thank you. Now we'll go through the subcommittee questioners please. I'm going to relinquish my question period to Mrs. Kelly from New York.

Mrs. KELLY. Thank you, Madam Chair. I am interested and would like each one of you to respond to the problem that I've seen happening in the areas that are represented.

Chairwoman ROUKEMA. Mrs. Kelly, I think you'll have to push the microphone up.

Mrs. KELLY. Does this help?

Chairwoman ROUKEMA. Yes, that's much better. Thank you.

Mrs. KELLY. I'm interested in having you respond to the problem that I see in the areas that I represent which involves "NIMBY-ism." We can provide funding, but the problem is people don't want affordable housing in their neighborhoods. I would like to ask what experience you've had and if you feel that this bill is going to help address that. I think it would be helpful to us. I'd like to start with you, Mr. Gonzales.

Mr. GONZALES. Madam Chair, subcommittee Member thank you for that question. I've been a county official. Currently we're faced with those issues where people are concerned about developments in their communities. We maintain our support for the way the bill's allow for money to come directly to local communities, because local communities deal with a number of issues. We deal with planning and zoning issues.

We have the ability to sit down with communities and talk about where should housing go, how do we integrate every social fabric of our community so that we don't have, in one part of our town, a lot of low-income housing, and in another part of the town middle income housing, and then upper income housing. We at the local community do our very best and continually do it better and better daily to integrate the social and the economic fabric of our communities. You can't run that from the State. You don't have the ability to do it from the State. So you're able at the local level to address the challenges of NIMBY-ism, of the not-in-my-back-yard syndrome by planning, by zoning, by conducting local hearings. In my community of Santa Fe, affordable housing is one of our top priorities. We have people who understand the importance of making sure that the issues of low-income housing as well as upper income housing need to be part of our social fabric. It needs to be part of our planning, it needs to be part of our zoning. At the local level, you can address it. It is a challenge, it's something that is real, but it's best to be confronted as we're going through our planning and zoning process.

Mrs. KELLY. Thank you very much. I'd like to ask another question, and that has to do with the so-called surplus. The CBO said there isn't an FHA surplus. And I think that it's interesting about if there isn't a surplus, that we need to think about, if we're reaching into the FHA money, how we would replenish that pool. Would we then tax people, the people who are getting the supported mortgages? You think that the people borrowing should be taxed to refill and replenish the pool if we use a pool of money that's designated for FHA?

Anyone can answer that. Anyone on the panel is welcome to jump in here. Ms. Brooks?

Ms. BROOKS. The issue of where the money comes from is indeed important. The independent study by Deloit and Touche certainly indicates that that fund is sound and that the available funds would be there, so I think we can also look to that report as some indication. I actually think this is a quite—I mean, as you know from my testimony, I'm quite serious about how important I think it is to find a dedicated source of public revenue and to have an on-going commitment of resources. And I think this is actually a good revenue source to look at for a Federal housing trust fund.

As you know, we provide a far greater subsidy to homeowners in this country for their opportunity to own homes than we do in any other Federal assistance that we provide. So it seems to me appropriate to look to this revenue source as a way to support those who have yet been able to move into a homeownership position.

Mrs. KELLY. Ms. Brooks, I'm running out of time here so I'm just going to ask you another follow-up question on that. What would you do if the default rate went up and we needed those FHA loans? Did Deloit and Touche talk to you about that. I mean, was that in their report?

Ms. BROOKS. Well, they did not talk to me.

Mrs. KELLY. But was that in their report?

Ms. BROOKS. I actually do not know. I don't think there's any suggestion that looking at the FHA surplus as a source of revenue for the trust fund would jeopardize. The intent is not to jeopardize and in fact there is a protection for that fund, and so I think the intent is to use what the surplus is.

Mrs. KELLY. Thank you. My time is over. I hope someone else will go back to that one. Thank you.

Chairwoman ROUKEMA. Thank you.

Now, Congresswoman Lee from California.

Ms. LEE. Thank you, Madam Chair. Let me just ask any of the panelists really about some what-ifs. If in fact the $15 billion, if that was funded, which is based on the National Housing Conference's recommendation, do you see that as actually putting a dent in the homeless problem or a dent in the affordable housing crisis, or is $15 billion too little?

And then the second question I have is if we actually moved forward and developed a full housing production program using whatever vehicle which was appropriate, how do you see using these funds for creative types of housing developments such as transit villages, land trusts, congregate housing, housing that creates more sustainability and more of a livable communities concept. Do you think utilizing the resources to develop livable communities makes sense in a housing production program?

Ms. BROOKS. I can certainly speak quickly to the experience of local housing trust funds in that regard. I am working—in fact, I should be working right now—on completing a survey of the 250 housing trust funds that exist around the country and their ability to address critical housing needs in an innovative way is really quite astounding, and so we're seeing them not only create housing opportunities that remain affordable for low-income people, they have supported community land trusts, they have supported housing for people with disabilities, and have done even homeownership for very low-income people. So we're seeing a lot of innovative approaches to addressing a wide variety of housing needs.

Ms. RACER. Representative, in answer to your question about the $15 billion, COSCDA definitely believes the $15 billion would make a dent. I can tell you that my division in Massachusetts gives out about $100 million a year. We're able to do about 2,000 rental production units in a very good year, perhaps 1500 in a less good year. Therefore, just doing quick arithmetic, $15 billion clearly could make a dent.

I also think that to the extent the subcommittee is interested in having us behave, think very clearly about trying to fund innovative programs through a new production program that you certainly can direct us to do that in any statute that gives us a new production program. The States have been very respectful of the statute of Cranston-Gonzales and some of the direction that was given to us in 1990 through Cranston-Gonzales and we would be very respectful of any desire on the part of the subcommittee to have us be particularly aware of innovative uses of the money.

Mr. GONZALES. Just to say very briefly from a local perspective, innovation is at its best at the local level through our—again, I can't emphasize enough local leaders are trying to establish strong, sustainable communities whether through in-fill in their communities, or through new development. And I assure you that with these types of funds, we will see integration where it's important and communities where people can live, work, go to school, without having to charge many of resources that are currently placed at the local level.

Ms. LEE. Thank you. Madam Chair, do I have one more second?

Chairwoman ROUKEMA. OK. Just let me say, in H.R. 3995, do any of you feel that the bill is flexible enough to provide for this innovation or do we need Madam Chair put a provision in to ensure that these types of creative, innovative housing production programs would be allowed?

Ms. HADLEY. Madam Chair and Congresswoman Lee, I think the other side of the question about is $15 billion would it make a dent, and I think the answer is yes, is the issue of this flexibility. There are innovative production going on now, supported housing for extremely low-income people, mixed income housing that has some housing for extremely low-income people, in suburbs near transit hubs. There's all kinds of new urban village projects going on, a huge variety. With the kinds of resources that aren't so categorical that they force you into particular kinds of developments, I think that is a key part of any housing production program is to have that kind of flexibility that can really meet the local needs.

Chairwoman ROUKEMA. I think that's an excellent question, Congresswoman, and I would like to ask each one of the panelists to submit in writing your own assessment as to how strong this legislation is and if there is a loophole or a weakness that you think should be tightened up and stressed further. So if you'll submit that for the testimony, it's something that we really have to look at in depth. Thank you. Mr. Grucci, please.

Mr. GRUCCI. Thank you, Madam Chair and thank you for holding these hearings today. I believe that they are very important to the quality of life in our communities.

The question that I want to ask this esteemed panel, where I come from it's a suburb of New York City, it's got a pretty affluent area, it's got some very high rent areas, it's got some very high priced homes. In fact, the average home price is about $240,000, and in that we're a victim of our own successes. You can imagine that means that someone earning a sum of money at about $30,000 can't afford to buy a home. They can't afford to find rentals because of the situation that Congresswoman Kelly talked about, NIMBY-ism, and maybe that's something for this panel to think about. I know one of the things that we faced in local government, which is where I was from, was a phrase given to a program, known I believe it was the Low Income Housing Tax Credit Program. As soon as people heard that, they wanted no part of the program. And even though it was a great program that afforded great opportunities, for a lot of young families starting out, it never had a chance to get off the ground simply because of its name and I think the Congresswoman pointed out very adequately and very appropriately that NIMBY-ism is a huge problem.

My question for you is, in those areas where there's high cost of living, again referring back to the district that I represent, the average price of a home being at about $240,000; the average tax paid on that home is about $10,000 a year, most of which is school taxes. Do you think H.R. 3995 addresses the needs of affordable housing in those types of markets? Do you think the eligibility levels are adequate? Do you think it should be raised?

I'd be interested in hearing you opinions on that and anyone on the panel can certainly respond.

Mr. GONZALES. Congressman Grucci you've described, in many respects, my own community of Santa Fe, New Mexico, where Santa Fe, in many respects has been discovered by many people from all over this great country and all over the world, and they've gone into the community, they've purchased homes, and we've seen the price of housing go up. Consequently, we've had what we call at the local level this economic gentrification where people from a very nice part of town had to move out to another part of town because they couldn't afford their property taxes. So what happened over the period of the eighties is we saw a lot of mobil home communities go up, and once people find their way into mobile home communities, it's difficult for them to come out of that. Santa Fe right now has made affordable housing their top priority, but it takes a couple elements. One, it takes the community's will to address it. The community needs to step up to the plate and say we want to solve this issue of affordable housing, and it takes the political will of the local leaders to say, through our own local jurisdiction powers, the ability to plan and zone and be able to create capacity so we can develop innovative public/private partnerships, we will make sure that every individual living in our community's going to have an opportunity and have access to housing, no matter what form. And when they get access to that housing, that it's quality of nature.

To answer your question specifically, yes, this bill provides the flexibility to allow our community to be as innovative as possible to be able to address the huge needs of our community to make sure that citizens who can't afford to either rent or buy a home have access to a quality home to raise their children in a safe environment.

Mr. GRUCCI. What would the median income in your community be?

Mr. GONZALES. The median income is probably about $40,000 I believe, between $30,000 and $40,000. But the average price of a house, which there's not a direct correlation, is somewhere in the vicinity of about $270,000 to $280,000. So you have people who are involved in State government jobs, people who are involved in the tourism industry earning minimum wages that are just not getting access. Now our own community housing trust has been great and through their innovativeness they've been able to provide subdivisions where people can get entry level homes in place.

Mr. GRUCCI. So it's your feeling that H.R. 3995 would address the problem of people not being able to qualify because their income levels would be higher than say a national average and therefore preclude them from being able to get housing grants or be able to have municipalities access, the funding necessary to help create affordable housing. You believe that this bill addresses those issues?

Mr. GONZALES. Yes. And in our case in Santa Fe for someone who is even earning $11 or $12 an hour, hopefully there'd be taxes like this to afford some rents. It's quite expensive, the renting in our community.

Mr. GRUCCI. It certainly is. Does anyone else on the panel wish to respond?

Chairwoman ROUKEMA. I'm afraid we're rather short of time. You'll have to make it very brief.

Mr. FAITH. Very briefly, Madam Chair, one of our concerns about the HOME proposal that's in this bill is it relies on recaptured Section 8 funds as its source of funding, and that's not a very reliable source of funding. I think a key to addressing the diverse housing needs of this country is to have a sufficient source of funds that would provide a level of funding that would be appropriate. I think the FHA source is a more appropriate source. It would generate much more revenue, and we also believe we should figure out what's wrong with the Section 8 program to make sure that we do a better job fully utilizing resource because that's very important. We should look to additional sources of funds for a production program that could work with the very diverse needs of our country because the local needs do vary, as you point out, all across the nation.

Mr. GRUCCI. Thank you, Madam Chair.

Chairwoman ROUKEMA. All right, thank you, Congressman Grucci.

Now we have Congresswoman Schakowsky.

Ms. SCHAKOWSKY. Thank you very much, Madam Chairman, and I appreciate the direction of H.R. 3995 and many of its important provisions. A couple of points I want to make before I ask a question. One I wanted to just mention a couple, in my view, of troubling provisions and one is that the bill, as I read it, allows religious organizations to use taxpayer funds to carry out religious purposes, an element that I think is unconstitutional. The separation of church and State I believe to be critical aspect of our first amendment and while religious organizations often do incredibly valuable work on affordable housing issues, they are already funded by HUD and they're free to use their own money to carry out their religious missions. But they shouldn't be allowed to use Federal money for those purposes. So I hope that we can have a discussion on that and perhaps reconsider that inclusion in the bill.

I wanted to say one thing about where's the money going to come from. And I'm sitting here feeling really frustrated, because we're engaging now in a serious budget debate and budgets aren't just about money, they're about priorities. And we're questioning where's the money going to come from. And we're looking, for example, at a $400 billion defense budget with a $48 billion increase.

Now I sit as the Ranking Member on the Government Efficiency Subcommittee. We just had a hearing where the Inspector General of the Department of Defense said, we cannot account accurately for $1.2 trillion, trillion, trillion dollars in transactions at the Department of Defense. We had a hearing on $9 billion worth of credit card bills. We've issued 1.2 million credit cards to civilian and military personnel, and among the bills that you all are paying for are bills for gambling debts, travel, designer bags, breast enhancement surgery, bills at Hooters, those kinds of things, never mind whether you think some of the more supposedly legitimate expenditures are really going to make us safer and fight terrorism and provide homeland security. And we are here asking in the face of a housing crisis where in my city alone we're short 150,000 units of affordable housing, where there's been a 37 percent increase in the number of people seeking emergency shelters, where five million people are facing the worst housing crisis in the United States, and we are asking you where are we going to get the money. Is this a priority? And it just infuriates me that we don't have our priorities straight and that we can't find room to do it all, because I believe that we can make our nation safer, we can fight terrorism, we can provide homeland security, and for god sakes, we can provide housing for people.

And the civility of this discussion, Ms. Brooks, after 20 years of fighting for affordable housing trust fund, amazes me at some level. You know, why we're not pounding on the tables and people trying to break down the doors to try and get a reasonable amount of money. I've been told by the Homeless Coalition that $1.5 billion could really make a dent in homelessness in this country, a lousy $1.5 billion compared to a $2.2 trillion budget for this year.

So if I sound emotional, believe me, I am, and I think that we need to ask whether or not—you know, we're going to look at the Section 8 recapturing that money to put it into—now maybe there is some money available this year, but what if we were to really use that Section 8 money?

Let me leave that as the question. And I think Mr. Faith you answered it somewhat. Is this, is this a reasonable way or a sufficient way, I don't want to say unreasonable, but is it a sufficient way—let me hear from some of the others of you—to fund a program for the next fiscal year and anything else you might want to comment on. I've had my say, thank you.

Chairwoman ROUKEMA. Excuse me, excuse me. But your time is just about up, and I would suggest that you're speaking to the choir here, they probably agree with you, they'd like to see a higher priority given to housing. But I would just then suggest, in terms of the last question, if you would submit your answer to the subcommittee in writing in answer to the last question.

Ms. SCHAKOWSKY. That's fine, thank you.

Chairwoman ROUKEMA. There's simply not time for us now, particularly since I'm concerned that we haven't gone through this panel yet and we have a second panel that we're waiting to hear from today, and hopefully we can do that before we get over to a number of voting sessions.

All right, now we have Mr. Miller from California.

Mr. MILLER. Thank you, Madam Chairwoman.

I've enjoyed your testimony today, but there will never be an affordable housing market unless there's an affordable move-up market and an adequate move-up market that has to be addressed. The talk was that we need to look at these recaptured Section 8 vouchers and that's unreliable for this program so let's look at spending those, but I think Ms. Kelly brought an interesting issue and I think it needs to be expanded. If Deloit and Touche is correct, if you want to believe that assumption that there's this pot of money from the FHA Insurance Fund out there. We have to understand where that money came from. It came from homeowners and it came from homeowners who obviously are being overcharged. So if we're overcharging homeowners through FHA insurance, then maybe we ought to rebate those funds back to those homeowners who are paying too much rather than just look at this redistribution of income that we're talking about today.

You can't help one homeowner who wants to be a homeowner to the detriment of another homeowner. And unless, like I said, you have a move-up market where these people can move out of affordable housing into a better home at a reasonable price, we're never going to resolve this country's problems; we're just going to say let's throw more Federal dollars at it, and the Federal dollars we're throwing at it today, there's no pot of money. It's like the Social Security Trust Fund, it's at the Treasury. We have got to go to the Treasury and get the money back. If we're going to take the money back, let's give it back to the people who we're overcharging.

But you mention the ability of States in housing, Mrs. Hadley, and I appreciate that. I think there's what, about 24 States that are involved in housing trust funds, and they control development at the State and local level; we don't. So the problem I have is why should the Federal Government get involved in it when you admitted the States are much better at it than we ever could be. Why do we need a Federal bureaucracy involved in this housing issue and looking at Los Angeles marketplace, probably 59 percent of Section 8 voucher recipients aren't able to even find a home because there are no homes out there. They're not being built because of Government red tape as you know and this NIMBY issue that Mrs. Kelly brought up, which was a great issue, and I guess I'd like to ask the one question to Mr. Gonzales, you seem to be very knowledgeable in this.

Why isn't there an adequate amount of housing being built out there?

Mr. GONZALES. I think, Madam Chair, subcommittee Member, there's a number of reasons and it's different in every community. In our community, it's an issue of supply and demand in many respects. We know that there's a need for more affordable housing for many people in the community, but you know, we try to the best that we can, to create an environment through our own bureaucracy where we can creative incentives for the development community to actually step up the supply of housing so that we can use some of the market to adjust some of the housing prices, so that people, and I'm talking about homeownership.

Mr. MILLER. Are you cutting red tape and fast tracking?

Mr. GONZALES. We're providing density incentives.

Mr. MILLER. I applaud you for that.

Mr. GONZALES. Everything that we can possibly do to create a positive environment. We're balancing that also with the needs to balance our resources, to make sure that we keep a strong quality of life. But making sure that every new development that comes forward has an element for every member of our community. We don't want to create exclusive communities in our community. We want to make, and it's through innovation, through communication up front letting the development community know this is what we expect from you, this is what we're going to provide from you. In the end we are creating hopefully environments that again every member of our community will be living in sustainable communities where they can live and work.

Mr. MILLER. I guess exclusive communities varies from city to city and State to State. My concern is that in this country, we focus on just the low end, people at the bottom end. Yet, there's no place for those people to move to when their situation increases, they become a little more affluent, yet there's no place for those people to move so they can't get out of the low-income housing, because no housing is being provided to them at the local level for them to move into, because a sales price of a home in this country, 30 percent of that cost is Government fee directed.

Fish and Wildlife finally did something good recently. A judge said you have to take economic impact into the analysis when you're setting aside habitat and he overturned about a half million acres in California for just one little bird, and about 17 of the 25 least affordable housing areas in the country are California. And I applaud your response and your comments and your concern and I wish more locals would look at providing an overall housing economy and an overall housing and marketplace so people at the bottom end could find a place to live. And if any others would like to respond, I think that's an area we need to go.

Mr. GONZALES. I just want to say in closing, so they can respond, that more locals are doing that, Congressman.

Mr. MILLER. I'm glad to see that.

Ms. HADLEY. Madam Chair.

Chairwoman ROUKEMA. Yes, you'll have to make it short.

Ms. HADLEY. Congressman Miller, if I could address your point about Federal involvement. There has been a huge, in the last 15 years, shift of capital from the Federal level in terms of the HUD appropriation, in terms of changes made in the 1986 Tax Act with respect to tax treatment of rental housing and the tax exempt bonds. Whatever people's politics were around this change, it has represented a huge shift away of Federal support essentially for both the housing industry generally and affordable housing. And what we've seen in Minnesota is that the private market over the last 15 years has been increasingly unable to meet the needs of people. That people who can't buy housing or rent an apartment with 30 percent of their income is a bigger group of people and more middle class at the upper end. While we feel strongly about the role of Federal funding for the housing needs of very low-income people, we on the State level are taking a lot of steps to try to increase the production of privately unsubsidized housing at the low end of the market and working with local communities to try to do that.

Mr. MILLER. That's a good issue, and I wish there were more time, but I know she's been very generous with me to this point. Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. Thank you.

Mr. Sanders please, from Vermont.

Mr. SANDERS. Thank you, Madam Chair. Before I asked my question, I did want to comment on something that Ms. Kelly said and Mr. Miller said. Ms. Kelly is right about NIMBY-ism, and I share that concern, but you are not right about whether FHA profits can be used to create a national affordable housing trust fund. President Bush apparently has disagreed with CBO on this issue. The President used the projected $2.4 billion in FHA profits in his fiscal year 2002 budget proposal to lower the net level of funding for housing and to increase the Federal surplus. I think if the President can use the FHA profits for that purpose, for other purposes, we can use it for a trust fund.

In terms of Mr. Miller, Mr. Miller raises a question about the wisdom of tapping the source of funding that we have tapped. He is not here, I think. I'm sorry. He may have a point. A better source of funding may be the $500 billion in tax breaks that the President and Congress recently gave to the wealthiest one percent of the population, and maybe he and I can work on diverting some of that money into affordable housing. But given the fact that that's not likely to happen, I think it's important that we do develop a reliable source of funding for a significant housing program and FHA profits are as good as any source that I can think of. I wonder if Ms. Brooks or Mr. Faith would want to comment on the use of FHA surplus for funding sustainable housing.

Mr. FAITH. Thank you, Mr. Sanders, Madam Chair. Attached to my testimony is actually a more recent report from Deloit and Touche.

Mr. SANDERS. Put the mike closer to you.

Mr. FAITH. Attached to my testimony is a more recent report from Deloit and Touche using data as of March 31st, and it shows that the FHA fund is of high quality and very healthy. I won't go into the details, but they run through a variety of worst case scenarios back on page 7 of their executive summary, and still show that the surplus ratio that's required, the amount of money that'll be there far exceeds any safety for existing homeowners. Current homeowners that use FHA will be protected. In fact, we have to remember that current homeowners receive a substantial subsidy, and myself as a homeowner, in tax season, am well aware of that subsidy, in order to be able to afford a home. What we're talking about with this bill with your trust fund legislation is to help those who are more in the rental side of the equation, who have no access to that subsidy, who don't get the benefits from the FHA Fund and who could. This is simply a scenario to identify a pot of money.

And I agree with you, Mr. Sanders, that there may be other sources. This is just one idea. It just needs to be a substantial source so that when we talk about addressing the affordable housing crisis in this country, we're serious about it.

Mr. SANDERS. And the truth is that it is a strong source and a reliable source. Ms. Brooks, your organization, as I understand it, did a study on job creation in terms of building a significant amount of affordable housing. Do you want to say a few words about what this would do to the economy in creating decent paying jobs for Americans?

Ms. BROOKS. Well you make a good point and thank you for doing that. We did study what the impact would be of a proposed Federal housing trust fund, and you cited from that study earlier. It clearly indicates that by making an investment in the housing production program that we would generate substantial jobs and wages in this country. That study is important, but it is also important to note that most of the housing trust funds around the country can document the same kinds of benefits from their own trust funds. So we know from the experience of existing housing trust funds that indeed putting money into a housing production program generates substantial jobs, it provides resources to a local community in terms of increased taxes, and it also increases wages. So the expanded economic benefit from a Federal housing trust fund would be a substantial boost to the economy in this country.

Mr. SANDERS. Thank you. Lastly, Madam Chair, I would just say again thank you very much for this hearing. I would say in response to Mr. Miller, the reason that low-income people cannot afford housing is not because of the Endangered Species Act. It is because they are low-income. And when you make $6 and $7 an hour, you just cannot afford decent housing for your family and the Federal Government must play an active role in making sure that all families in this country have decent and affordable housing. Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. All right, thank you Mr. Sanders. Now we have Congressman Tiberi from Ohio.

Mr. TIBERI. Thank you, Madam Chair. I apologize. I had two other committee meetings to go to. My friend Bill Faith, welcome. I wish I was here to introduce you. I apologize for missing everyone's testimony, but I'll throw this question out. Bill's probably most familiar with it when we talk about a national housing trust fund.

In Columbus recently I've received some phone calls in my office, Bill, over an issue that you're probably familiar with that maybe came up in somebody's testimony, maybe did not, but an issue in Columbus where money was approved by the local housing trust fund for homeownership at a level that some people in my neighborhood were astounded by. In my neighborhood, housing generally runs from about $90,000 to $150,000, a working class neighborhood in Columbus' north end, and some of this housing trust fund money was allocated for property that was incentives for people to move in certain areas of the city that was double, my understanding, that level. Is there any concern that as we move in the direction of trying to provide more dollars for affordable housing that we lose what I think was initially or originally the focus of affordable housing, rather than using precious dollars—and there's never enough to go around for everything—to subsidize what some of my neighbors say is excessive amounts of cost in housing.

Does that make any sense, Bill?

Mr. FAITH. Yes. Madam Chair, Congressman Tiberi, it's very good to see you today. Let me respond to the local trust fund issue first. You have to understand this is local revenue and had nothing to do with the Federal Government. This is a purely Columbus, Franklin County trust fund. Also it was a loan at above market rate terms to encourage middle income people to move into a low-income census tract in the central City of Columbus. So I have to defend the project even though my eyebrows went up a bit initially. But it's purely a short-term loan at a higher-than-market interest rate to attract middle income homeowners back into the core central city.

And as the Chairwoman noted, the homeownership rate in the United States is now 68 percent. However, in the central City of Columbus, like many cities, our homeownership rate is below 50 percent. So I think we do need to look at strategies to address that. However, local governments are doing more of that. We already have incentives in the Tax Code to help homeowners. As you know, in our city in Columbus, we're now going to use tax abatements to help attract homeowners into the central city.

What the Federal Government needs to focus, I think where you were headed, which is, to use the precious resources that we can identify and prioritize those of the most modest means because that's where the need is greatest. That's where the local governments aren't able to do as much because of the level of subsidy involved and the need for ongoing rental assistance to keep that housing affordable and of high quality.

I think Mrs. Kelly's point earlier about the NIMBY issue is critically important, and if we don't have the resources to build high quality housing, with sufficient operating funds to manage that housing well, we're going to run into even further NIMBY problems.

Mr. TIBERI. Yes, go ahead.

Ms. RACER. Representative, I'm not familiar with the program in Columbus, but I wanted to make two comments. First, while we can all be very proud of the homeownership rate, it is not equally high among different racial and ethnic groups, and that should remain a concern for all of us. Second, that the State administering agencies I believe are very capable of being careful not to over subsidize any homeowner through a variety of qualification tests. That's extremely important to us in Massachusetts. I'm sure it's equally important to Kit in Minnesota and to others who administer the homeownership programs.

Mr. TIBERI. Madam Chair, no follow-up questions, just a comment. Bill I agree with you in terms of the precious resources. I think however, as we move in this direction, my only point is—and I know it's a local decision—but when you expand programs there's always a possibility that the Federal Government could get involved in the same thing. My only point is, is when you have middle class advocates suddenly raise their eyebrows and say, wait a second, I don't live in the greatest neighborhood and someone now is getting an incentive to purchase a house double the cost of mine. My only concern is that we don't throw the baby out with the bath water. The NIMBY issue is we've talked about it before. I'd like to follow up with you on this issue as well, because I just have some concerns about the messages it sends to those who are trying to go from no housing or rental housing into homeownership at the first level.

Chairwoman ROUKEMA. Yes. The time is up now, but if you have further comments to make in writing you can submit them for the record and we'll all read them, but I do thank you for those questions. Now Congressman Israel from New York.

Mr. ISRAEL. Thank you, Madam Chair. I'd like to continue to focus on a concept of an affordable housing trust fund and would like to direct my question to Ms. Brooks who noted that there are about 250 housing trust funds throughout the country. One of those trust funds is located in my home town, Huntington. I was a town councilman for 7 years and one of the final acts that I engaged in before coming to Congress was to pass legislation that created an affordable housing trust fund, funded it with town dollars, but also imposed a requirement on developers that to my surprise the development community supported. And the requirement was any time they came to the town board for a down zoning and realized a density bonus from that down zoning, they were required to deposit into the trust fund an amount of money equivalent to the enhanced value that they were receiving from that density bonus, in addition to dedicating a portion of the zoning on-site for affordable housing. It was an innovative program, the first of its kind on Long Island, but there were problems with its effectiveness and I'd like you to comment on this.

Our experience was that when you're living on Long Island, as my colleague, Mr. Grucci, said, those kinds of trust funds, which I support, aren't as effective as you would like them to be because we live in a high-cost, high-property value area. Mr. Grucci's district is adjacent to mine. He gave you some statistics. The fact of the matter is that the conventional wisdom that affordable housing is more a crisis in New York City than Long Island is just plain wrong. The average rental for a two bedroom apartment in New York City is $949. The average rental for a two bedroom apartment on Long Island is $1,173. Monthly housing payments are consuming well over 30 percent for about 300,000 households on Long Island. So my question to you is, as much as I support affordable housing trust funds, I'm a cosponsor of Mr. Sanders' bill, what can be done to ensure that in these high cost, high property value areas, those trust funds are effective.

Ms. BROOKS. It's an excellent question and thank you. The experience with housing trust funds around the country I think really demonstrates that there is potential for addressing critical housing needs in virtually any housing market. You may have noticed from the list of housing trust funds that there are housing trust funds, for instance, in a place like Aspen, Colorado, where they tell me the median cost of a home there is one million dollars. Most of us can't afford that kind of housing, yet they have created a trust fund that is making some impact in that community where people who work in restaurants and dry cleaning establishments and other places have to commute great distances because they can't afford to live in the community. So they have begun to address that issue. I'm working with some folks in California communities where the median price of a home is above $500,000.

And so we are seeing housing trust funds that are able to address a wide variety of housing needs. To me that's the beauty of the housing trust fund model is that it enables, we do know how to provide housing for low-income people in this country, we have the capacity to do that. What we don't have are the resources to do it.

Mr. ISRAEL. Would you follow up with my office? Perhaps we can meet to talk about how those trust funds are effectively working in those higher wealth areas.

Ms. BROOKS. I'd be glad to.

Mr. ISRAEL. That'd be great. Thank you.

Chairwoman ROUKEMA. Well I'd like to say that I'm going to be the cynic here and express reservations and I come from a high income area, but I don't know, I have a problem with this idea that somehow you're using limited trust fund money in areas like Bergen County, New Jersey, or Long Island or Aspen, Colorado. And I know something about Aspen, Colorado, and don't tell me that the waitresses need housing money there. They can just go a very short distance outside of Aspen and get all the housing they need. This is a problem that we're going to have to work through obviously, because I think we're really kind of shooting ourselves in the foot if we go to very high income areas, because then you're depriving the low-income areas and the moderate income areas of money that they need desperately. You put that in writing in terms of how you think that this can be spread out, and then we'll talk about it further as we go through the legislative process.

And now we have a final questioner is Julia Carson from Indiana.

Ms. CARSON. Thank you very much, Madam Chair. This is so interesting and I know you have a limit on time and probably I'm asking the right question to the wrong group of experts here. I come from Indianapolis, Indiana. We've experienced the highest rates of foreclosures than in any other parts of the country. I recognize that a lot of that comes from three things. Number one, predatory lending. I'm trying to help a lady save her home now. They're white, retired income $1,006 a month from Social Security, she has a mortgage payment of $1,600 a month and the people that loaned her the money knew there was no way in the world with her income that she was going to be able to meet that payment and she's in the middle of an eviction at this particular time. She's blind and she's 80 years of age. I want to know if you could write me and tell me how does one offset that kind of abusive behavior on the part of banking institutions when people are comfortable in their homes and then suddenly something happens. Somebody knocked on the door and she signed her name; that's what happened.

Then number two, I live in a low-income community historically, but over the years my low-income community has become a high income community and they just did a reassessment of property taxes. My personal property taxes on my home quadrupled, which is something I guess that was expected, but we got older people in that neighborhood who've been settled and we're going to have another Hilton Head where the people aren't going to be able to keep their homes because of this humongous tax increase on their property. You know what I'm saying? It's the value of the home. And there's been some building in my neighborhood called a homeownership zones and the empowerment zones where builders have come in and built houses and it's elevated the value of homes in the whole neighborhood, but we've got all these people out here who thought they were OK now, they've got their homes bought, and all of a sudden this high tax bill comes and they're not going to be able to meet it. And if you could sort of share with me what some of those experiences are in other parts of the country so I can try to deal with those on a local level, I would appreciate it. I'm Julia Carson from Indianapolis. We just have a preponderance of——

Ms. HADLEY. Madam Chair and Congresswoman Carson, the rising property values in the poorest neighborhoods in the Twin Cities and in your community are real double-edged swords. On the one hand, it represents that there's more private investment in this community and that it's healthier in terms of the economics of the community. On the other hand, as you say, it's really wiping out people who are on fixed incomes, people who are on low incomes. At the State level, I'm not sure this is an appropriate Federal response, but have provided some tax relief for people against sort of multi-digit increases in property tax, just a State tax kind of relief. We're experiencing the same problems with predatory lending. I know there's some legislation under consideration at the Federal level and some States have passed laws regarding predatory lending, and it's forced us within the State to really strengthen our foreclosure prevention network around the State which is having some impact.

Ms. BROOKS. You correctly indicate that the predatory lending is just an abominable factor here in our culture, and I know Mr. Faith wants to speak to that. There are several housing trust funds that have actually focused on the issue that you are talking about where——

Ms. CARSON. Indianapolis doesn't have one.

Ms. BROOKS. Not yet. They're working on it I might say, and have provided emergency housing assistance to enable people to stay in their homes when they have purchased them, yet the cost of maintaining that home becomes out of reach, and some housing trust funds have addressed that issue in particular to address exactly the kind of housing need that you're talking about.

Ms. CARSON. I've lived in my home 35 years. When I moved into the neighborhood it was mixed racially, income was sort of moderate up, and then there was an abandonment of the neighborhood. People fled, cut beautiful homes up into apartments which were ultimately destroyed after they had bled out all that they could out of them. And the neighborhood became crime-ridden, etc., but I hung in there and obviously it was worth my hanging in. But now it's in the reverse and the people that stayed there with me, which were quite a few, are not going to be able to even pay tax bills now.

Ms. BROOKS. There is a housing trust fund proposed in Indianapolis. In fact, it's on the books there. It has not yet been funded, but the mayor just indicated that he intends to fund that as a priority.

Ms. CARSON. Indiana's one of the broke States, so they don't have a lot of latitude in terms of doing——

Chairwoman ROUKEMA. I'll give you just one minute, Ms. Racer, because then we have to go to the second panel.

Ms. RACER. Surely. Madam Chair, thank you. Congresswoman, I believe there are several communities in Massachusetts with very, very high average and median sales prices where the communities willingly are providing some degree of tax relief to elderly homeowners. I will try to get you some information on that. Thank you.

Chairwoman ROUKEMA. All right. I do thank this panel, and obviously the answers are not easy or simple answers, and we're going to have to balance out the competing needs here. But we do appreciate your testimony and we look forward to the added testimony that you're going to submit to those questions that were submitted to you for further detail. Thank you very much and we look forward to working with you and getting this legislation passed in record time.

If the second panel will come forward. I can't believe that we haven't been called over for votes yet, but let's see how far we can go now. Panel two.

Ms. CARSON. I keep hearing, Madam Chair, they're going to be voting pretty soon.

Chairwoman ROUKEMA. I know. I've been hearing that since 11:15.

I don't know what's happened to our panelists—not the panelists, I mean the subcommittee Members. Hopefully, they'll be returning shortly, at least some of them. We're all concerned about when these votes are coming up, but hopefully we'll be able to hear your testimony before that happens.

I'd like to introduce the panel. Barbara Sard is here with us today again from the Boston area. Massachusetts is overly represented today, aren't they?

I'm sorry, I can't hear you.

Ms. SARD. There are very many "housers" per capita in Massachusetts.

Chairwoman ROUKEMA. Oh, I see, I see.

Ms. SARD. It hasn't solved the problem.

Chairwoman ROUKEMA. You're reflecting yourselves as standards for the nation, something simple like that. All right. But Ms. Sard is from the Boston area and is the Director of Housing Policy at the Center on Budget and Policy Priorities, something that we're going to be very interested in hearing about today, so we'll let you give your testimony and then I'll introduce each of the panel members as they testify.

STATEMENT OF BARBARA SARD, DIRECTOR OF HOUSING POLICY, CENTER ON BUDGET AND POLICY PRIORITIES

Ms. SARD. Thank you very much for inviting me to testify today. We applaud the recognition in H.R. 3995 of the need for additional resources for rental housing production and that a substantial share of any new resources should be targeted on extremely low-income households who are the families and individuals within our country with the most severe housing needs.

Unfortunately, because their incomes are so low, capital subsidies do not work well alone to assist extremely low-income people and that is the conundrum that the bill has tried to deal with through the thrifty production voucher proposal which you've asked me to talk about.

In the past with capital subsidies, either commonly extremely low-income households were not admitted at all, which has often happened in the tax credit program, because many owners have a rule that you have to have income of three times the rent, and if your income is very low, you don't have income of three times the rent, so you don't get in, or you are admitted and recent data in the HOME program shows that extremely low-income households who don't have rental assistance pay nearly 70 percent of their income for rent. By my calculations using data from FHA properties, it would take an income of about $18,000 a year on average merely to afford the operating costs without debt service of an average rental property in this country. H.R. 3995 attempts to deal with this tension between the need to assist extremely low-income people and the shallowness of a capital subsidy, by setting a rent cap that the rent would be, under the new Production and Preservation Program, no more than 40 percent of a household's income.

It's a good attempt at a compromise, but like many compromises, it's unsatisfactory to either side. It is not going to provide enough of a rental stream to the owners when the households are extremely low-income because 40 percent of an extremely low-income household's income is not enough to cover the owner's costs, and yet it's still too much of an extremely low-income household's income to pay, and that's the role of rental assistance to fill. That shows that in addition to capital subsidies, you need rental assistance.

Why thrifty production vouchers, to get to the question. The premise behind thrifty production vouchers, unlike other vouchers, is that it is preferable to have a major infusion of capital dollars, which is a one-time expenditure. It is easier for the Federal Government to plan for, to budget, to be basically heavy on the capital side in order over time for the rental subsidy that extremely low-income households need to be lower.

And if we look at the average costs, again the data are in my testimony, we estimate that on average, the operating costs without debt service for new rental housing or newly rehabilitated rental housing would be below 75 percent of the fair market rent. And in the regular voucher program, rents are generally pegged to the fair market rent. The reason you can do it for less is by paying more on the capital side. It isn't just something for nothing. It's a choice that it is better policy to invest once on the capital side and then lower the on-going operating subsidy.

And, because of that approach, the rent payment, the maximum rent for a unit would be pegged to the operating costs of the unit without debt service. And that is different from what has been done before. To make sure that it is cost effective, the proposal includes a cap of 75 percent of the local housing agency's payment standard, which is what's now used in the voucher program and in some cases that's slightly above the fair market rent, so that would be the cap. But the rent itself would be pegged to the operating subsidy cost.

The proposal includes a new distribution mechanism which makes it easier to use these vouchers in combination with new capital money. Even though only housing authorities that run a voucher program would be eligible to administer these subsidies, the notion is that the vouchers ought to be allocated if Congress funds new ones in the same way that the capital dollars are allocated.

Now there are some complex issues and my testimony includes some alternatives to the way the bill is drafted.

[The prepared statement of Barbara Sard can be found on page 207 in the appendix.]

Chairwoman ROUKEMA. Yes. Your time is up and I'm going to have to be as strict about it. Perhaps there will be a question, but we're really running into a conflict here. The bell has rung and there will be a vote that we'll have to leave for on the floor, but evidently only one. I thought there were going to be a series of votes.

Mr. Benson Roberts, I believe we can give you 5 minutes before we have to recess to go over to vote, and you of course are representing the Local Initiatives Support Corporation, and it's a creation of community leadership and it's a good example really of forward thinking with community leadership setting the standard. Go ahead, Mr. Roberts, please.

STATEMENT OF BENSON ROBERTS, LOCAL INITIATIVES SUPPORT CORPORATION

Mr. ROBERTS.Thank you very much, Madam Chair, and good afternoon. My name is Benson Roberts and I am with the Local Initiatives Support Corporation. We operate low-income community development programs in New Jersey, Indianapolis, Cleveland, and 35 other parts of the country. Our job is to help grassroots community organizations to rebuild their communities. We've raised $4 billion from the private sector in this effort and have used that money to help in community stabilization activities. We deeply appreciate the subcommittee's attention to housing production and the need to add more money for housing production.

Indeed, we believe that the real issue here is money, rather than program design. We certainly have no objection to the proposal you've made in H.R. 3995 or to Representative Sanders' Housing Trust Fund and we appreciate the fact that they would generate new sources of money. But the existing programs, particularly

HOME, work just fine in terms of moving money out to serve low-income people. If you look at HOME, 40 percent of HOME funds in rental housing serve extremely low-income people; 80 percent serve very low-income people. So States and localities are really exercising great stewardship there while retaining some flexibility to meet other needs as well.

Incidentally, about a third of the homeowners receiving rehabilitation assistance under HOME are also extremely low-income and two-thirds are very low-income.

Chairwoman ROUKEMA. Would you talk a little bit more into the microphone, please.

Mr. ROBERTS. So HOME is really meeting that need. The principal limitation is money. HOME was authorized at $2 billion 12 years ago. In today's dollars that would be $2.9 billion. The current appropriation is about 35 percent short of that. And if we really want to increase production of housing for low-income people, we just need to find some way, any way to get more money into the system. We'd argue that the best delivery system for that is the existing one that works extremely well. There's no need to create a new program, we would say.

The one thing that capital subsidies cannot really do, as Barbara suggests, is that they cannot address a situation where poor tenants cannot afford to pay in rent even enough money to cover the operating expenses of a property. Obviously it's very important that the housing that is built be affordable to the people whom it's intended to serve. So there are sometimes efforts, we've seen it in both H.R. 3995 and in the Trust Fund bill, to peg maximum rents based on the tenant's actual income. Well, neither we nor anybody else in the private sector can underwrite a property on that basis. Everyone has to have some kind of certainty about how much money is going to be available to the property, and if we just don't know until the tenants show up and we can take a look at their income, then we can't make the loans or the investments to begin with.

That's really where a Thrifty Voucher comes in. Because it really says to a developer, says to a lender, says to an investor, we know that you're going to have enough revenue on those units reserved for extremely low-income people to cover the operating cost of the property, and that enables you to underwrite the property. The reason why Thrifties make sense here in Congress is that when we go to the appropriators and talk about additional rent subsidy, the appropriators say well, we know that if we sign up for one year, we have to renew this year after year and the cost is so high that we don't want to get started. Thrifties are very explicitly an attempt to address that concern, and they would, we believe, be at least 35 percent cheaper than existing vouchers and perhaps even cheaper than that.That's why we think they have a great role to play in this process.

The tenants would still pay 30 percent of their income for rent, the same as they would with regular voucher, but the reason Thrifties are cheaper than tenant-based vouchers is, as Barbara says, instead of the payment standard being a fair market rent or higher, it would be based on the actual operating budget of the property. That tends to be substantially lower than fair market rent. You can't do that for existing housing, because existing owners have a debt they have to pay.

[The prepared statement of Benson Roberts can be found on page 221 in the appendix.]

Chairwoman ROUKEMA. All right, thank you. We're going to have to leave to vote, and we'll be back within 15 minutes hopefully.

[Recess.]

Chairwoman ROUKEMA. Let's go back on the record. I apologize profusely. I understand as soon as we got there we learned that there were successive votes on the floor that delayed us. We hope our staff made the appropriate announcement. I am terribly sorry, but we could not anticipate that. They just had the lights on for one vote. As we got out there, we learned that there were two 15-minute votes and two additional suspensions, so it took quite some time. Sorry about that.

And given my schedule and your schedule, let's complete this. I don't know if any of the other Members are coming, but we will see if anyone else is coming. I doubt it. I think what we should do is get your statement on the record. Otherwise, you wouldn't even have the chairman here.

OK? I'm sorry. I'm not avoiding you, but I have another commitment on for another hearing. Can you believe it? My incompetent staff scheduled me for two hearings today. I think I'll fire them all. Yes, do I have your permission to fire them all? I do that about every other week.

All right. Now I believe that Mr. Lawson, Robert Lawson is next and you are representing?

Mr. LAWSON. The National Association of Home Builders.

Chairwoman ROUKEMA. Yes, yes the National Association of Home Builders and certainly if there's one interest group that we must hear from, it's the home builders, and we welcome you here and we will listen to your comments, because I think we all share the feeling that certainly housing is a national priority. Thank you very much. Mr. Lawson.

STATEMENT OF ROBERT LAWSON, ON BEHALF OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. LAWSON. Thank you very much. On behalf of the 205,000 members of the National Association of Home Builders, I want to thank you for inviting us to speak on the Housing Affordability Act.

My name is Robert Lawson, I'm a builder from Virginia Beach, Virginia, and President of the Lawson Companies. For almost 30 years, our company has been active in the financing, development, and management of affordable and market rates single and multifamily housing. Let me begin by thanking Chairs Roukema and Oxley for introducing the first major housing bill in many years. We appreciate your willingness to address some very complex issues in order to provide more affordable housing for low-and moderate income households.

I would like to confine my oral statement to the affordable housing production and preservation component of H.R. 3995. While commenting on your production proposal, I would also like to offer a different approach for the subcommittee's consideration as you begin your deliberations on the bill. Our proposal would meet the needs of affordable families at all income levels from the very low- to moderate income families.

Section 101 of Title I creates a new affordable housing production and preservation program under HOME. The program would provide loans and grants for the production or preservation of existing affordable housing for very low and extremely low-income households funded with unobligated balances of recaptured Section 8 funds.

While we appreciate that a funding source independent of annual home appropriation is identified, we question whether the source of money will appropriately meet the program's goal of increasing production for very low and extremely low-income households. This source of funding may prove inadequate as HUD improves the utilization rate of vouchers and reduces the amount of unobligated funds. If funding for the new program becomes problematic, there might be a temptation to require participating jurisdictions to set aside regular home funds for these purposes. NHB would oppose this unintended result.

NHB believes that the establishment of a new rental housing product and rehabilitation program that produces 60,000 to 70,000 units annually should be a top housing priority for the Administration and Congress in the coming year. The often-cited reports by the Center for Housing Policy and Harvard University document the need for a new multi-family rental housing production program that would meet the affordable housing needs of households with incomes between 60 and 100 percent of area median income, America's working poor. These households are not eligible for housing assistance for most current Federal housing programs. NHB proposes a program to produce mixed income housing which has proven to provide greater financial stability and community acceptance than developments that concentrate on very low and low-income households. The program focuses primarily on the working poor with a portion of each property up to 25 percent reserved for very low and extremely low-income households.

Although there are several ways in which this program could work, our proposal relies primarily on the low interest rates available through Ginnie Mae guaranteed lower floater securities which carry very low rates of interest, currently less than four percent. These securities could be issued by a variety of entities including developers, private lenders, housing finance agencies, and local governments. Ginnie Mae would guarantee the timely payment of principal and interest to investors, which would further lower financing costs. Underlying loans could be backed by the Federal Housing Administration, the Rural Housing Services, or could be conventional loans, though use of the latter would require a change in the Ginnie Mae charter.

Interest rate subsidies or buy-downs would be employed to achieve additional affordability. To further reduce debt coverage, developers could also use sources of equity and soft second such as tax credits, HOME, the Federal Home Loan Banks Affordable Housing Program, and State housing trust funds. The only Federal budget dollars required would be for any credit subsidy needed for Ginnie Mae participation, interest rate subsidies or buy-downs, and a marginal increase in the cost of rental assistance vouchers. The program would require only a small amount of Federal Government subsidy per development and would provide for on-going maintenance and future capital improvements by building in adequate reserves from monthly cash flow at a level sufficient to rehabilitate the development in year 2000.

Chairwoman ROUKEMA. Mr. Lawson, I'm sorry. I don't know if you realize that your time has run out here, but I know you have a much more extensive report to give, and we'll go over it. Is there one minute that you'd like to summarize with the point that you want us most to focus on?

Mr. LAWSON. I think that the big thing is it's low cost program to the Government and it provides for incentives to the developers in a way to create good, mixed communities that focus on the broad range. I guess in summation, I would say if we're helping people only at 30 percent of median, where do they go when they hit 35 percent of median, because the market can only serve people starting at 100 percent of median.

We've got to have a continuum to have a good, sound housing policy.

Chairwoman ROUKEMA. That's a point that's interesting to be made. I don't know how we'll deal with it, but we will certainly review it..

Mr. LAWSON. Thank you very much.

[The prepared statement of Robert Lawson can be found on page 230 in the appendix.]

Chairwoman ROUKEMA. Mr. Lopez. Mr. Rodrigo Lopez is from AmeriSphere, a mortgage banking company, but you're here in Nebraska nationally or is it ?

Mr. LOPEZ. Nationally, but based in Nebraska.

Chairwoman ROUKEMA. Based in Omaha, Nebraska. But you are here today representing the Commercial Multi-Family Board of Governors of the Mortgage Bankers Association. So we do welcome you and we want to get your advice on how we deal with this problem or these problems. Thank you.

STATEMENT OF RODRIGO LOPEZ, PRESIDENT, AMERISPHERE MULTIFAMILY FINANCE, L.L.C., ON BEHALF OF THE MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. LOPEZ. Thank you. Good afternoon, Madam Chairman and Members of the subcommittee. The MBA also applauds the Chair and Vice Chair of this subcommittee for introducing H.R. 3995. We believe that this legislation lays the groundwork for increasing American's access to affordable housing, both for those families buying their first home, and for those who are living in rental housing.

There's no doubt that this country's facing a crisis in affordable housing, a significant shortage in decent, affordable housing exists in virtually every jurisdiction in America, and this problem is growing worse. The cause of the problem differs from region to region. In areas where housing prices are generally lower, the problem of affordability often stems from lack of income. The housing exists, but the rents are simply too high for lower income families. In these areas, income support programs, such as vouchers, are the most cost effective means to provide assistance. In other areas, the lack of existing rental housing has driven up rents to the point where even moderate income families cannot afford to live in the communities where they work.

The fact that there has been little, or in some areas no new production has made many places virtually unaffordable for many families, even for some two full-time workers. The production program outlining H.R. 3995 utilizes these highly successful home investment partnership program, HOME, for production and preservation. MBA applauds the bill's provision dividing the allocation of HOME funds 60 percent to localities and 40 percent to States.

We do, however, have several concerns about rental housing production provisions in the bill. Our first concern is with the targeting of the production program to very low and extremely low-income constituencies. While people in these income groups undoubtedly have faced critical housing needs, there's also a need for assistance for families making between 60 and 100 percent of median income.

Currently, there are no Federal programs to help renters in these more moderate income brackets. Many of these people are municipal employees such as teachers, police, and firefighters, who cannot afford to live in the communities they serve.

Second, MBA does not believe that the program set out in H.R. 3995 would generate new construction or substantial rehabilitation of affordable housing. Therefore the program would not address problems in high cost areas of the country where significant new housing production is badly needed. Finally, MBA believes that a mixed income is essential. As currently drafted, the provisions of H.R. 3995 would not produce mixed income developments. It is our opinion that families would be better served and Federal housing dollars would be better spent in properties with tenants whose income range from less than 30 percent to 100 percent of median income.

To address the need for new production, MBA proposes the creation of a new Federal interest rate subsidy program. The most successful Federal housing production programs rely heavily on public/private partnerships that encourage the private sector to produce housing with support provided by the Federal Government. FHA Mortage Insurance programs have been extremely successful in producing new and rehabilitated housing at little or no cost to the Federal Government.

Partnering FHA Mortage Insurance with interest rate subsidy will, in most markets, encourage private production of rental housing at rents that would be within the reach of families at 60 to 100 percent of median income. A new production program would reduce the cost of financing. The subsidy would reduce the interest rate significantly below market allowing lower rental rates. Such a program needs to work with other Federal programs including home, tax credits, and project-based vouchers to achieve a mix of incomes.

MBA looks forward to working with the Members of the subcommittee and their staff to craft a new rental housing production program that will serve a variety of income groups. Through such a program, Government and private industry can work together to address the crisis in affordable housing.

Thank you, Madam Chairman. We appreciate having the opportunity to present our views to you today.

[The prepared statement of Rodrigo Lopez can be found on page 236 in the appendix.]

Chairwoman ROUKEMA. Thank you. Now I regret having to tell you that we're going to have to bring this to a close, not only because I'm the only person here, subcommittee Member here, but also because we inadvertently and hadn't really intended to, but because of circumstances beyond our control, I have another hearing at 2:00 o'clock on another subject, but nevertheless a subject under our jurisdiction. But I think that what we've learned here today and certainly I am most encouraged—we're concluding now; I'm sorry.

VOICE. You are.

Chairwoman ROUKEMA. Yes, we are. We have to leave here and I was going to say that the encouraging thing here today is that both the public groups, the community groups, the State and local governments and community groups are very consistently supportive of you and all that you're doing and reverse we haven't agreed on everything, certainly how it's going to be paid for and what the relative focus is relative to vouchers and the tax provisions, etc., and I think we can certainly come to agreement on how we target the low-income and the very low-income, and then what, if anything, and I believe Mr. Lopez, did you just mention the fact that— was it Mr. Lopez or Mr. Lawson—just mentioned the fact that there's too much targeting of the very low-income and the more middle income people are being ignored.

That would be a subject for great debate. I heard it, but I don't know how we deal with that in terms of realistically considering the money that is available. But we'll go over it. I guess that subject had some up in one form or another previously on the panel, on the previous panel.

But if there's one final word that you wanted to say, you may make that statement now and then we'll adjourn for the day, and again, I invite you to submit any additional material for the record, and it will be part of the open record of the hearing.

Mr. LAWSON. Thank you very much. We will try and send additional material forward and I guess the time might be best utilized if I could answer any questions that you or any other Member might have.

Chairwoman ROUKEMA. No, as I said, I indicated that the time is very short and I have another hearing that I'm in charge of so I'm afraid we can't continue you it any longer.

Mr. LAWSON. Thank you, Madam Chairman.

Chairwoman ROUKEMA. Yes. Any final statement any one of the four Members want to make?

[No response.]

Chairwoman ROUKEMA. All right. I'm sorry, Ms. Valezquez, you were busy in another committee hearing. I'm sorry. But I think you will find, as you go over this information that it was very, very helpful and very consistent both from the community groups as well sa the business groups, the homebuilders and the mortgage bankers. They're not in complete agreement, but I think we're all moving in the right direction.

Thank you very much.

Mr. LAWSON. Thank you.

[Whereupon, at 1:30 p.m., the hearing was adjourned.]

H.R. 3995—THE HOUSING AFFORDABILITY FOR AMERICA ACT OF 2002

TUESDAY, APRIL 23, 2002

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND
COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to call, at 2:00 p.m., in room 2128, Rayburn House Office Building, Hon. Marge Roukema, [chairwoman of the subcommittee], presiding.

Present: Chairwoman Roukema; Representatives Green, Ney, Kelly, Miller, Grucci, Tiberi, Velazquez, Carson, Schakowsky, Jones, Watt and Israel.

Also Present: Representatives Oxley and Baker.

Mr. GREEN. [Presiding.] Good afternoon. This hearing of the Subcommittee on Housing and Community Opportunity will come to order. Opening statements. Without objection, all Members' opening statements will be made part of the record.

The Chairwoman of the subcommittee, Chairwoman Roukema, has been detained and will be joining us shortly, but I wanted to get things underway and I will at this time read her opening statement and will proceed to recognize Ms. Velazquez.

This is a second in a series of hearings on H.R. 3995, the Housing Affordability for America Act of 2002, which is designed to increase the availability of affordable housing and expand home ownership and rental opportunities across the country. Our first hearing on this legislation focused specifically on the home program, housing production, the National Housing Trust Fund as proposed in H.R. 2349 and the Thrifty Production Voucher as proposed in H.R. 3995.

As the Chair has stated before, new production of affordable single and multi-family housing is essential to the goal of expanding home ownership and affordable rental opportunities. That first hearing was most informative. Clearly there are different ways to address the shared goal of increasing production. The Chair trusts as we move forward on H.R. 3995 that we can all stay focused on the goal and keep an open mind on how best to achieve that goal.

There are many problems that need our attention relative to housing in this country. Certainly we need to look at ways to increase production and we need to search for new ways to address the increasing costs of Section 8 contract renewal. If we do not, it will soon consume the lion's share of HUD's budget. In light of the country's growing elderly population, seniors are finding it harder and harder to find affordable housing or to simply stay in their home. There are over 34 million Americans 65 years and older. By the year 2025, that number will increase to 62 million, or one in every six Americans. Growing numbers of seniors are suffering from worst-case housing needs from 1991 to 1997. The number of senior low income renters paying more than 50 percent of income toward rent rose 8 percent. At the same time, the number of senior low-income households receiving public rental assistance dropped 13 percent. These factors could combine to create a crisis level lack of affordable housing for senior citizens within the next decade. We need to establish comprehensive aging-in-place strategies to link affordable shelter with compassionate services through public-private partnerships. The reality is that solutions to these problems will not be easy. That is precisely why Congress thought it necessary to establish both the Millennium and Seniors Housing Commissions. We have asked them to think outside the box and to come up with solutions to address these growing and pressing problems. H.R. 3995 is a first step toward addressing the problems that we could address right now in anticipation of a Millennium Housing and Senior Housing Commission reports that are due later this year.

This hearing today will focus on programs that provide direct Federal housing assistance to low income Americans. We have asked our witnesses to comment on the Section 8 program, public housing, elderly, disabled, homelessness and HOPE IV. The Section 8 program is the primary type of direct Federal housing assistance to low income Americans. At last year's hearing, we heard how in certain communities, voucher underutilization is a significant problem. Underutilization of vouchers has been attributed to various causes, including the tight rental market, poor performance by public housing agencies, targeting of a large percentage of vouchers to very low income individuals, low fare market rents and rent caps of 40 percent of adjusted monthly income. H.R. 3995 includes provisions that provide flexibility to public housing authorities and tenants alike within the Section 8 program. Some of the provisions included in this legislation would establish a thrifty voucher production voucher to be used in conjunction with new construction or substantial rehabilitation, permit the 40 percent cap to be based on gross income versus adjusted income, and allow public housing authorities to use up to 5 percent of the funds allocated for counseling, down payment assistance, rental security deposits and other activities that assist families in finding suitable housing to directly assist hard-to-house families.

Through the public housing program, HUD gives grants to public housing authorities to finance the capital costs of construction, rehabilitation or acquisition of public housing developed by these PHAs. Title 5 of H.R. 3995 includes provisions that would relieve some of the administrative burdens for PHAs such as giving the Secretary of HUD the ability to waive the resident commissioner requirement, suspending the reporting requirement for small PHAs of 100 or fewer, and granting HUD the authority to investigate the feasibility of an alternative evaluation system to assess the overall performance of a public housing agency.

H.R. 3995 reauthorizes HUD's homeless programs through fiscal year 2004 and funds renewals of contracts through the housing certificate fund for one year at a time through 2004.In addition, it reauthorizes the Indian housing block grant programs, housing opportunities with AIDS and HOPE VI.

Finally, H.R. 3995 includes reforms to the HOPE VI program that will allow eligibility for small PHAs.

We are looking forward to all the witnesses' testimony today, and I want to thank all of you for being here.

At this time, the Chair recognizes Ranking Member Velazquez for her opening statement.

Ms. VELAZQUEZ. I just would like to note that I am not the Ranking Member on this subcommittee. It is Congressman Barney Frank from Massachusetts, but in light of the fact that a short notice was given about this hearing, he had a previous commitment. I will be reading my own opening statement. I would like to thank Chairwoman Roukema for holding this important hearing today and the witnesses for taking the time to share their expertise. The programs that we will be addressing during today's hearing are crucial safety nets for the most vulnerable among our population and we must ensure that as we move forward, we continue to meet the needs of the population they are meant to serve. Rental assistance programs, be it public housing, Section 8 or a program targeted to a special needs community such as the elderly, disabled or the homeless, are among the most vital programs administered by the Federal Government. They are the difference between families having a safe stable environment to call home and oftentimes living on the street.

While I applaud the President's move to increase home ownership, it is imperative that we not lose sight of the fact that for many families it is simply beyond reach. I am troubled by implication that home ownership is the answer for all Americans when many of my constituents cannot afford low rent apartments. Making the leap to home ownership is not under the list of immediate priorities. Paying next month's rent is, and we need to ensure that they can afford to do that today. I was glad to see that the Chairwoman included in this bill a proposal that I had advocated to ensure the rights of Section 8 and have voucher holders remain in their homes. I believe this language is a good start and I look forward to working with her to ensure language matches the legislative intent.

This bill contains several new proposals that, while aimed at increasing the availability of affordable housing, may have the opposite effect. Specifically I am eager to hear the witnesses' opinion on such items as the potential conversion of public housing to project base Section 8 and expanded ability of PHAs to engage in joint ventures. I believe it is important that the subcommittee knows what long-term impacts should we be expecting from such measures.

Of particular concern to me is the fact that increases in worst case housing needs are greatest in urban areas and among working minority families with children. It is not enough to say that no child will be left behind. Actions must support the rhetoric. Yet when parents are forced to work 2 or 3 jobs to afford safe, decent housing, both children and families are left behind. We cannot allow this to continue. It is difficult to imagine how the proposed shift from the current standard of rents not exceeding 40 percent of net income to gross income will make housing any more affordable. It may push many families one or even two steps back.

In closing, while this bill looks to address an impressive range of housing issues, it is my hope that we can do all of them justice. The Chairwoman should be commended for taking separate days to address different programs and I hope that we will seriously consider the comments and suggestions of our expert witnesses before rushing into a markup that does not fully address the needs at hand.

Thank you, Mr. Chairman.

Mr. GREEN. Thank you.

At this time the Chair would recognize Chairman Oxley, Chair of the Financial Services Committee, for any opening statement he may have.

Mr. OXLEY. Thank you, and I want to commend you Vice Chairman Green and Chairwoman Roukema for your hard work on the bill. We are here to discuss the Housing and Affordability for America Act. Under your leadership, this subcommittee conducted a series of hearings last year examining the affordable housing crunch occurring in many of our Nation's areas and the obstacles that kept too many families out of homes. The hearings outline many of the complex issues involved in addressing various affordable housing problems across the Nation, and this bill makes the strong step toward addressing those issues.

Today we will hear from many experts on public housing, Federal role subsidies, homelessness and elderly and disabled housing initiatives as we face what some depict as a housing problem in high cost areas. It is incumbent we not only address the home ownership side, but the other housing support systems that assist families to pursue the American dream. In that light, reinivigorated public-private partnership initiatives provide the best opportunity for new affordable housing. Though we can be proud that American home ownership is at a record high of nearly 70 percent, we know there are segments of our population that continue to face challenges to owning a home. As well as being a community anchor, housing is a point of strength in today's economy. Low interest rates have made home ownership more feasible, allowing many first-time buyers to enter the housing market. Rates have also created a boost in refinancing, which frees up cash to go to other sectors of the economy. The shaky state of the stock market has made real estate investment increasingly more attractive. And on the rental front, affordable rents for working families provides a foundation for future home ownership and ultimately strengthens families and communities. Not only is home ownership a good equity investment and good for the economy, it is an investment in our local neighborhoods. It is critical to communities that affordable housing is within reach for all income levels and that home ownership is an attainable goal for any working family. Housing affordability is an opportunity that everyone deserves, and this bill will help to ensure it is an option for more American families.

Today I want to welcome Mr. Thomas Slemmer of Columbus, Ohio, who represents the National Church Residences. Approximately 6 months ago I attended a ribbon-cutting ceremony in Mansfield, Ohio, in my congressional district for 50 homes brought to our community by Mr. Slemmer's organization. We are proud of your work in Ohio and look forward to your testimony today.

And I would like to welcome another Ohioan, Ms. Terri Hamilton Brown, who is executive director of the Cuyahoga Metropolitan

Housing Authority, which includes Cleveland. I understand that you have made significant strides in your short tenure.

To you and to all of the witnesses on this panel and the next, we look forward to your testimony and expertise in helping craft legislation that truly brings the American dream to our constituents. And I thank the Chair and yield back.

[The prepared statement of Hon. Michael G. Oxley can be found on page 278 in the appendix.]

Mr. GREEN. Chair recognizes Ms. Jones for 3 minutes for an opening statement.

Mrs. JONES. Thank you, Mr. Chairman, Chairman Oxley, Ranking Member on a number of my committees, Ms. Velazquez, and to my colleagues, to the members of the panel, good afternoon. I seek unanimous consent that my full statement be included in the record.

Mr. GREEN. All opening statements will be made part of the record.

Mrs. JONES. Owning a home is the most rudimentary element of financial independence and the beginning of a wealth creation process. Furthermore, purchasing a house means more than just a place to live and a good investment. Home ownership is an opportunity for a better life. For many Americans, owning a house can also mean collateral for a small business loan or be the first steps toward building a strong credit history. It is of vital importance that we ensure the ability of all Americans to have access to the resources that are required to realize this basic piece of the American dream.

Chairman Oxley spoke to the fact of 70 percent of home ownership in this country. But the reality is it is less than 50 percent for African Americans and less than 50 percent for Hispanics. And as much as I support and push home ownership and wealth education and the fact that predatory lending has taken over many of our communities where home ownership used to be, I am as much concerned about those who will never own a home, those who want affordable housing and need the opportunity to be able to live in affordable housing and affordable rental housing, and that is why I am pleased to have an opportunity to be a part of this hearing and this subcommittee.

We are here today to discuss the merits of the Housing Affordability Act of 2002. The intention of the act is to increase availability of affordable housing and expand home ownership and rental opportunities. Although I support the spirit of the legislation, we must make sure that we address all of the issues in full. An inadequate or flawed response to the problem will not suffice, is not enough for us just to say that we passed a piece of legislation that might help housing or affordable housing in our country. As legislators, it is our job to look at all the evidence that is before us and to make some decisions as we pass legislation that will do what we are saying it is going to do, and the only way we can to do that is go to the people who are in the know.

Having served in many other capacities—and I know that sometimes you put legislation or you put an ideal at the top and it never sinks down to the bottom, it kind of floats on the oil. It is important that we, as we deal with this housing crisis in this country—

and we do have a housing crisis, that we take care and make sure that we do the right thing at the right time to save all the people who are looking for us to be their safety net in this community.

I have some more, but I will not read it, Mr. Chairman. I ask that the balance be included in my statement. And I need to say from my congressional district, our executive director is here, but I will wait until my time to introduce her, because I do not have any time left now.

[The prepared statement of Hon. Stephanie T. Jones can be found on page 280 in the appendix.]

Mr. GREEN. Mr. Miller of California, do you have any opening statement?

Mr. MILLER. Thank you, Mr. Chairman. We continue to discuss barriers that really preclude us from providing affordable housing, and they are so numerous. If you talk to builders who are trying to build houses, the approval process is so slow in many cases that they just cannot provide enough housing to meet the demands, and that is the situation we are facing today. And when you have more demand, as you know, than you have supply, you artificially increase the price of housing. And this morning I was meeting on a separate issue, which is going to impact affordable housing, and that is Canadian soft wood lumber. On May 2, there is a hearing on whether a 29 percent tariff should be placed on soft wood from Canada. That equates to about $1,500 in increased costs for housing if that happens. And the problem we face in this country is we do not provide enough soft wood to meet the demand. And if you look to some groups, they want to continue to shut our forests down, but we continue to decrease the amount of logging that occurs, thereby decreasing the amount of lumber we have to be able to provide housing. I commend the Chairwoman for taking this on. We have a problem that is just growing daily, and it is not just one sector causing it, it is an overall ballooning of problems that the industry has to face and costs they have to absorb in providing housing. And, therefore, we are continuing to meet and discuss a problem that we know is probably going to be worse next year than it is this year, and we have to get to the root of the problem.

I know in many of your western States, Endangered Species Act is a huge problem. When your builders go in and buy properties that they think are reasonable to produce affordable housing, just to find out that some spider, rat or fly lives on them, and all of a sudden, instead of owning property that they can provide affordable housing on, they own a habitat, and they go through countless years of litigation and lawsuits and spending money on attorneys just to end up, by the time they are through, meeting exorbitant requests by agencies, and therefore the cost of the housing is so much, it is no longer affordable. I commend each of you for trying to provide needed housing for people at the low-income levels who really need housing, and it is incumbent upon us to look beyond that and say what is causing this problem. And I agree with Mr. Green and many other Members of this subcommittee who are looking to that.

We are trying to figure how do we get to the root of the problem. We continue to look at the problem and just put a Band-Aid over it and it will get us by to the next week, but it does not resolve the problem that is causing the sore, and the sore is a lack of affordable housing because the demand far exceeds the supply. And I keep repeating it, but until we have a move-up market for people to move up to that is affordable, there is never going to be an affordable housing market because 59 percent of the people who want affordable housing have no place to use a Section 8 voucher especially in California. So I am looking forward to the hearing today.

Mr. GREEN. Mr. Watt, opening statement?

Mr. WATT. Thank you, Mr. Chairman. In the interest of hearing the witnesses and time, I think I will waive my opening statement. I did, however, want to commend the Chairwoman for having a witness that will focus primarily on the HOPE VI program and some of the concerns that several people have raised about that.

When we started the reauthorization process to award reauthorization of HOPE VI, I wrote to the housing authorities in my congressional district and asked them to submit any comments they may have, and also wanted to ask unanimous consent to submit the responses that I received from the Greensboro Housing Authority, Winston-Salem Housing Authority and Charlotte Housing Authority to my request and ask unanimous consent to submit their responses about the HOPE VI program.

Mr. GREEN. Without objection, so ordered.

[The information can be found on page 293 in the appendix.]

Mr. WATT. And I yield back the balance of my time and thank the Chair for allowing me to introduce the witness from my congressional district, but I will do that later.

Mr. GREEN. Mr. Baker, opening statement?

Mr. BAKER. Nothing at this time, thank you, Mr. Chairman.

Mr. GREEN. As we introduce our first panel of witnesses, the Chair reminds witnesses that they will have 5 minutes to provide an oral summary of their testimony. Their full written statements will be made part of the record. Since we will be having Members who will be introducing individual members of the panel, we will introduce each speaker right before he or she speaks.

Our first speaker is Telissa Dowling. She is the president of the Resident Advisory Board of the New Jersey Department of Community Affairs. The board represents 19,000 voucher holders throughout New Jersey. Ms. Dowling also serves as a member of the board of the National Low Income Housing Coalition. Welcome, Ms. Dowling.

STATEMENT OF TELISSA DOWLING, PRESIDENT, RESIDENT ADVISORY BOARD, NEW JERSEY DEPARTMENT OF COMMUNITY AFFAIRS, ON BEHALF OF NATIONAL LOW INCOME HOUSING COALITION

Ms. DOWLING. Good afternoon. Thank you, Vice Chairman Green and Members of the subcommittee. I am honored to be here today to testify about H.R. 3995. My name, once again, is Telissa Dowling and I am the president of the Resident Advisory Board New Jersey Department of Community Affairs. The DCA administers the 19,000 vouchers throughout the State of New Jersey. I am testifying here today on behalf of the National Low Income Housing Coalition. I am a member of the coalition's board of directors and I am representing its members nationwide who share the goal of ending affordable housing crises. We know that the intent of the bill is to expand both rental and home ownership opportunities and to make existing programs work better.

As the subcommittee knows, housing affordability, availability are serious problems. Vouchers do help close that affordability gap by paying rents that would be unaffordable otherwise. Today, 1.5 million low income families are served by vouchers. Choice and mobility are important attributes of vouchers but, as you know, people in many places, people with vouchers are having a lot of trouble finding a place to live. The bill would let PHAs use 5 percent of their funds for improving voucher success. While we think this is a good idea, we think it should be limited to 2 percent and to PHAs meeting certain criteria so there is a connection between the use of the funds and the need. And if PHAs take advantage of the new policy, they should have to report it in their PHA plan.

We also have a problem with increasing the tenants' portion of the rent to 40 percent of the gross income. This could make housing accessible to voucher holders, but it comes only at the tenants' expense. The tenant would pay even more of an already small income on rent and really suffer trying to make ends meet. One way to improve voucher success that does not come at the tenants' expense is to let PHAs increase their payment standards to 120 percent of the fair market rent without HUD's approval if they meet certain conditions.

My written testimony includes some other suggestions for increasing voucher success. We are very worried that some of the changes proposed in the bill will stifle opportunities for tenant input and participation. These opportunities became law only 4 years ago with the enactment of the Quality Housing and Work Responsibility Act of 1998, known as QHWRA, where PHAs were given more flexibility, but were also made accountable to their tenants and communities.

We stand firmly against the proposed waiver of the tenant resident commissioner requirement. Exceptions already exist to this requirement and the Secretary should not have broad waiver authority for this requirement.

We also oppose the 3-year suspension of the filing of PHA plans by PHAs with less than 100 units. Without the planning process, PHAs are under no obligation to include tenants in their decision-making process.

In addition, depending how the terms small public housing agency is interpreted, the 3-year suspension could include PHAs with fewer or no public housing units, but significant numbers of vouchers. For example, my PHA administers approximately 19,000 vouchers, but has no public housing units. There are also PHAs around the country with fewer than 100 public housing units, but many more vouchers.

In my own experience as a voucher tenant and as the president of the RAB, the planning process has made the PHA take tenants into account. The PHA has been making changes without understanding their effect on tenants. But the PHA planning process requires PHAs to consider tenants and their needs.

And we also have serious misgivings about the development-based subsidy proposal in the bill. We worry that an untested concept for private financing will not be able to make up a big budget gap in an already underfunded program area.

We are also very concerned about the loss of actual public housing units permitted through this program. My written testimony describes our concerns about the HOPE VI program and provides our proposal for reauthorization. We think that the loss——

Mr. GREEN. If you could wrap up your testimony, I would appreciate it.

Ms. DOWLING. We think that the laws of the public housing unit will help big in the development-based subsidies for public housing and will undercut the goals of the production program in the bill and will put even more pressure on the voucher program. And my written testimony addresses some additional issues that I did not have time to discuss today, including expanding the ROSS and the FSS program, improving enhanced vouchers and other issues.

Thank you again for the opportunity to speak with you today.

[The prepared statement of Telissa Dowling can be found on page 381 in the appendix.]

Mr. GREEN. Thank very much for your testimony. And you did well rushing at the end. Do not worry.

Our next witness is Ms. Joan Walker Frasier. She is the President of the Atlantic City Residents Advisory Board in Atlantic City, New Jersey. She also serves as a State delegate for the National Organization of Public Housing Residents, ENPHRONT. Did I get that right?

STATEMENT OF JOAN WALKER FRASIER, PRESIDENT, ATLANTIC CITY RESIDENTS ADVISORY BOARD, ATLANTIC CITY, NEW JERSEY, ON BEHALF OF ED WILLIAMS, PRESIDENT OF ENPHRONT

Ms. FRASIER. Good afternoon. My name is Joan Walker Frasier. I am a disabled resident of public housing in Atlantic City, New Jersey; President of the Atlantic City Housing Authority Advisory Board and, as you state, a State delegate of the National Organization of Housing Residents, and we are affiliated with 46 members around this country.

I am testifying this afternoon on behalf of Mr. Ed Williams who is president of that organization and unable to be with us today.

I would like to first say greetings to Members of the subcommittee.

ENPHRONT believes that the basis for well run public housing is not only about sound brick and cement, but also deep, sustained and meaningful participation by residents in shaping all aspects of a public housing agency's policies. To this end, ENPHRONT strongly opposes the provisions of H.R. 3995 that will waive the requirement that housing authorities appoint residents to their governing boards if they make their best efforts to do so, but fail to comply.

When the Resident Commission Mandate was enacted in 1998, residents nationwide celebrated. The requirement marked a fundamental shift from the Federal Government's earlier policy of simply encouraging housing agencies to appoint resident commissioners. The requirement was also thought to be a necessity, given the fact that the Nation's 2200 housing agencies have been deregulated by the 1998 Public Housing Reform Act. And it is against this backdrop that we believe the provision in H.R. 3995 to be both harmful and unnecessary. Housing agencies have already been granted significant regulatory relief from the requirement.

First, under current law, housing agencies can be exempted from the requirement if they first satisfy a few basic conditions.

Second, when HUD released its proposed rule on resident commissioners in June of 1999, the draft rule required housing agencies to appoint resident commissioners within a set timeframe. Housing agencies immediately fought against the implementing schedule of the requirement, citing the complexity of local, political environments as the reasons for not being able to appoint resident commissioners within that timeframe.

In response, HUD later published a final rule allowing housing agencies to appoint resident commissioners without a set deadline. Though the resident commissioner mandate remained intact, the final rule allowed the Nation's housing agencies to move at different speeds in complying with the requirement.

It has been over 3 years since the enactment of the law on resident commissioners. ENPHRONT believes that by now the majority of the Nation's housing agencies should have done all necessary to make residents serve on governing bodies a reality.

ENPHRONT also opposes an H.R. 3995 that would exempt small housing agencies from having to submit annual plans for the next 3 years. ENPHRONT questions the need for such a waiver provision. Under current rules, small housing agencies already submit to HUD's streamlined annual plans.

Furthermore, HUD has the power to further simplify the format of planned submission. Why eclipse this provision and the relief provided by it with a 3-year waiver provision? Indeed, ENPHRONT does oppose the waiving of the annual plan requirement for small housing agencies, but on the other hand, we are willing to discuss ideas for further simplifying the process. In discussing these ideas, we are in no way in support of stripping away or watering down on resident participation policies currently in place. These policies include Resident Commissioner Mandate as a requirement that the housing authorities establish and provides support to resident advisory boards.

On behalf of ENPHRONT and the millions of public housing residents nationwide, I thank you for this opportunity to testify before this subcommittee and look forward to working with you in the future. Thank you.

[The prepared statement of Joan Walker Frasier can be found on page 376 in the appendix.]

Mr. GREEN. Thank you very much for your testimony.

Our next witness is Mr. Kevin Marchman, who is the Executive Director of the National Organization of African Americans in Housing, a non-profit organization here in Washington, DC. He has over 24 years of experience in the public housing field, having served as Assistant Secretary for the Office of Public and Indian Housing at HUD and as Executive Director of the Denver Housing Authority. Welcome.

STATEMENT OF KEVIN E. MARCHMAN, EXECUTIVE DIRECTOR, NATIONAL ORGANIZATION OF AFRICAN AMERICANS IN HOUSING, WASHINGTON, DC.

Mr. MARCHMAN. Thank you. Members of the subcommittee, my name is Kevin Marchman and I am the executive director of NOAAH. I want to thank you for the opportunity to comment upon this bill. Like you, NOAAH is a champion of affordable housing opportunities for all people, especially people of color. NOAAH's membership is a unique combination of public housing agencies, including executive staff, housing professionals, consultants, contractors, industry trade groups and resident groups and other advocates. Indeed, as a former public housing resident and public housing director and assistant secretary, I have the vast pleasure of leading an organization that has the diversity and the experience to look at issues, programs and legislative initiatives from many perspectives. And while the subcommittee is interested in NOAAH's views on certain public housing issues relative to this bill, I would like Members to be aware that NOAAH's advocacy extends beyond simply those issues highlighted today and includes initiatives and programs targeting environmental and health issues, specifically lead, mold and pests, expanded home ownership for minorities, economic development for the low income, fair housing, especially increased penalties for predatory lending, the aggressive disposition of the FHA portfolio, the HOME program expansion and other opportunities on behalf of our diverse membership. And while our members often find themselves on competing sides of the same issues, all are committed to expanding opportunities for African Americans and other disenfranchised minorities.

Four things with respect to public housing: The leveraging of public funds. This proposal in the bill will allow housing authorities mixed use of private and public financings to rehabilitate and modernize public housing developments. We believe this is a good thing, but there are some kinks. We have to make sure that this particular proposal safeguards the public housing stock in this country.

The waiver of the resident commissioner requirement. NOAAH supports this waiver, but only in terms of where State laws preclude the requirement.

The HOPE VI program. The HOPE VI program is probably one of the more successful programs that HUD offers, and for the last 10 years in the majority of the cases, it worked well in communities in which it has been implemented. It is not perfect, and I believe between working with Congress and the Administration and members of the public, this particular program can be made much better.

Fourth, the suspension of the filing requirements for public housing authorities for 3 years. Good idea, but it is a bit short. We believe it should be at least 250 units. However, any suspension of the requirement must not preclude the active involvement and participation of public housing residents.

There are others, but I will let my written statement stand.

As I said, NOAAH is a housing advocate for all people of color. Our members are assisting NOAAH staff with identifying, creating and developing programs to increase affordable housing stock in this Nation. NOAAH's membership is constantly documenting best practices, designing initiatives using technology to improve the quality of life in identifying opportunities, public and private, for expanding availability of the affordable housing stock and improving the quality of life for the low and moderate income.

Thank you very much.

[The prepared statement of Kevin E. Marchman can be found on page 371 in the appendix.]

Mr. GREEN. Thank you for your testimony.

At this time the Chair recognizes Ms. Jones for an introduction.

Mrs. JONES. Thank you, Mr. Chairman. It gives me great pleasure to be able to introduce to this subcommittee and other members of the panel and those listening to this testimony the Executive Director of the Cuyahoga Metropolitan Housing Authority, Terry Hamilton Brown. Prior to becoming the executive of one of the largest public housing authorities in this Nation, Ms. Brown served as the Director of the Department of Community Development for the City of Cleveland, and it was under her leadership that the Housing Construction Office was created. As well as under her leadership in the City of Cleveland we have built more housing in the City of Cleveland in the last 12 years than there was built in the City of Cleveland from the Korean War. And it was under her leadership that that was done. She is responsible for more than 1,100 employees as director of CMHA. In addition to all the work that she does, she serves on the boards of the Urban League, Shore Bank, University Hospitals of Cleveland and the Greater Cleveland Roundtable. She is a graduate of MIT and the University of Chicago, is a native Clevelander, and resides down the street from me. So it is a great pleasure that I introduce the Director of the Cleveland Metropolitan Housing Authority. And just one liberty to all the other witnesses as well as the second panel, this event was scheduled for another day and I am in the midst of strategic planning with my congressional staff, and we do not get that opportunity very often. So if I slip out, it is not that I am not concerned about what you are doing. I can read very well and I will keep up, and I thank you, Mr. Chairman, for the opportunity.

Mr. GREEN. Ms. Hamilton Brown, welcome.

STATEMENT OF TERRI HAMILTON BROWN, EXECUTIVE DIRECTOR, CUYAHOGA METROPOLITAN HOUSING AUTHORITY, CLEVELAND, OHIO

Ms. BROWN. Good afternoon, Vice Chairman Green, Members of the subcommittee, and to my neighbor and Congresswoman, Stephanie Tubbs Jones, thank you for the kind introduction and thank you for the opportunity to testify before you today on behalf of the Council of Large Public Housing Authorities.

In the time allotted I would like to highlight four points of my written testimony, and key to my comments and of most concern is adequate funding. No program or provision in this bill can be successful without adequate funding.

First, thank you for proposing the reauthorization of the HOPE VI program. HOPE VI has proven to be successful at transforming distressed public housing and having a substantial impact on the surrounding communities. I support the provision of the bill to facilitate redevelopment needs of small housing authorities, but stress that targeting distressed properties must remain a primary focus of the program. Coming from Cleveland, being one of the first housing authorities created in the country, CMHA has a housing stock that was built in the 1930s and early 1940s. It is functionally obsolete and in some cases beyond modernization. In Cleveland we estimate that 21 family units are or will be eventually candidates for HOPE VI grants.

As to the HOPE VI, my recommendation is to create a two-track grant-making system, one track that continues to provide large grants to the most severely distressed properties and a second track that would focus on smaller redevelopment projects that require other grants and work with small housing authorities.

Next, related to the private debt financing strategy for public housing included in this bill, it appears that it is proposed that the expense of full funding of the capital fund program could limit the potential of private investment and could lead to opt-outs in public housing.

As I see it, a successful private debt financing strategy needs to do three things. It needs to ensure adequate Federal funding, leverage private resources, and protect public housing units. This bill accomplishes only one of these. The provisions giving HUD the authority to remove low income use restrictions on public housing property in the event of foreclosure is of particular concern as it places public housing units at risk and in danger. This could result in additional loss of low income housing in many communities like Cleveland that have already experienced numerous HUD-insured property foreclosures. The debt financing model included in this bill takes away resources from the capital fund and does not necessarily recognize that public housing authorities are already using capital funds to leverage millions of dollars. While we appreciate additional development tools, we do not ask for it at the cost of capital funds and the loss of public housing.

Third, the supportive housing for elderly provision in the bill does not include the conversion of public housing into assisted or supported housing. With nearly 700,000 seniors living in public housing, public housing authorities serve more seniors than any Federal housing program and should be included in this bill.

In Cleveland we created a program called the Manor at Riverview. It includes 69 units of supportive housing and a health clinic through modernization efforts of a large elderly highrise. Our experience shows that it takes a huge investment in capital improvements and significant operating dollars to keep the ongoing personal care and health services as well as to fund social service coordinators. It is quite challenging finding the resources to make this affordable to very low income families. Additional Federal assistance is needed if we are going to support seniors and public housing, avoid premature shifts to nursing homes and save Medicaid funds.

To that end, CLPHA is renewing its Elderly Plus proposal. This initiative would create a demonstration of $100 million of competitive awards for public housing authorities, both large and small, for innovative conversions of obsolete buildings. This would allow our seniors through Elderly Plus to remain and age in place and create equal access for supportive living environments.

Lastly, related to the Section 8, the provisions in the bill we support. However, there would be an additional comment to add flexibility and improve utilization in tight real estate markets. While CMHA has moved from a troubled to a high performer and we have high utilization, that is not always the case for my colleagues in tight real estate markets. Despite good program management, people are having difficulty using the vouchers if there is a shortage of rental and affordable housing in their marketplace. We believe many of the Section 8 enhancements in H.R. 3995 will provide for better utilization, especially the provision that would assist hard-to-house families, and the simplification of rent calculations. The details of my recommendations related to that is included in the testimony.

In conclusion, CLPHA members remain committed to providing quality housing for low income families. H.R. 3995 provides opportunities and tools to assist public housing authorities in carrying out our work but, I repeat, no program can be successful unless it receives adequate funding. Your efforts to provide policy guidance and increased resources for public and assisted housing is critical to ensuring that low income Americans can have access to safe, even affordable housing, both rental and home ownership.

[The prepared statement of Terri Hamilton Brown can be found on page 357 in the appendix.]

Chairwoman ROUKEMA. [Presiding.] Thank you. I did not hear your whole testimony, but I am sure this whole panel is very constructive, and we will move along together to be constructive to get a good bill. But I do want to apologize to everyone for not being here on time, although I was on a delayed AMTRAK train from New York and New Jersey, not, however, the one that I understand was crashed this afternoon. No. We were just delayed and I am sorry for that and I regret it, and I do thank Congressman Green for sitting in for me and helping me, and I can assure you that we will go over in great detail all your testimony, and I thank you all.

I understand that you all have been very compliant about conceding to the time limits here, because we not only have this panel, but a second panel to go through. And with that, I believe Mr. Baker would like to introduce his friend and colleague and authority from Louisiana.

Mr. BAKER. Thank you, Madam Chairwoman. I appreciate that courtesy and do wish to extend a welcome to Mr. Hans Dekker, who is not only a constituent, but a very distinguished leader in our community and State in bringing innovative thought to providing housing to those who need it. I think his experience in directing the Baton Rouge Area Foundation, which is one of the top 10 in the country as far as generating assets for quality housing, is very admirable.

Prior to that 3-year stint, he, of course, was the director of the local initiative support corporation, known as LIST to most of us, for some number of years. So I am particularly pleased to have his testimony before the subcommittee, Madam Chairwoman. I think you will find him to have particular good insight and helpful recommendations.

STATEMENT OF HANS DEKKER, BATON ROUGE AREA FOUNDATION, BATON ROUGE, LOUISIANA

Mr. DEKKER. Thank you, Madam Chairwoman, and I would like to recognize and thank Congressman Baker for his commitment to housing in neighborhoods in East Baton Rouge Parish. He has been a true leader in building a community-wide strategy to address our most pressing needs.

HOPE VI is one of the most important community tools in the Nation. It represents one of the only very large focused investments available to revitalize distressed public housing and its surrounding neighborhoods. The private market, to a large extent, has left America's toughest neighborhoods and it is an important and vital role for the Federal Government to serve as a source of funding for revitalization. HOPE VI has and should continue to do this. The changes to the HOPE VI program proposed in H.R. 3995 are needed and timely. HOPE VI has always devoted most of its resources to help the most largest, most troubled public sites in the country. This policy has meant that much of the HOPE VI funding has benefited only the largest cities in the Nation.

In fact, almost 50 percent of the HOPE VI funding for the year 2000 has gone to 13 different housing authorities. While targeting the largest, most troubled public housing sites was a deliberate policy objective at the beginning of HOPE VI, since 1996 the program has supposed to have been available to a wider swath of authorities. Unfortunately the bias for large cities and large public housing sites has continued in the program. It is biased in two fundamental ways.

First, the way the funding is allocated greatly benefits large public housing authorities with large housing sites. Second, the funding and selection criteria that HUD uses are biased to large cities. This bias is ironic, because HOPE VI is really intended to reduce our Nation's stock of distressed not necessarily large public housing units. The fact is that in each of Baton Rouge three HOPE VI applications, they were awarded the maximum points for the distressed nature of their units for which they were applying. However, because of the bias in the allocation of funds toward larger public housing sites and, by extension, large cities, the distressed nature of sites is overwhelmed in the scoring process by the size of the complexes and the units. This bias exists despite the fact that in small and medium sized cities, especially in the southern United States, we have some of our Nation's highest rates of poverty and neighborhood distress.

Let me use Baton Rouge as an example. The median household income in the 5 census tracts that make up the immediate neighborhood around the sites targeted in our HOPE VI application is between $5,000 and $11,000. The average net income for public housing residents in our HOPE VI application is $3,400. 25 percent of the land in the immediate neighborhood is vacant and/or abandoned. This poverty and abandonment translates directly into high levels of crime and disease concentrated in our most distressed neighborhoods. For the year 2000, Baton Rouge was ranked sixth in the Nation for crime rate. Our level of violent crime was twice the national average and Baton Rouge has the twelvth highest

AIDS case rate per capita in the Nation among our major metropolitan areas.

Simply put, we have great need, too. The 2001 HOPE VI awards exemplified the bias to large cities or public housing sites. Of the $540 million HOPE VI budget, 225 million was set aside for projects with 300 or more units at one site. If these large site applications were not funded from the site, they were automatically placed in the application pool for the remaining 265 million. A smaller applicant like East Baton Rouge with 171 units totaled between two sites could only compete in the second highly competitive pool of funds. As a result, only three sites in 2001 with less than 300 units were funded. These sites received just under 12 percent of the HOPE VI funding in 2001. Additionally, more awards were made in 2001 to housing authorities which have recently appeared on HUD's troubled housing authority list. This support for troubled housing authority has had predictable results, many of them being unable to execute their HOPE VI grants successfully.

The support for troubled housing authorities is especially exasperating when you look closely at the scoring criteria for HOPE VI applications. One of the areas for which East Baton Rouge's most recent application lost points is the lack of experience and capacity of our housing authority to implement the grant. However, our housing authority is not classified as troubled; has acquired high quality assistance in the preparation and implementation of its grants and has successfully managed large scale HUD modernization grants; and has obligated funds in a timely and effective manner as required.

There are numerous other technical aspects of the program that perpetuate a bias against small public housing sites that I have detailed in my written testimony, but the major point I would like to leave with you is that it is needed and timely for the HOPE VI program to open its funding and selection to all public housing authorities on an equal footing.

Thank you.

[The prepared statement of Hans Dekker can be found on page 364 in the appendix.]

Chairwoman ROUKEMA. I thank you. That was a very excellent testimony, right to the point, and you did it within the timeframe. Thank you.

Mr. Harry Byrd. I believe, Congressman Watt would appreciate introducing you as one of his North Carolina representatives.

Mr. WATT. Thank you, Madam Chairwoman. I want to thank the Chair for allowing two witnesses to talk about the HOPE VI program and for also giving me the opportunity to introduce Mr. Harry Byrd, our final witness on this panel, who is currently a Principal in The Harkin Group, a project management and consulting firm, and previously the Senior Vice President and chief Operations Officer of the Housing Authority of the City of Charlotte, North Carolina. In that capacity, he had a number of things under his supervision. Most important for our purpose today was the HOPE VI program at the Charlotte Housing Authority. And since he has left the Charlotte Housing Authority and formed his own consulting group and project management group, he has continued to consult not only with the Charlotte Housing Authority, but with other housing authorities which are implementing HOPE VI grants. He knows the successes and the shortcomings of HOPE VI, and I think it is important for us to hear both successes and problems, and we welcome him here today from my congressional district, Mr. Harry Byrd.

STATEMENT OF HARRY A. BYRD, JR., PRINCIPAL, THE HARKIN GROUP, LLC, HUNTERSVILLE, NORTH CAROLINA, ACCOMPANIED BY JOHN KENNEDY

Mr. BYRD. Thank you. Good afternoon, Chairwoman Roukema and other Members of the Subcommittee on Housing and Community Opportunity. My name is Harry Byrd, principal of The Harkin Group. With me today is John Kennedy, also a principal.

On behalf of the company, I thank you for the privilege of addressing this subcommittee today and sharing with you some of our experiences and what we have learned as a result of working with the HOPE VI program over the last 9 years. The Harkin Group has been involved with the HOPE VI program since it was first introduced in 1993. Currently we associate it with HOPE VI as private consultants.

Obsolete public housing sites that are redeveloped under the HOPE VI program are transformed from communities of isolation and hopelessness into viable self-sustaining neighborhoods of opportunity and vitality. The true intent of HOPE VI can be accomplished. However, we have recognized that there are strategic areas of this program that should be improved to afford housing agencies the opportunity to better accomplish the overall goals established by the program.

Of major concern to us as well as to proponents and opponents of HOPE VI alike are a number of original residents of the public housing site who returned to the revitalized community. There are a number of reasons that this number may be lower than desirable. The design of HOPE VI communities seeks to decrease the concentration of poverty in a specific geographic region by decreasing density on the public housing site, resulting in decreased public housing inventory. Fewer units result in fewer residents that can be accommodated. Based on our experience, housing agencies are replacing from 35 to 50 percent of HUD-subsidized housing units lost through HOPE VI demolition revitalization.

To combat this impact, it is necessary to strengthen the requirement for the development to ensure increased financial commitment on the part of the public and private sectors. This action would provide necessary resources to increase the boundaries of the revitalization area beyond the mere footprint of the public housing site itself, thus allowing an increase in the number of units developed.

Currently, there is no requirement for one-for-one replacement of public housing units lost to HOPE VI development. While we realize that one-for-one replacement is difficult to achieve, a greater commitment toward achieving this goal should be emphasized in the requirements of the program.

Typically, public housing residents living in a development targeted for HOPE VI revitalization are relocated prior to commencement of demolition and construction. It has been our experience that the timeframe between residents being relocated from the site and new housing units being developed that allows them an opportunity to return can be anywhere from 3 to 5 years or longer. Specific examples are cited in our written testimony. This time span alone can cause residents to be become frustrated and disillusioned with the program and choose not to return.

Reducing the period between the time residents are relocated and the time they can return to the site can have a positive effect on the number of residents returning. One way to accomplish this is through comprehensive, up-front planning that ensures the housing agency is ready to begin immediately upon grant award. The greater degree to which all components are developed and in place, the greater degree of speed and efficiency in which they can be implemented.

Along with involvement of residents at the outset, it is imperative that public housing agencies provide good tracking and monitoring of residents during redevelopment. PHAs must provide adequate follow-up and supportive services to keep residents involved in the redevelopment process and working toward their eventual return. In instances where this is lacking, many original residents who were displaced from the site are lost.

Of foremost consideration in the HOPE VI programming and implementation are the residents for whose benefit the program was conceived and designed. Community and supportive services must be in place early on that include activities designed to help residents make smooth transitions into their new living environment. It is incumbent upon housing agencies to develop comprehensive transitional housing programs that provide the necessary support, training and resources through case management in assisting families to be prepared to return and to move toward self-sufficiency.

Design and programming for build-out of the site should include economic strategies that will provide sustainability of these communities going forward. If the mix that is typically recommended by HUD can be achieved, then the economics of the project will define the level of private sector participation required to ensure sustainability.

Another important element is the attraction of market-rate development and reinvestment back into the community by fostering public/private initiatives to change long-standing perceptions.

Just as critical is the level of participation and commitment from local government. Although the program is funded through local housing agencies, local government buy-in and commitment of resources are essential to securing HOPE VI funding and to the long-term success of the program. The return on investment for these stakeholders is realized in the form of an increased tax base and elimination of revenue distressed and revenue-draining communities. Moreover, HOPE VI revitalization serves as a catalyst for economic and other development efforts in the city that may not otherwise occur.

Chairwoman ROUKEMA. Mr. Byrd, can you summarize and conclude please?

Mr. BYRD. HOPE VI programs are very complicated and quite different from other capital improvement programs that many housing agencies have undertaken. Earlier program requirements call for housing agents to have program management in place to enhance capacity and to protect the interest of the PHAs as necessary. That requirement has been dropped. As a result, many housing authorities are left without capacity.

If we can implement HOPE VI programs consistent with the requirements and guidelines established by HUD, we will build better communities that include senior housing, homeownership and family housing—neighborhoods that have been targeted into the broader community and include a true mixture of affordable, market rate and subsidized housing.

In our opinion, the HOPE VI program was well-conceived and has provided many opportunities to public housing agencies and the residents they serve. We strongly feel this program should be continued. And I apologize for extending my time.

[The prepared statement of Harry A. Byrd Jr. can be found on page 346 in the appendix.]

Chairwoman ROUKEMA. That is all right. Fine. I thank you for everyone's cooperation, and recognizing that I was late to begin with, but I will ask all my colleagues, in consideration of the number of people that we have here, that we are able to get through this first line of questioning. We will begin with Mr. Green.

Mr. GREEN. Thank you, Madam Chairwoman.

Let me begin with Ms. Dowling and Ms. Walker Frasier. You both expressed some concerns over the suspension of planning requirements for small PHAs and the waiver of the resident commissioner requirements. Can you offer some thoughts on how we can achieve the goal of regulatory relief for small PHAs and sort of ease the regulatory burden and the paperwork burden while still maintaining tenant access?

Ms. DOWLING. Yes. That is very simple. Because when the CORA went into place back in 1998, when it was mandated, all the hurdles that we had working out the PHA plan was addressed; and most of the housing authorities that are in good standing actually are allowed to submit a streamlined version of the PHA plan. So it is not like you would have to go every year and reinvent the wheel. It is just that you are going to plug in different components throughout the year.

So that's why it is very difficult for us to understand why would small PHA plans—housing authorities have problems with submitting this plan when HUD gives it to you over the web, HUD gives you the opportunity to even have it streamlined from the beginning? So it is already there. We are just asking to use it.

Mr. GREEN. So you don't see a need for regulatory relief I guess is what you are saying?

Ms. DOWLING. Maybe I am not clear what you are asking me about regulatory relief.

Mr. GREEN. I guess what I am taking from your response is that you don't believe that PHAs do have a problem with onerous paperwork requirements they are filing.

Ms. DOWLING. No, not at all.

Mr. GREEN. Ms. Walker Frasier.

Ms. FRASIER. I don't understand myself what the particular small housing agencies are telling you what their problems are. Because of the 18 components, then why not look at streamlining those requirements that they have to face? If they are talking about there is too much information being asked from them, then the requirements made by HUD need to be looked at.

Mr. GREEN. I guess, Mr. Marchman, I would like to get your response. I know that your organization is in favor or at least supports the resident waiver—commissioner requirement being waived.

Ms. FRASIER. No, I am sorry.

Mr. MARCHMAN. On the onset of public housing authorities developing these plans, I think it was about 4 or 5 years ago, perhaps in a hearing like this, the then secretary of HUD, in response to a question from a subcommittee Member, talked about the lack of strategic planning for public housing authorities. We spoke about it a lot, and the criticism was that PHAs simply did not do a good job in planning for the future.

The PHA plan was created, I submit to you, for large, medium and small—it is too much information, information that HUD does not read and does not have the capacity to do anything meaningful with. If you look at even the smallest housing authorities, some of which I work with, those 18 points just don't get to the issues of how to run and plan for a well-run public housing agency.

That does not preclude, however, the very strong need to have involvement of residents and other community members in the planning of that housing authority. I think that is crucial. Indeed, I would say that public housing agencies have become much more well managed in the last 10 years, particularly in the last 5 years, and due to residents being on boards of commissions.

But the PHA plan is too much for smaller housing agencies, and they spend too many of the resources in putting those things together, giving it to HUD, HUD's simply approving it and filing it away.

Mr. GREEN. Do you have other ideas for easing the paperwork and regulatory burdens that you might want to share?

Mr. MARCHMAN. I think there are probably four or five crucial areas that smaller public housing agencies could submit to HUD that would suffice for the 18 they currently submit. I think they can be submitted either over the web or paper into the local offices; and they will simply cover the areas of operation, management, relationships with residents of the community, exactly what you plan to do with the funds that you are receiving from the Federal Government. Not much more needs to happen, but it has to have the involvement of everybody, specifically residents who sit on the board.

Mr. GREEN. I would invite you to supply some written information to us on that. That would be very useful as we go about this process. Thank you. Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. Thank you, Mr. Green.

Congresswoman Velazquez.

Ms. VELAZQUEZ. Thank you, Madam Chairwoman.

Ms. Hamilton Brown, I agree with the concerns voiced in your testimony regarding the project-based private debt financing strategies. Specifically, I am concerned about the potential to cause long-term problems through the gradual phasing out of publicly assisted rental housing.

You mentioned the need to ensure the preservation of these units for low-income families. Would you please expand upon this, and also what strategy would you advocate? Do you believe it is possible to maintain this housing while leveraging private funds?

Ms. BROWN. My concern as the provisions are laid out in the bill that it would give HUD a lot of authority to waive the use restrictions. So while we believe that we should be able to use capital funds to leverage private dollars to expand the amount of financing and development, more production, my concern is, in the case of foreclosure, if the authority goes to HUD that we could lose public housing units to the market and that the housing authorities, whether directly or through partnerships, should have more control in developing that financing structure.

The other concern that I have is that this is too strict, and it sort of implies that all markets are the same and that I think we need to learn more how financial markets across the whole country, not just in certain tight real estate markets, will respond to that and that additional study needs to be looked at in other ways to generate private dollars.

However, the point is that, as a tool, we need to provide leveraging. We certainly know that Federal funds by themselves won't do it, but the security measures and the structure need more work.

Ms. VELAZQUEZ. Thank you. I was happy to hear you address the issue of PHAs getting back into the housing production business. I believe that, at the very least, we need to create an exemption from the prohibition on public housing production for high-performing authorities in tight markets. Would you support such a proposal, and what effect do you believe such a proposal would have on housing affordability in these markets?

Ms. BROWN. Absolutely, I would support it. In fact, in Cleveland, though it's not with public housing moneys, we have received upgrade grants for foreclosed properties in the past, and we are using those in a partnership with a local non-profit to produce more affordable housing units. In effect, the housing authority is creating product that the market will not create. So I think it will enhance our ability to serve more low-income families in those markets.

Ms. VELAZQUEZ. Thank you.

Ms. Dowling, the house voucher right to remain language is of particular interest for me. In fact, the language, as it currently exists, was an initial draft of a bill that I intended to introduce. However, the language was not quite as tightly drafted as I would like. We have held off. For this reason, I appreciate your concern about the drafting of the language as it exists in the bill. How specifically would you want to see it altered?

Ms. DOWLING. Can I give you that more in writing? Because we did sit down and come up with a proposal and I wouldn't want to not give you all that we have right now. We do have it in writing.

Ms. VELAZQUEZ. So I will work with you and my staff. Thank you, Chairwoman.

Ms. DOWLING. Thank you.

Chairwoman ROUKEMA. Yes. I hear your concern about that, and certainly my intention is to go into this in more depth. Certainly your goal is a proper one, and we should be able to work this out, but we don't have all answers here.

So, Ms. Dowling, we New Jersey people should be able to resolve this problem. I should acknowledge the fact that both Ms. Dowling and Ms. Frasier are from New Jersey, and we appreciate their leadership.

Ms. VELAZQUEZ. So we should work with the Low Income Coalition on the language. Thank you.

Chairwoman ROUKEMA. Yes. Thank you.

Mr. Ney, Congressman.

Mr. NEY. Thank you, Madam Chairwoman.

By the way, I want to welcome all the panelists, especially those of you from Ohio.

HOPE VI was enacted to provide relief to severely distressed public housing authorities where developments were beyond repair, and the hope was that new development funds could be used to revitalize community neighborhoods. We all know that purpose. Do you think it has met its objectives? Also, how do we address displacement where public housing money is used to redevelop, that maybe less than 50 percent of the tenants would return? Anybody on the panel? I was just curious what you think.

Ms. BROWN. I will start. Yes, I think HOPE VI is showing that it is successful. There is just not enough funds to address all the severely distressed properties, as I noted in my testimony. The age of our housing, too.

While we have received three grants and we have completed some components and are under construction with others so it is very fluid, the three grants don't begin to really address all of our needs. Cleveland is a little different in that, for the grants we have received, we are replacing almost all of the housing. The only areas we haven't is where we had efficiencies or one bedrooms where we already have that kind of inventory, but the real need for us are the three and larger bedrooms, and we have replaced them maybe not always on site, but using other land in the community. Working with the city, we have replaced it with off-site development. So that's not exactly our condition.

Mr. NEY. The same within my area in eastern Ohio, we haven't had a particular problem.

Is there anybody on the panel who has had a similar situation?

Ms. DOWLING. Yes. Telissa from New Jersey.

With the HOPE VI, one of the major problems is finding out exactly what do you mean by severely distressed. Because now you have housing authorities that are allowing the property to really become terrible in order to qualify for the HOPE VI funding, and that is not the intent of what HOPE VI was supposed to be about.

Also, under the HOPE VI, the problems that we are having, the housing authorities even adhering to the Uniform Relocation Act, as far as helping the residents that are being relocated pending the new apartments that are coming, find decent and affordable, safe housing, they are giving them the vouchers that are not being able to be utilized and are just throwing them over to the voucher program and saying, do what you got to do until we are able to build something. But, in the meantime, they are building it, and they are building it not for that resident in mind. Because that could be an extremely low-income resident, but now they are building mixed-income residences where that extremely low-income resident cannot return with HOPE VI the way it is now.

We understand intent, and that is why we also have something in writing to submit to the panel in reference to strengthening the HOPE VI program to really make it more effective for everyone and not just displace poor people and put mixed-income people in there. I know they have a problem finding rent, also, but I can give you an example in the State of New Jersey that we have an executive director of a housing authority making $90,000 and living in public housing. That is a problem. That is a problem.

Mr. NEY. I would agree with that.

If I have the time left, one quick question. There has been some concern that the Section 8 contract renewal situation will eat up the HUD budget. I just wondered, and if I run out of time, any creative ideas you can submit. I know you can tell Congress the answer is to put some more money in, but maybe there are some things we are missing.

In Ohio, we try to do some housing trust programs and come up with creative ways, and I am sure there are examples around the country, but we are missing something as a Federal Government. So if you have any ideas—I don't want to take the chairperson's time, but I would appreciate it.

Chairwoman ROUKEMA. You have one more minute. Go ahead.

Ms. FRASIER. One of the biggest problems I am finding, at least even in New Jersey with the HOPE VI program in Atlantic City itself, is that they are building these houses under HOPE VI, but they are not all designated for public housing residents. So now you have got 600 units you are building, and you are displacing 214 people, but they are not all coming back. You have not built anything to put them into, so where are they going?

It is easy to say we will give them vouchers, but if you know the area of Atlantic City, affordable housing with vouchers is not always possible, and everyone cannot just relocate.

Ms. DOWLING. I am sorry. I will give you that in writing in reference to how to make the Section 8 work better.

Mr. NEY. I would appreciate it, and also if there are any stats that you could give the Chair.

Ms. DOWLING. Yes, we do.

Mr. NEY. Also, if anybody has done post interviews, where these individuals have gone to that they could not get back into the system.

Ms. DOWLING. Oh, yes.

Mr. NEY. Thank you.

Chairwoman ROUKEMA. Congresswoman Jones, I believe you were the next to arrive.

Mrs. JONES. Thank you, Madam Chairwoman. In your absence, we all complimented you on hosting this series and bringing us an opportunity to address this.

Ms. Hamilton Brown, in your written testimony at the last page you said that, despite the important role of public housing and serving the neediest families, there is also a statutory bar to the development of incremental or replacement public housing. Can you speak to that issue briefly for me, please?

Ms. BROWN. Right. This is the requirement or the inability to do one-for-one replacement housing, and it is really lack of funding. As the two persons speaking before me are saying, there really is a need to replace public housing as you are doing HOPE VI to return residents to their home. And without having adequate funds or tools to leverage more dollars, maintain the units as public housing, we really are not creating more housing. We are just shuffling, I imagine, and putting people in other places. So not every property maybe requires one for one. So you have to find what is the appropriate mix for the locality.

As I answered before, we don't have a strong demand for efficiency so as we demolish any of our units that were of that size, we don't replace them. But for the larger bedrooms, three and more, there is absolutely a need to replace each unit in the market, at least in our area, as you well know.

Mrs. JONES. Talk to us about some of those programs that you worked on with the City of Cleveland and other private ownership as some innovative ways to replace some of the housing that is lost as a result of the inability to replace units.

Ms. BROWN. In Cleveland, we use block grant dollars as well as home dollars for housing production, affordable housing, whether it is in a housing trust fund that is locally established to provide gap financing with developers as well as non-profits. In effect, this past year was the first time the public housing authority has received a grant of moneys from the City of Cleveland.

We are using home dollars with one, our Carver Park HOPE VI to help us meet the need for the number of units that we want to replace. We are also using moneys through the city's empowerment zone to help make housing more affordable in our mixed-income development. So those are the ways that our city is using moneys for affordable housing.

Mrs. JONES. Let me ask you one additional question or a couple until my time runs out.

In H.R. 3995, as proposed, I believe it allows for only 2 years of assistance for families. Can you tell me, based on your experience, whether a 2-year period of time is a sufficient time for families to be able to—rental assistance dollars, are they able to adjust? What have you found to be the appropriate period of time for them?

Ms. BROWN. Related to? I am sorry.

Mrs. JONES. That is a good question. I don't know all the background on it, but——

Chairwoman ROUKEMA. Excuse me. I am wondering what the 2-year period is that you are referencing.

Mrs. JONES. I am using a question that somebody wrote for me, and I don't know. So I am going to withdraw that question and go on to something else.

Chairwoman ROUKEMA. All right. Withdraw it, and then if you review it and if you want to come back later.

Mrs. JONES. I appreciate it.

Can you tell me what are the dangers of basing rent calculations on the average median income versus utilizing the now standard fair market rent equivalent? Can you help me with that?

Ms. BROWN. By using the SMR we believe we will be able to provide more choice, housing options to families and to also move people out of areas of concentrated poverty and that they will have more choice in the rental market.

Mrs. JONES. Are you, as a housing authority, able to do mixed-income housing under the current standards that are set forth, regulations set forth by HUD?

Ms. BROWN. Actually, using the capital fund, you are able to do mixed-income financing. Perhaps there needs to be greater rules that HUD should put forward, regulations to really describe the range, but housing authorities are able to do that now. I believe Atlanta is one of those that has been very successful at using public funds for mixed-income financing.

Mrs. JONES. I want to thank you again, Madam Chairwoman.

I am in the midst of a staff retreat, so I am going to try to do some strategic planning myself. I thank you all for coming and please excuse me.

Chairwoman ROUKEMA. Thank you.

Congressman Miller.

Mr. MILLER. It is so nice you have you here, Ms. Chairwoman. I am sorry that train wasn't on time.

Chairwoman ROUKEMA. I am glad I wasn't on the other one that crashed.

Mr. MILLER. I know the one in my district has a lot of people hurt.

Ms. Brown, thank you for elaborating on that. Your statutory bar—I had no idea what type of housing you were talking on this. It was my question, so I am glad you did respond to that.

Mrs. Dowling, I always looked at homeownership as a way for individuals to create wealth and stability within communities, especially in volatile housing markets where home values increase rapidly. Why don't you think Section 8 vouchers should be used for down payment assistance in those areas?

Ms. DOWLING. We didn't say it should not be used. It should be used, but not 5 percent. Two percent. Because then you are giving the housing authority the opportunity to say we are going to use the whole 5 percent toward a down payment for homeownership, so that cuts out the security deposit, cuts out even helping to utilize the voucher activities. We don't totally disagree.

Mr. MILLER. You don't oppose that.

Ms. DOWLING. No. We just said not the whole 5 percent unless you are going to give me strong language that clearly states that the housing authority cannot use the whole 5 percent. Because that is a substantial amount of money when you start looking at the budget. I am telling you it will be as true as this table that the housing authority will take that money and just use it for pushing the homeownership program, and then we are going to lose out on getting those vouchers utilized in the first place.

Mr. MILLER. Because I look at it as, if you can get people into housing, in a few years they won't need Section 8 vouchers. They will have equity built up.

I think that is a great opportunity for us, but we have neglected that for years not taking advantage of that opportunity.

Ms. DOWLING. But even in my written testimony you will see we want to tie the self-sufficiency program into the homeownership program, and that is exactly what we are doing at the New Jersey

Department of Community Affairs. Those residents are moving through from the self-sufficiency program and actually own homes.

Mr. MILLER. Mr. Marchman, I don't think you were asked the question, but you support a third-party public housing assessment. What type of issues should be a prototype examination on that, and what kind of local or regional issues should be factored into that assessment, do you believe?

Mr. MARCHMAN. Yes, I do agree there needs to be a third-party assessment system. We have been through two or three at HUD, and it simply has not been able to characterize or to take a snapshot of a well-run housing authority. Like any industry, I believe a third-party assessment would be a good thing. I think it should look at areas with respect to how well the management is run, the physical condition of the building; and, because public housing agencies throughout the country are in different climates, they are in different locales, that has to be a part of it.

I think once you begin to independently assess public housing authorities, they will continue to improve, knowing that those standards are fair standards in which they can manage toward.

Mr. MILLER. There is one project that I applaud an Orange County developer for processing. He is building about a $400,000 home community, but he is also mixing in low-income apartments into that process, which to me is the direction of the future, to be able to create neighborhoods, that you don't focus just totally on people from one income level which, as you know, in Government housing has caused problems sometimes, but to integrate people in different income levels. But the problem that he faced was he had to go through about 30 agencies just to get that low-income project approved and get it through HUD and everything.

What would you recommend that we do to avoid that in the future to encourage individuals who want to do this, who are trying to provide housing for those in need, yet the bureaucracy and the red tape they are going through is just overriding sometimes?

Mr. MARCHMAN. Having been a former municipal employee working for a mayor, I know how difficult that could be. I would simply suggest usually developers are profit motivated, although they may have very good intentions. Perhaps we could look at extension of tax credit programs to give them an incentive and to give the city the incentive in order to support such a thing. I would support any developer who was looking at mixed-income, mixed-financed housing as the goal.

It is certainly the goal of a HOPE VI program. There is no reason why it couldn't be the goal of a city or town. But they need ways to get around the multilayers of approvals that you need and, sometimes, as you know, heavy resistance.

I have known developers who are looking to do exactly this, but some segments of the community say we just don't want that low of an income here. But I think there have been some examples, and I am sure people here can tell you of mixed-income housing under the HOPE VI programs and others that have worked and perhaps they can share that with you.

Mr. MILLER. In this particular case the developer had the zoning. He could have taken and built apartments that would have rented for considerable money that he decided to use them for. But just the process of going through the HUD process for low-income—I mean, he had 30 agencies he had to deal with, and it was just a bureaucratic nightmare, based on the testimony I have heard him give to individuals, which would put other individuals in a situation where they might not want to go through the hassle to try to help people really in need. That is scary, and I think we need to address that.

I yield back.

Chairwoman ROUKEMA. Thank you, Congressman Miller.

I might observe, having been on this subcommittee for a long time and gone through a few secretaries of Housing and Urban Development, I think it might be well for us to readdress that question to Secretary Martinez—I think we need some direction from the HUD Secretary—and put ourselves together with him to make that a primary goal of these programs. So we have had him before this subcommittee, but I think, following the numbers of panels we have had, including this one, I think we will have to take that issue up with Secretary Martinez again.

With that, Ms. Carson, Congresswoman Carson.

Ms. CARSON. I will be very brief.

I want to first thank you, Madam Chairwoman, for convening this matter here regarding the dearth of housing available to low-income Americans. You are to be highly commended for that, and I appreciate it very much.

I don't know if the panel will be able to respond. I am from Indianapolis, Indiana; and we have a major HOPE VI program. Unfortunately, in my district, my district has the highest rate of home foreclosures anywhere in the Nation; and I am trying to figure out what happened.

You know, we pushed homeownership. Then we got over a thousand people right now that are in a foreclosure situation within my congressional district, and it is not considered a poor district, a lot of low-income housing and stuff like that.

That is my one question, to see if you have any idea what perpetuates these loss of homes once you move these families into a housing environment.

Number two, a very delicate, delicate question. We are doing a lot of revitalization, historic preservation, that kind of thing in my district; and I sort of work with the neighborhood to say it is OK for low-income people to move in, relax, it is really OK. We closed down a mental facility in Indiana. A major mental health facility was shut down. Those people were supposed to go to group homes, but instead they got Section 8 vouchers. And I guess that is not your first time at the rodeo. You have heard that before. And we are just having all kinds of problems.

When you try to get the mix and then you have people that truly need mental health services who are out with Section 8 vouchers, living next door to somebody that has got a $400,000 residence, what do you do about that?

Then the mix of elderly with people of those circumstances, people who have drug addictions. We have had major senior citizen housing complexes that were integrated with Section 8 vouchers.

Of course, poor people aren't all——

Ms. DOWLING. First of all, with reference to your foreclosures on the housing, that is done because there is no follow-up. What we do at the New Jersey Department of Community Affairs, the residents go through an extensive training so that, when they do purchase their homes, they are just not left out there to not understand what that private market is all about and if there is a lot of foreclosures going on there is no follow-up.

That is where social services—where we were encouraged, even through the HUD training that we got as residents, to form partnerships within the communities, even though we might not be receiving Section 8, because we are homeowners. We forged partnerships with the social services in the neighborhood, local non-profits that specialize in following through and helping people build skills that they will need to live in the private sector. Maybe that is something that might need to be done there or something that could correct that problem.

But also what we did with a lot of the mental housing we have had closed, we are now pushing for supportive housing like Ms. Brown was talking about. We took the vouchers and allowed private developers to develop and bring in social services and build in supportive housing, but there are components within the voucher program that allows for the housing to be taken care of.

But through the partnership the social services actually come in and give the medication when they need to follow through. Are they keeping their apartment the way they are supposed to be? So that you can actually go into affluent communities and you would never know that there was a house full of mentally ill people there. That is what we did in New Jersey.

Ms. CARSON. What happens when you are in a city in a State that is in a financial crisis, where they are having to cut back on major social services and supportive service for people who are in need of services?

Ms. DOWLING. But there is other funding, like Ms. Brown had mentioned. There is also funding like CBG moneys.

We are also looking into—I am sure you could elaborate more than I could.

Ms. BROWN. Right. I would add that, in Cleveland, we have a group of social service providers. We call it the Gateway Group, and we issue our vouchers for special need population working with this group of providers. They work with the County Board of Mental Health, which is funded through the State. They also get moneys from local foundations as well as using the city's block grant or home dollars. I imagine there are other Federal funds also that go through some of these social service providers.

On the point of foreclosures that you were mentioning, when I worked with the City of Cleveland we used private investment by negotiating with bankers, our entire community, using the Community Reinvestment Act to get lenders to commit moneys for education, buyer education, counseling as well as foreclosure prevention counseling.

So I think that is a way to get additional moneys into your community, hopefully working with your local banks. Because foreclosures are not good for their business, either.

Ms. CARSON. I think we have a lot of predatory lending that goes on that is subprime.

Ms. BROWN. So we have to do things to get the other lenders to do counseling. What we are finding when I was working with for sale housing predominantly is that it would take a while to get buyers ready for ownership. It can't always happen immediately. So that kind of education is really what must be stressed.

Chairwoman ROUKEMA. I am going to close this line of questioning at this point in time, but it is an excellent line of questioning. I would ask that each member of the panel here please submit your own observations on that question of predatory lending, because it is an important issue, and we haven't really gone into it in any depth. But we would appreciate your experience and your understanding, if indeed the predatory lending is a problem.

Mr. Baker.

Mr. BAKER. Thank you, Madam Chairwoman. I appreciate very much your calling this hearing on this important subject.

I am going to move through a couple of points rather quickly, because I have one thing I want to focus on with a little more time.

Mr. Dekker, I want to express my appreciation to you for appearing here and also bringing to light the analysis of the distribution of the funds. I quote from the statement, "of the $4 billion already invested through fiscal year 2000 in HOPE VI, nearly half has been awarded to 13 large housing authorities."

Looking at the appropriations reports through 2001, that figure moves to an excess of $4.8 billion—in congressionally accurate terms, we would say almost $5 billion has been allocated through 2001, almost half of which has gone to 13 particular authorities around the country, which is not distressing in itself, unless, of course, you are not one of the 13.

Ms. Brown, I noticed in your statement "I endorse," and I'm skipping a little language, "creating a two-track system for HOPE VI. One track continues to provide grants to the most severely distressed and a second track that would focus on smaller redevelopment projects that require smaller grant amounts. Such a system would provide housing authorities of all sizes with greater access to funds."

I wanted to get that statement emphasized on the record because, as I understand it, the top tier of housing authorities now compete in the first grant of money. If you are unsuccessful in pot one, you then move into pot two with all of the smaller authorities and compete a second time, I think a point worth making at this hearing.

Ms. Frasier, I have read part of your statement which was not part of your oral remarks. For a number of reasons, your organization believes that HOPE VI has hurt more than helped low-income residents living in public housing. "one of our primary concerns about HOPE VI is the lack of comprehensive and objective information revealing how the program is actually performing. HUD has published glossy, colored publications full of pictures that examine select HOPE VI sites and select elements of HOPE VI within those sites. However, the public has yet to see any broad data on how the program is truly operating." .

Which leads to me to my next point, Madam Chairwoman.

Mr. Marchman, you were HUD's Assistant Secretary of Public and Indian Housing under Secretary Cisneros for some time, is that correct?

Mr. MARCHMAN. That is correct.

Mr. BAKER. In that capacity, you engaged in a discussion with the Housing Authority of New Orleans, Tulane University, and HUD for the purpose of creating a cooperative endeavor agreement, which you served on the board of the commissioners to which Mr. Ron Mason, the executive monitor, reported.

Subsequent to that and subsequent to your departure—I want to make the record clear that there was some controversy with regard to the PHMAP score for the HUD office using a particular type of factors to certify that HANO had, in fact, reached a satisfactory non-troubled score of 60.

Madam Chairwoman, in 1995, HANO, by objective measure, had a PHMAP score of 28.7. Somehow, magically, without a coat of paint or structural modifications, it reached a PHMAP score of 85.1.

Subsequent to that period of time, Mr. Marchman, I understand that you have been engaged at least at some point by Mitchell & Titus to do additional consulting work to HANO or to HUD on the HANO project. I am not clear exactly how that works. My point is to establish you have ongoing and intimate knowledge of HANO's unfortunate circumstance.

You may not recall that, since 1992 through the year 2000, public funds amounting to $800 million have been spent at the Housing Authority of New Orleans. I can absolutely tell you from personal observation the conditions are at least as bad if not worse than they were before we spent the first nickel. Tell me it is working.

Mr. MARCHMAN. Well, as you know, I have been out of HUD now for 4 years. Let me say I think there are several issues with respect to the Housing Authority of New Orleans.

Yes, it was among the worst-run housing authorities in the country for a long, long time; and there are a lot of folks who had something to do with that, among them city administration, management of the housing authority, private managers of the housing authority and the Department itself. It seems as if in some cases people treated HANO differently, and standards were not adhered to. That is very clear.

Two issues with respects to HANO. The management of the housing authority, I would submit, has improved in the last 4 to 5 years. There is no question about that. Their ability to attract good individuals to work at that housing authority is still limited, and I understand the Department is working on that as well.

In terms of the buildings themselves, for many reasons, none of which I do know, the redevelopment of the desired property, the redevelopment of other properties has been unusually slow, but I understand things are moving. I understand that HUD has acknowledged some of that. But even though they are——

Mr. BAKER. If I may interrupt, because I know the Chairlady's time is limited to have another panel, I want to point out that things are moving. They are knocking buildings down. We are not necessarily replacing it with new housing. I am not convinced that the poor who are now without housing are being afforded any more opportunity today after spending $800 million of taxpayer money. I am very concerned about the independent certification of those PHMAP scores, which look, from the outside, look to have been manipulated for some reason.

We don't have time here today to get the full advantage of your knowledge. I am not in any way asserting that you had involvement in any of this. I am simply trying to pursue someone who is knowledgeable in the matter to get the benefit of his thinking.

At some appropriate time, Madam Chairwoman, I would like to follow through on this, because it is an enormously significant problem that has no positive resolution in over a decade of my work in this area.

Mr. MARCHMAN. I would be absolutely pleased and look forward to the opportunity of sitting down with you and your staff to review the long and sometimes painful history of the Housing Authority of New Orleans. There are many, many factors that should be discussed and looked at and perhaps——

Chairwoman ROUKEMA. That is what I was going to recommend. How it applies now to a reform in this legislation.

Mr. BAKER. I really appreciate the Chairlady's interest in this matter, and I appreciate your courtesy.

Mr. MARCHMAN. I am deeply, deeply interested in the improvement of the New Orleans Housing Authority.

Chairwoman ROUKEMA. Mr. Dekker, of course you are not New Orleans, you are Louisiana, but I don't think we have any time for you to go into this now. Do you want to take——

Mr. DEKKER. We are the Albany to their New York City.

Chairwoman ROUKEMA. I see. All right. But you don't have anything to contribute at this point in time to that particular subject?

Mr. DEKKER. No, I don't.

Chairwoman ROUKEMA. Congressman Grucci.

Mr. GRUCCI. Madam Chairwoman, I have no questions at this time, but I do have an opening statement that I would ask be made part of the record.

[The prepared statement of Hon. Felix J. Grucci Jr. can be found on page 288 in the appendix.]

Chairwoman ROUKEMA. Thank you. That will be included.

Chairwoman ROUKEMA. I do thank the panel. You have been very helpful and very constructive.

Again, not only those items that you have publicly offered to submit information to for the permanent record, but if there is been anything else that has been covered here and not completely covered in terms of the responses, please, we welcome your written responses. We will add to them to the record, and every Member of the subcommittee will be—that information will be shared with them, and we will take it under consideration as we move down this legislative track. Thank you very much.

The second panel will move forward, please. Hopefully, we will get the second panel before the Members leave. We had such a wonderful turnout of Members with interest. Let's keep this moving.

We welcome our second panel here today, and I must ask unanimous consent to, under the subcommittee's rules, insert into the record the written statements from the National Association of Realtors, who did not have anyone on the panel today, and the National Association of Housing and Redevelopment Officials.

[The information can be found on page 305 in the appendix.]

Chairwoman ROUKEMA. With that having been said, let me introduce people in the order in which we have them appearing and giving testimony: Mr. Thomas Slemmer, President and CEO of the National Church Residences in Columbus, Ohio; and I believe Congressman Tiberi would like to present an introduction since he is very familiar with the work you are doing.

Mr. Tiberi.

Mr. TIBERI. Thank you, Madam Chairwoman. It is an honor for me to introduce a man from Columbus, Ohio, where I hail from, Thomas Slemmer, who is President and CEO of National Church Residences, which is located in Columbus, Ohio.

National Church Residences was founded in 1961 as one of the country's leading non-profit organizations specializing in the development, construction and management of over 14,000 units of affordable designed to service the elderly, the low-income families and persons with disabilities through Federal and State grants, loans and tax credit programs.

Mr. Slemmer serves on the Board of Directors of the American Association of Homes and Services for the Aging. He is past chairman of the Elderly Housing Task Force, the Long-Range Committees on Aging, the House Committee and the Ad Hoc Committee on Aging in Washington, DC., here. Mr. Slemmer has served as Vice President of the Board of Directors for the Ohio Association of Philanthropic Homes and Housing for the Aging. He is a former Director of the Board of Directors for the Ohio Capital Corporation and is currently on the board of the National Affordable Housing Trust.

He has testified before the House and Senate Appropriations Committees on senior housing needs in 1990, 1996, 2000, and July of 2001. In 1994, Mr. Slemmer received the Commissioner's Award for the U.S. Department of Housing and Urban Development and the Excellence in Housing Award from the Ohio Association of Philanthropic Homes and Housing for the Aging. In 1995, he received the Distinguished Service Award from the American Association of Homes and Services for the Aging.

Madam Chairwoman, I had the opportunity to visit the headquarters in Columbus, and it is an organization that is doing some outstanding things in housing, and I am pleased, Tom, that you are here today. Welcome.

Chairwoman ROUKEMA. I thank the Congressman.

Mr. Slemmer, we are anxious to hear your testimony.

STATEMENT OF THOMAS SLEMMER, PRESIDENT AND CEO, NATIONAL CHURCH RESIDENCES, COLUMBUS, OHIO, ON BEHALF OF AMERICAN ASSOCIATION OF HOMES AND SERVICES FOR THE AGING

Mr. SLEMMER. Thank you very much. Congresswoman Roukema, Members of the subcommittee, we are pleased to be presenting a unique perspective we think to your subcommittee today, and that is the perspective of affordable senior housing.

I am pleased here to be representing the American Association of Homes and Service for the Aging 5,600 providers and not-for-profit services, and lots of those are providing low-income housing to the elderly.

I also would like to commend you, Chairwoman Roukema, and Members of your subcommittee for introducing H.R. 3995. I am particularly pleased, since I was here last summer to help you with some of the hearings you had last summer to identify some key issues, and one of those key issues that we are grateful is included in this bill is your recommendation under Title III to address modernization needs for older federally assisted elderly housing. We are pleased that is in there, and we urge your continued attention to what we think is a critical problem facing affordable senior housing.

You have identified in the preamble to this proposed legislation that a growing number of seniors are suffering from worst-case housing needs; and I think, in the interest of time, I want to talk quickly about some of what we see as critical issues facing affordable senior housing.

Chairwoman Roukema, we operate a facility in West Orange, New Jersey—I see that is your birthplace—called Wood Valley Manor. Just to give you an idea of the crying demand for this kind of housing, that facility was built 5 years ago, 57 apartments. Forty-five of the original residents are still there. We have shut off, with the permission of HUD, the waiting list. As 95 people are on the waiting list to get in there, we are not accepting any more. That is about two-and-a-half people turning over a year; and, as you can see, it is a 40-year wait to get into that facility.

There is a crying need for that kind of housing, and the situation is getting worse. That is because the production of affordable senior housing is not keeping pace with the loss of it, and the loss of affordable senior housing is primarily coming from existing housing facilities opting out to market rate housing and to other housing really becoming functionally obsolete because of lack of funds for modernization. We believe that the most critical need that faces us in terms of senior housing is to halt and replace those units that are opting out.

Now the National Housing Trust developed this list of 150,000 units of federally assisted housing. This is a loss over the last 5 years. That is more than we are creating.

In my testimony last summer I talked about some of the strong cooperation, relationships we developed with the local communities, trying to preserve senior housing like in Pacifica, California; Manhattan, Kansas. But, unfortunately, over the last 6 months since I spoke with you last, I had my eyes opened to some really serious problems, especially as it relates to the 236 portfolio that is housing lots of elders in this country.

In northeastern Ohio—and I can't tell you the exact project because of a confidentiality agreement—there is a 200-unit 236 project that has been serving as affordable senior housing for the last 20 years. That project is now offered for sale. The selling price is less than half of what it would cost to develop that project new. Those 200 units are about the same amount as the entire allocation for the State of Ohio under the 202 program. Those units are going to be lost and sold to market rate housing unless somebody can step in and figure out how to buy those. There is a building side by side that was already sold and was opted out of the program.

You ask, how can that happen? We are concerned that it is not even on anyone's radar screen, because the residents in that building will get enhanced vouchers. They will be able to stay there during their lifetime but, as they leave, market-rate folks will be replacing those people in that housing. The problem is the preservation effort cannot keep pace with the kind of the market factors facing this 236 portfolio.

We are, frankly, concerned at AAHSA that we are going to lose every single affordable senior housing project that is in one of the better market areas, and I call your attention to that. We think that is the most serious problem facing us. We have made some suggestions, and we would love to have a dialogue with your subcommittee on how we can address this very serious problem.

One of the recommendations we have made as a kind of focal point is to develop an Office of Preservation at the Department of Housing and Urban Development. They still have lots of tools available to help with this process. They have HUD insurance, they have various programs that can help streamline the process of acquiring these, and we urge you to gives some thought to leadership at the national level to focus on this preservation effort.

We have covered lots of other points in your H.R. 3995 proposed legislation. One of the best ideas that you have is social service coordination. We urge you expand that to the 811 program and also to not-for-profit sponsored tax credit projects. We think that is the best idea that Congress has had in a long time, and we thank you for that, and we thank you for allowing us to testify. We think there are serious problems happening with affordable senior housing.

Thank you.

[The prepared statement of Thomas Slemmer can be found on page 400 in the appendix.]

Chairwoman ROUKEMA. Thank you, Mr. Slemmer.

I should have notified each member of the panel that you do have in front of you, if you can see it, the timer that will turn yellow to alert you that your time is running out and red when your time is out. So just be aware of that.

We won't go into the West Orange deal, but I am sure—although I haven't been in West Orange for many years, my classmates were mayors and councilmen, and my uncle was the leading councilman. I would like to think that my uncle was the one that got that West Orange housing initiated. I am going to look at that. I wouldn't be surprised if he did.

Now we have Andrew Sperling. Mr. Sperling and I have dealt together on other issues. The issue that he is bringing up today relating to housing is with affordable housing for the severely mentally ill.

Mr. Sperling is the Deputy Executive Director of the National Alliance for the Mentally Ill, an organization which is very meritorious and which I take great pride in working with them and following their leadership.

Mr. Sperling.

STATEMENT OF ANDREW SPERLING, DEPUTY EXECUTIVE DIRECTOR, NATIONAL ALLIANCE FOR THE MENTALLY ILL, ARLINGTON, VIRGINIA, AND THE CONSORTIUM FOR CITIZENS WITH DISABILITIES HOUSING TASK FORCE

Mr. SPERLING. Thank you, Madam Chairwoman. I am here representing NAMI, the National Alliance for the Mentally Ill, and also the Consortium for Citizens with Disabilities, the Consortium for Citizens with Disabilities Housing Task Force, which is made up of major national disability organizations including United Cerebral Association, Paralyzed Veterans of America, the Arc, Easter Seals and NAMI as well. Before moving into the body of my testimony, I would be remiss if I did not note, Madam Chairwoman, the other priorities we work on, and I want to, from NAMI's perspective, congratulate and thank you for your years of leadership in the House in ending insurance discrimination against people with mental illness and their families, and pledge NAMI's support to get your parity legislation through Congress this year and to the President's desk.

Let me talk about the housing needs of people with disabilities before I jump into some suggestions and comments on H.R. 3995. HUD's most recent worst case housing needs report in 1999 reported that 1.3 million adults with disabilities receiving SSI had worst case housing needs. CCD believes that this estimate is very low because it, in fact, does not count individuals with severe disabilities, non-elderly adults with severe disabilities who are residing in institutions, be they nursing homes or psychiatric hospitals or institutions for people with mental retardation. And we believe that estimate is actually much higher. Last year, we at CCD published data comparing SSI income levels to fair market rents and found people with severe disabilities are 18 percent of median income and that people with disabilities on SSI needed to pay on average the national level 98 percent of their SSI benefits to rent even a modest one-bedroom apartment leaving, in many cases, less than $10 or $15 a month to pay for food, transportation, telephone, rent, and so forth. And in 2000 there was not a single housing market in the country where a person with a severe disability on Supplemental Security Income, SSI, could afford to rent an efficiency or a one-bedroom apartment. This is obviously an affordability crisis.

There are also some other issues that affect this, the first being the impact of some changes that Congress made a decade ago to allow private owners of assisted housing and public housing authorities to restrict occupancy on the basis to elderly only. This has had a tremendous impact in terms of people with disabilities getting access to affordable housing in the community.

Number two, the Section 811 program was almost double what it was a decade ago. It has crept back up again, but there is a growing burden on the Section 811 program to handle more and more things, a new tenant-based program, tenant-based rental assistance program that was authorized a decade ago, the growing burden of renewals for that tenant-based rental assistance program within Section 811, creating a growing burden.

Number three, we see the lack of programs such as HOME and CDBG, the mainstream programs within HUD providing assistance to people with severe disabilities. This is largely because many jurisdictions find it very, very hard to do an operating subsidy when they do production in HOME or CDBG in order to reach people below 20 percent of median income.

And, finally, we also see discrimination. It still exists out there. There is the Fair Housing Act, Section 504, the Rehab Act, and the ADA that are designed to serve as civil rights protections that are designed to end discrimination. But unfortunately we see discrimination that still exists in the marketplace and, in fact, lack of adherence to the accessibility guidelines for people with severe disabilities in programs such as CDBG and HOME and the low income housing tax credit.

Let me turn now briefly and talk about some of the really important provisions that CCD believes would be a major step forward in H.R. 3995, the first being the homeless programs, the reauthorization there. My colleague, Ms. Friar, is going to talk in more detail about that, but we would note the programs that are emphasized on the homeless programs in H.R. 3995 are a major step forward for people with disabilities, given their disproportionate representation among the chronically homeless population.

CCD strongly supports the 30 percent permanent housing set-aside and the shift of the Shelter Plus Care and SHP renewals to the housing certificate fund. We support the new production program.

CCD also supports the Low Income Housing Coalition, National Low Income Housing Coalitions, national housing trust initiatives as well as H.R. 2349, Mr. Sanders' legislation. We support the thrifty voucher program and the voucher success fund. We believe those are major steps forward. And with the thrifty voucher program, we urge the subcommittee to consider allowing site-based waiting lists for those developments built with thrifty vouchers.

Finally, on Section 811, I know my time is running out, there is a full recitation of our recommendations on Section 811, including our testimony that we urge the subcommittee to take a look at. But the program really needs to be streamlined and simplified to make it much easier for non-profit disability organizations to operate and do production under Section 811.

Thank you very much, Madam Chairwoman.

[The prepared statement of Andrew Sperling can be found on page 340 in the appendix.]

Chairwoman ROUKEMA. I thank you.

Ms. Friar, is that the way you pronounce it? Thank you, Ms. Friar. I believe Ms. Velazquez would like the opportunity to introduce her.

Ms. VELAZQUEZ. Thank you, Madam Chairwoman. It gives me great pleasure to introduce a friend from New York City, Ms. Maureen Friar. Ms. Friar earned her BA at Brown University and a Master's in Public Policy at the University of California at Berkeley. Since 1993, she has served as Executive Director of the Supportive Housing Network of New York, a coalition of not-for-profit agencies that develop and manage affordable housing with on-site supporting services with low-income and formerly homeless single adults. Over the past 9 years she has led the growth of the coalition from a membership of 40 agencies, managing 4,000 units of housing, to over 150 agencies operating over 18,000 units of housing statewide. In 1998, the network launched the New York City Housing Network, now a prominent voice in the city, advocating for the housing needs of persons living with HIV, AIDS. She continues to lead the network at the forefront of the Blueprint to End Homelessness in New York City initiative. She is a member of the National Advisory Group for the National Alliance to End Homelessness. Ms. Friar, thank you for your outstanding work in our fight to end homelessness in New York City. Welcome.

STATEMENT OF MAUREEN FRIAR, EXECUTIVE DIRECTOR, SUPPORTIVE HOUSING NETWORK OF NEW YORK, AND ADVISORY COMMITTEE MEMBER OF THE NATIONAL ALLIANCE TO END HOMELESSNESS, WASHINGTON, DC.

Ms. FRIAR. Madam Chairwoman and Members of the subcommittee, I am honored that you have invited me as a representative of the National Alliance to End Homelessness to testify today, and I would like to thank my friend, Congresswoman Velazquez, for your leadership on behalf of New Yorkers, especially low income and homeless New Yorkers with acute housing needs.

The Supportive Housing Network represents 150 non-profit agencies that have developed permanent housing with on-site services for over 18,000 low income and formerly homeless individuals and families in New York State. The National Alliance to End Homelessness is committed to ending homelessness, a goal that we are all convinced is well within our reach as a Nation.

Today, speaking about H.R. 3995, the Housing Affordability Act for America of 2002 includes several items that are critical to the goal of ending homelessness. To end homelessness, several important steps have to be taken. One is to prevent people from becoming homeless. H.R. 3995 begins to address this by targeting flexible housing resources to people with extremely low incomes below 30 percent of the area median income. This is especially important, considering that the amount of housing affordable to low income households has been steadily declining for several decades. In New York City, 27 percent of households pay over 50 percent of their income in rent, and we have over 200,000 households on the waiting list for public housing and subsidized Section 8. So the need is critical.

Indeed, homelessness also requires that we open the back door out of homelessness by providing the housing and supportive services needed for families and individuals to move into permanent and stable homes. The dimensions of the homeless problem are sizable. In New York City alone, each night we have over 33,000 men, women, and children sleeping in our shelter system, which is the largest census since 1987, with homeless children the largest growing population. Roughly 80 percent of people who become homeless enter this homeless system and exit it again relatively quickly. They have a crisis that affects their housing and they typically address their immediate problem. And despite the shortage of affordable housing for people, they find housing. Of the over 5300 families in our shelters each night, half would leave tomorrow if we had affordable housing for them to go into. What we should be doing is have a homeless system that facilitates the move to housing and making the homeless episode as brief and least traumatic as possible. When services are needed they should be delivered while the family or individual is in stable permanent housing. We should try to decrease the amount of time that families, especially children, are in transition in shelters.

While the majority of homeless people do not need specialized housing, about 20 percent have more significant barriers to ending their homelessness. They have one or more chronic disabilities, including mental illness or substance abuse, and live in shelters and on the streets, and the episodes of homelessness can last months or years. Many are also veterans. We would think that sheltering would not cost as much as housing homeless people, but that is not the case. Homelessness costs us tremendously.

A recent groundbreaking study by the University of Pennsylvania, which was vast and released last year, they looked at the 4,000 people who had been placed in supportive housing in New York, homeless people with chronic and persistent mental illness, and looked at how much they cost us 2 years before they entered housing and 2 years after. And the average cost to taxpayers is $40,000 per individual per year. And this is so expensive because these individuals use high cost public services such as emergency and psychiatric hospitals, veterans services and shelters, and they are just cycling through and costing us a lot.

But we have a solution and that solution is supportive housing. Supportive housing combines permanent stable housing with onsite services. What we like about the bill is that 30 percent of the funds provided under HUD's homeless assistance grants will be used for permanent housing which will get localities focused on the permanent housing as opposed to the transitional and emergency care. Also that the Shelter Plus Care and Supportive Housing Program, permanent housing renewals will go through the housing certificate fund. This will free up money for new supportive housing. And in New York we would use up all our McKinney funding just for renewals if we were not able to shift those renewals to a different fund. I know my time is running out.

The answer to homelessness is not just HUD, but we feel very strongly that HUD's leadership and HUD money should be focused on housing. And the more that is done federally with the legislation to get localities to do that, to focus on the permanent housing that then often leverages the HUD money—the rental subsidies will leverage other investment, corporate equity investment as well as State investment into more housing. So it is really the best use of HUD money.

And I commend this subcommittee for caring about homeless people and the affordable housing needs of New Yorkers and the rest of the Nation, and would be glad to work with you in any way possible to make our goal of ending homelessness a reality. Thank you.

[The prepared statement of Maureen Friar can be found on page 336 in the appendix.]

Chairwoman ROUKEMA. Thank you for your attention to time and for your specific contribution to this discussion.

Our next panelist—I do not know whether we arranged it this way that we have so many from New Jersey or we are just outstanding leaders in the country, but I do want to welcome Roy Ziegler. He was a Director of the State of New Jersey Section 8 Housing Program for I think almost 20 years; isn't that correct? And now you are currently President of Assisted Housing Services and work with a consulting company in New Hope, Pennsylvania. So we are happy to have you here for all your practical experience and insights, and we look forward to working with you.

STATEMENT OF ROY ZIEGLER, FORMER DIRECTOR, NEW JERSEY DEPARTMENT OF COMMUNITY AFFAIRS, SECTION 8, ON BEHALF OF NATIONAL LEASED HOUSING ASSOCIATION, WASHINGTON, DC.

Mr. ZIEGLER. Good afternoon, Chairwoman Roukema and distinguished Members of the subcommittee. I have to say that I was on an earlier train than you were and I guess we are both lucky today.

I want to thank you for the opportunity to speak today on behalf of the National Leased Housing Association. Over the years, the housing voucher program has made remarkable improvements because of the consolidation of regulations and elimination of certain barriers to landlord participation as well as giving us flexibility to help families become self-sufficient and even become homeowners with the housing vouchers. Your bill will go a long way toward leveling the playing field and we support it, because the housing vouchers really need the additional flexibility that your bill provides.

PHAs and administering agencies around the country and many communities are faced with rising rents and tight rental markets, and this rising rental rate in many of these areas has far outpaced the housing voucher of fair market rents. Often there are more vouchers in the community than there are landlords willing to accept the voucher. So you find that the public housing agencies are sending out like three or four or more vouchers for every slot they have available because so many families are unsuccessful and cannot use their vouchers in their communities. This is really frustrating for families who have waited a long time for their voucher and see it just go up in smoke. And it increases the agency's work load. It costs more money when you have to spend more time getting more vouchers out on the street.

HUD has already taken an important step in the direction in resolving this issue by giving 50th percentile rents in many communities across the country. And we are requesting that Congress urge HUD to expand that 50th percentile fair market rent to all the communities in all the markets in the United States.

Congress can also take steps to improve the family's ability to use vouchers. For example, housing authorities can set their payment standard. The payment standard determines how much a family gets for a subsidy. PHAs can set that standard between 90 and 110 percent of the fair market rent to address the immediate needs of their area. And this is without HUD approval. We are supporting the ability for public housing agencies to raise that from 90 to 120 percent rather than 90 to 110 percent. This will give us a dramatic increase in the rents that we need to address the actual market in our areas. Fair market rents are not fair unless they compete with market, at least the average rents for the community.

Now it is our understanding that the initial draft of H.R. 3995 did not have this provision included and we are asking that it be restored by the subcommittee.

Now in regard to the 40 percent cap, the amount that a participant pays in Section 8 is limited by the 40 percent cap, that is the family cannot pay more than 40 percent of its adjusted income for rent. We have supported this in the past, but our PHAs have told us that there are many circumstances where a higher rent is sensible.

Just as an example, an elderly person who has lost a spouse immediately becomes, because of the decrease in income for that household, becomes eligible for a voucher. Here is a family who has been living in this unit for many years. The spouse who is alone faces the fact that she is going to have to pay 43 percent of her income for rent. The program only allows 40 percent. That elderly person would have to leave that housing that she has been in for many years because she is 3 percent over the 40 percent of adjusted income. And if she loses the voucher, she is probably going to pay 60 to 70 percent of her income for rent.

So we are asking that the PHAs are given this opportunity to give a waiver to that 40 percent to adjust to situations like this. Section 402 of the bill would do that. And we are asking that this cap be available to PHAs as another tool in their arsenal to help families stay in place, not just elderly, but families who are in place who lose it because of that 40 percent threshold.

And with regard to administrative costs, the current fee for administering the program is often inadequate to allow effective tenant counseling, landlord outreach and addressing special populations like the homeless we just heard about it. And this often contributes to the success rate being very low for voucher usage. We applaud this subcommittee recognizing this problem by allowing the PHAs to tap unused budget authority to use for services to help families find decent housing and provide mobility services for families looking for housing.

NLHA also supports the bill's revision to provide incentive fees for high performing agencies. But there is one other area we would like you to look at and that is the fact at one time there were preliminary fees for housing agencies getting new vouchers. Doing tenant briefings, finding apartments, negotiating with landlords and trying to get housing for families is very difficult. It takes 4 to 6 months in some cases, but there are no fees for the program until you actually lease somebody up. So we are asking that the provision be allowed to restore the preliminary fees so that housing agencies get the ball rolling and get families into housing faster.

With regard to enhanced vouchers, we approve all of the things that you have said and we are very happy that you have addressed the issues with regard to the enhanced vouchers.

We ask that you look at the HQS requirements for inspections. If there is an inspection done within 12 months, we would like to see that the HQS be unnecessary for that particular year.

And we also support the Section 505. We have keen interest in 505 which would give an asset-based approach to public housing, and we will send you our comments later.

Just one other thing. We oppose the thrifty vouchers. We think there is a very difficult problem with administering the thrifty voucher program and we have sent you an awful lot of information about how we feel—about how our members feel, that thrifty vouchers are perhaps unnecessary.

[The prepared statement of Roy Ziegler can be found on page 418 in the appendix.]

Chairwoman ROUKEMA. We will look at that material that you are advancing to us.

Now, our final panelist is Mr. Gary Eisenman, who brings a distinct contribution here to the panel. He is Executive Vice President of Related Capital Company, a financier of real estate properties, as I understand it, so you are representing the private sector here today. However, your background gives you extensive experience as General Deputy, as Assistant Secretary for Housing, and Deputy Federal Housing Commissioner for HUD and the FHA, so that you come with Government experience as well as experience in the private sector. We welcome you here today, Mr. Eisenman.

STATEMENT OF GARY EISENMAN, EXECUTIVE VICE PRESIDENT, RELATED CAPITAL COMPANY, ON BEHALF OF THE NATIONAL MULTI-HOUSING COUNCIL, WASHINGTON, DC.

Mr. EISENMAN. Chairwoman Roukema and distinguished Members of the Housing and Community Opportunity Subcommittee. My name is Gary Eisenman and I am executive vice-president of Related Capital Company, a developer, manager and financier of real estate properties that oversee over 1100 properties in 47 States in the United States. I am speaking on behalf of National Multi-Housing Council, a trade association representing the Nation's larger and most prominent apartment firms. NMHC operates a joint legislative program with the National Apartment Association, a trade group representing over 30,000 apartment executives and professionals. It is my pleasure to testify on behalf of both organizations.

I have been asked to speak today about the Section 8 housing choice voucher program. NMHC and NAA commend you, Chairwoman Roukema, for your leadership and we thank the Members of the subcommittee for their valuable work in addressing the important issue of affordable housing in America today. We too believe that it is critical to meet the housing needs of low and moderate income families. We also believe the Section 8 program can be one of the most effective means of doing so.

However, the program's potential has been constrained and its success should be greater. We support the provisions of H.R. 3995 aimed at improving the voucher program. However, even with those important reforms, the proposed legislation falls short of increasing supply of housing which voucher holders may choose by broadening market accessibility. Without a sufficient supply of housing, voucher holders do not have choice, which is precisely what the Section 8 program aims to accomplish. We believe that the chief reason for the lack of housing available to voucher holders is the program's burdensome structure and administration which discourages private owner participation and makes it difficult for voucher holders to compete with unsubsidized residents for vacant apartments. NMHC and NAA support greater owner participation, which should not be at the expense of the property owners. Rather, the program should be as similar as possible to providing housing to market rate residents.

Therefore, it is essential that the subcommittee's efforts to improve the Section 8 program support broader owner participation. To increase owner participation, the program must be more transparent to the market. And what we mean by transparency is that we need to minimize the differences between a holder of a voucher and a non-voucher-holding market rate tenant who approaches an owner for a vacant unit.

We recommend the following toward that goal. Owners should be able to turn vacant and subsidized units over within a reasonable time that is comparable to the time period required to turn over market rate units.

Owners should expect timely rent payments for subsidized residents and they should have the right to expect timely compensation if those payments are delayed.

All residents, including voucher holders, should be held accountable to common standards and laws established by States and localities.

In addition, the program should only include Federal laws that are applicable to both voucher and non-voucher residents.

I will now discuss some specific proposals along those lines. First, improve the housing quality standards unit inspection process. Currently, before a apartment is eligible to lease to a Section 8 voucher holder, the administering PHA must inspect that unit for compliance with HUD-prescribed housing quality standards. And we agree voucher holders should reside in decent, safe, and sanitary environments, but we also believe that this can be achieved without conducting lengthy individual unit inspections. Unit-by-unit inspections delay resident occupancy even if the PHA conducts its inspection within the required timeframes, and some apartment owners report delays of 30 days or longer.

Given that the professional apartment industry relies on seamless turnover to meet its overhead costs, the financial implications of such delays to owners are significant. We propose speeding up the move-in process by allowing PHAs to conduct individual unit inspections within 30 days after the resident moves in and payment commences.

We also suggest that PHAs advise voucher holders they should not accept a apartment in significant disrepair and they should report those apartments to the PHA.

Second, we need to improve the subsidy payment system. Just as owners would not accept a late payment from a market rate tenant, they should not be forced to accept late payments from voucher holding tenants. Requiring all PHAs to make automated electronic fund transfers would assure that the timely payment of the subsidies would be made. HUD has made great improvements to the financial management systems of its other housing programs, including the HOME program. It should do the same for Section 8.

Third, increase the payment standard. And I am not going to reiterate what my colleague Mr. Ziegler said, but we support those positions on 40 to 50 and greater latitude to go from 120 percent of FMR to 150 percent of FMR.

Finally, we support amending the lease addendum. HUD's standard lease addendum is many times incompatible with State and local landlord tenant laws and disregards industrywide model lease language developed by NAA. This inconsistency causes difficulties for owners who must comply with one set of lease requirements for voucher holders and another for non-voucher holding residents. This creates a disincentive to accept someone who is coming with a voucher.

In summary, we support the Section 8 program and wish to engage more fully in it. However, such participation is not economically maximized without reforming the program to reduce the significant costs and burdens it imposes on apartment owners.

I thank you for the opportunity to testify on behalf of the National Multi-Housing Council and the National Apartment Association and wish to offer our assistance as the subcommittee continues its important work.

[The prepared statement of Gary Eisenman can be found on page 330 in the appendix.]

Chairwoman ROUKEMA. I thank you very much.

Before I call on Mr. Grucci, I am going to just ask the panel here, you have heard me make reference before the previous panel and I would like to offer you all the opportunity not here now, but in written form, to submit to me and the subcommittee your recommendations as to how we can reduce the bureaucracy and the overwhelming HUD dictatorship here. By the way, I do not mean that in a negative way. I just want to be constructive as to how we all work together to improve HUD and get more housing for people and we cannot possibly afford all this unless we are able to improve the delivery system and the HUD responsibility and that regulatory relief that we need from HUD, while not opening up loopholes for corruption, and so forth. So I would like to have on the basis of your experience on this panel your recommendations on how HUD should be reforming its procedures here in order to get more housing at less cost. If you would do that.

Mr. Grucci.

Mr. GRUCCI. Thank you, Madam Chairwoman. I do not have any questions of this panel at this time. Thank you.

Chairwoman ROUKEMA. All right, thank you very much.

Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Madam Chairwoman.

Mr. Ziegler, I was interested in the part of your testimony which addressed the proposal to add flexibility to the 40 percent rent cap by permitting that the 40 percent cap be based on gross income versus adjusted income. It seems that you have conflicting feelings about this proposal. And while I support the idea you put forward of increased flexibility in helping tenants remain in their homes, I am forced to wonder if this could open the door to further price gouging by unscrupulous landlords. Do you believe there is cause for legitimate concern.

Mr. ZIEGLER. I think it is important that we look at what we are proposing is in-place tenants. These are families or elderly folks who have been in place sometimes for 20 or 30 years and have been paying rent all along and they lose somebody in the household who was an income earner, wage earner, and no longer have that income available to them. Here they are living in the same apartment with the same rent with much less income. What we are asking for is some flexibility so if we have that additional 40 percent beyond the adjusted to the gross that perhaps that particular elderly person could stay in place and avoid being displaced. When you are displaced you are out in the community where there is no cheap housing available, in the first place.

Ms. VELAZQUEZ. Ms. Friar, would you please discuss what use your organization has made of rental subsidies in providing permanent housing options for the homeless. How do you think we could better target these funds to address the needs of the communities targeted by programs such as Shelter Plus Care?

Ms. FRIAR. Both programs have been critical to developing supportive housing in New York because it provides the operating funding to manage the buildings. It provides the rental subsidies so that the tenants will only pay a third of their income in rent, but managing the buildings, operating the buildings is more than that, and that difference is the Shelter Plus Care. With that funding, there has been investment made by both the city and State toward capital to renovate these buildings, to purchase and renovate old hotels as well as do new construction. And there has also been a tremendous amount of corporate equity investment through the low income tax credits, historic tax credits program. And, because there is the rental voucher, the funds are guaranteed over a period of time so that other investment is leveraged. And so it then makes what our priorities in terms of spending money is not just on the emergency needs constantly sheltering people, but we have places where they can go and it is actually most cost-effective to have them in the permanent housing than in our shelter system.

Ms. VELAZQUEZ. Mr. Slemmer, when this subcommittee last took up the issue of senior housing, I put forth a proposal to ensure that any application for 202 funding that did not meet HUD's debt line due to the fault of a third party would not be deemed ineligible. Would you please discuss what sort of impact this will have on groups facing difficulties getting the required paperwork out of local bureaucracies? Would you support inclusion of such language?

Mr. SLEMMER. For sponsors that did not submit what?

Ms. VELAZQUEZ. When a community group submits an application for 202 housing and they did not meet HUD's debt line, not because of their own fault, fault of their own, but because of the third party. Like in New York, if a community-based organization is going to build in a vacant lot and they need to get site control and they have everything in place, but they do not have that letter coming from the locality, we should not penalize that organization from getting the application approved.

Mr. SLEMMER. I am not familiar with your recommendation, but it is certainly true that in areas like New York and California where there are terrific amounts of land use restrictions and regulations, it does take longer to put together an application. The 202 program gives you 60 days to get together an application with site control. So I think it is a good idea. I think some areas you have to have more time available to get through the land use process. I think it is a good idea.

Ms. VELAZQUEZ. Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. Yes. Congresswoman Carson, no questions?

Ms. CARSON. No questions.

Chairwoman ROUKEMA. Congresswoman Schakowsky.

Ms. SCHAKOWSKY. Thank you very much, Madam Chairwoman, and I really appreciate this day of witnesses. Just been an excellent, excellent panel and I thank you very much for that.

I also wanted to run by a proposal. I am sure a lot of units that you had on that list are in my district, senior housing that is operating out—and a lot of seniors in crisis right now. When the apartments go—stay as rental apartments and the enhanced voucher does allow people to stay there. But if it goes condo, then whatever voucher loses its enhanced status and therefore there is absolutely no way that they can stay in the community. And what I would like to suggest is that residents of units in that situation would be able to—that the vouchers would be able to maintain their enhanced status in order for them to seek housing within the same community. And I wanted to just run that by any of you that would like to comment on it. Maybe Mr. Slemmer.

Mr. SLEMMER. I had forgotten about the condo situation. What we are seeing mostly is the senior housing in more affluent areas. Great locations are being lost forever simply because they have more value because there are higher rents in the market situation. But the concern I have about the enhanced voucher is that it is designed to help the existing residents. But what it does is it takes the pressure off the problem. And so I think we are going to wake up 5 years from now and have lost a lot of senior housing that might have been kept if the community had known about the problem.

In other words, if a building is going to opt out and the community knows about it, sometimes they will go to great extremes trying to figure out a way to preserve that housing. It kind of maxs the problem or inoculates the situation. That is the only concern I have about enhanced vouchers. I think it is quietly creating a problem for us down the road because it is making the problem less visible and taking it off of peoples' radar screens.

Ms. SCHAKOWSKY. I hear you, but at the same time I think those people—in our situation, it is a lot of condo conversions and then there is just nowhere to go with that. Anybody else want to comment on the use of enhanced vouchers beyond just in place, but in the community?

Mr. EISENMAN. One thing you might need to consider when you are doing that is when you have the enhanced voucher, it is enhanced to the property that has been opted out so that the measuring stick is the market for the units that are in that property. If you are going to make those vouchers enhanced on a portable basis, you are going to need to define the limits of the market that it will be enhanced within, because then you are getting into, well, what properties are you saying are comparable and what is the absolute high range that you would take that enhancement to? Because when you are doing it in place, you have that limit built in by the limits of the property that is being opted out.

Ms. SCHAKOWSKY. That is an important consideration. Thank you for that.

Mr. EISENMAN. One thing I might offer that you consider similarly in the markup to market program in the project-based Section 8 program, you have a limit at 150 percent of FMR capping the markup to market, which can be liberated when there are certain criteria such as concentration of elderly and valuable resource for the community, local government involvement. Those are the criteria in the statute that allow you to exceed the 150 percent FMR cap, but it is an act of discretion that allows that.

Mr. ZIEGLER. One other thing you may want to do is research the statute in New Jersey, which helps essentially after the fact of enhanced vouchers being created that there is a very aggressive stance with regard to the State that the owner of the property may be required to market the unit that leaves the enhanced voucher inventory to voucher holders in the community. That might be helpful for you.

Ms. SCHAKOWSKY. Thank you.

Ms. Friar, I wanted to ask you, the Coalition to End Homelessness I understand has put a dollar figure on what it would really cost to effectively address homelessness, if not to end it. And as I recall, it is a pretty modest $1.5 billion. Is there a dollar figure that——

Ms. FRIAR. Well, I do not know that specifically. We have a whole Housing First campaign going on in New York around affordable housing and investing $1 billion in new affordable housing from homeless to middle income. And that is for New York actually—the capital budget. I think in some ways we see a lot of this, the cost savings experienced when you house someone versus the cost of sheltering them or having them cycle through homelessness and using emergency services virtually pays for the solution itself. One unit of supportive housing, to develop it, operate it and provide the social services is about $17,000 a year. And the cost savings experienced for a person who is housed—I said they cost $40,000 a year, you save in the first year $16,000 in tax dollars because they are using the hospitals less and other services. So it is not so much just pour new money into it, but in a way, I guess it is putting money that is going to result in less use of dollars and other areas. And, unfortunately, this subcommittee goes beyond, you know this, addressing more the housing. Some of this is bringing in service dollars or in coordination, which is why we like the bill—has the interagency council being recommended, because in that way it is bringing in other players who are involved in homelessness. Often the homeless system is taking individuals who are being discharged from the criminal justice system, the mental health system, and so forth, and then we call them homeless, and it is a long road to getting them being housed again, and so the coordination is an important piece also.

Ms. SCHAKOWSKY. If I could, Madam Chairwoman, say one more—and I realize my time is up. I wanted to respond to a comment that you made. I think we do have the money to do the kinds of things that your bill has suggested, and that when we set priorities in this country, there are the dollars and, as you pointed out, if we take a broader view and not just a narrow budget-by-budget-by-budget view, that in many cases the kinds of good suggestions you are making may really save us money, not just down the road, but in the following year. And so it really is just a question of will and a question of priorities. And I think that it is so important as each of you talk about this crisis that we are facing that it be acknowledged as that and that we have an aggressive can-do attitude about solving these problems that you all have so articulately not only laid out, but the solutions that you have proposed are all very, very doable, and that has to be our attitude, that we can achieve the goals that you have set out for us. So thank you very much.

Chairwoman ROUKEMA. Thank you. And I think we have concluded here. But I have one last question.

Mr. Eisenman, forgive me if you were explicit on this in your testimony, I know you referenced it and you discussed it, but could you focus just for a minute or two on what more we should be doing with the private sector? Because, as I stressed, you are here not only with your public experience with HUD and FHA, but also as a representative of real estate property interests. How can we improve that partnership, the public-private partnership here, and enhance more private sector involvement?

Mr. EISENMAN. Well, I will speak particularly with respect to my testimony that this is an important point, because I think that the statistics that we are seeing—and we took a look at some things for this hearing—that the number of available units that are coming vacant, which are at the FMR or below are quite substantial and more than enough to cover the lack of success. There was a recent HUD study that showed that the success rate in voucher use by residents had dropped substantially over the last several years. And so what voucher holders are finding, particularly in high markets, is that they cannot go out and use those vouchers. And part of what we are suggesting here is that this might be a no-cost type of change where a little less regulation and little smarter regulation, using technology as opposed to paper, seamless payment systems, using an inspection process which puts a little less burden on the landlord will encourage more landlords to come into the program and therefore create a greater supply for the holders of the vouchers.

Chairwoman ROUKEMA. Is that more expanded and documented in your testimony?

Mr. EISENMAN. Yes, it is in the written.

Chairwoman ROUKEMA. All right. Thank you very much. I will be more than happy to explore that and study it carefully. We thank all of you for your contributions here today, and please continue to work with us as partners. We must find a way of not only improving and making a more efficient delivery of these services, but also expanding in an economic way for the people in this country. Thank you very much.

[Whereupon, at 4:40 p.m., the hearing was adjourned.]

H.R. 3995—THE HOUSING AFFORDABILITY FOR AMERICA ACT OF 2002

WEDNESDAY, APRIL 24, 2002

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND
COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to call, at 2:00 p.m., in room 2128, Rayburn House Office Building, Hon. Marge Roukema, [chairwoman of the subcommittee], presiding.

Present: Chairman Roukema; Representatives Ney, Kelly, Miller, Grucci, Rogers, Tiberi, Frank, Velazquez, Lee, Schakowsky, Capuano, Waters, Sanders, Watt and Israel.

Chairwoman ROUKEMA. I am going to call this hearing to order, although it is more than a little embarrassing here. Unfortunately, this hearing is in conflict with legislation that is on the floor from this committee, the CARTA, the Corporate and Auditing Accountability Responsibility and Transparency Act. And many of our Members are over on the floor now as we speak—oh, good, we have one more Member anyway. As we speak, they are currently, as a matter of fact, debating Congressman LaFalce's substitute on the floor as we speak, and we may be interrupted shortly with some roll call votes.

But I do want to welcome our panel here today and assure them—and, fortunately, Mr. Frank, our Ranking Democrat is here, and that is a welcome contribution, but I can assure the panel that even though there are few Members here today, there has been an intense interest throughout these hearings. This is the third of three hearings, and there has been an intense interest on the part of our Members, and I can assure you that all of your testimony will be forwarded and presented to each of the Members individually, and I am sure that they will be paying close attention, because we fully expect that this is going to be a priority piece of legislation hopefully before the Congress adjourns this fall.

But I welcome Mr. Frank and our other Members here, and I will simply say that for the panelists that—I am sorry, first, of course, we know that all the opening statements will be included in the record, and we will see if there are any opening statements, but that each of the panelists will be introduced, and you should know that you will be limited to 5 minutes, and the little recorder in front of you or clock in front of you will tell you about your time and we'll try to keep you as close to 5 minutes as possible. But I will introduce each one of you individually.

But now I ask my colleagues, are there any opening statements? I do not have one. Is there an opening statement? All right.

Mr. Frank.

[The prepared statement of Hon. Marge Roukema can be found on page 426 in the appendix.]

Mr. FRANK. Madam Chairwoman, I appreciate the chance to talk with the Administration officials who have responsibility here. I will be interested in their comments on the legislation. I want to use this opportunity, though, to reiterate some questions that I will further elaborate on. First, to Mr. Weicher, I had gotten a letter from the——

Chairwoman ROUKEMA. Excuse me, is this your opening statement?

Mr. FRANK. Yes.

Chairwoman ROUKEMA. This is not the questioning period. All right.

Mr. FRANK. It is the opening statement in which I will ask some questions.

[Laughter.]

I may make a statement during the question period. I got a letter from the Massachusetts Legislative Leadership on Housing over the whole question of risk sharing, FHA 202, in which they were not getting from the regional office permission to go forward with risk sharing under 202. Now, your office appeared to have intervened and allowed that to go forward. The law clearly calls for it to be able to happen, and your office did intervene, and one of the projects is going through, but one of the things I hope you will be able to address is giving guidance to all the regional offices on this. Again, Congress spoke very clearly that risk sharing should be allowed with 202, and I would hope that we could get that one cleared up.

Second, the Ranking Member of the full committee and I, Mr. LaFalce, sent a letter to the Secretary on March 26, so this is not something that we are complaining about since it is only a few weeks ago, having been accepted as a matter that has already been holding off, and that is the ability of people to benefit from a provision that we had in a previous report from the 105th Congress allowing recaptured interest reduction payment subsidies to be used for rehab grants for properties for deferred maintenance. And those are two very important issues.

And I mention these, Madam Chairwoman, in my statement, because my statement is basically to lament a condition over which this panel has no control and that is the absence of money to do new things. You presided over and basically structured a very useful set of hearings last year in which we had virtual unanimity. I think there was literally one witness, whether from the Democratic or Republican side, who didn't agree that we needed a new production program. There is clearly the need for increased production. Now I know you have got legislation which tries to address that need, and we will deal with that in another context. But, part of the problem is of trying to do a new housing production program without money is like making bricks without straw. And many people tried that, and it wasn't much fun. I don't want to have to go through that again.

So, I really have to say there is this problem that we have, I think, a budget allocation, thanks to other decisions that were made that leaves us with too little money. But that is why I asked the two questions that I did. Both of those deal with our ability to do the best we can with existing resources and at a time when money is clearly inadequate for the kind of production program we need, that makes it all the more important that whatever we can do we do and without a great deal of delay. So 202 risk sharing, recapture of interest payments under the interest reduction, those are very important programs. And I stressed them in my opening statement, because they are the best we can do in the current context. I would like to change the current context, but as long as we are in that context, we have to focus on those.

And so I am hoping that I can talk further with the witnesses about them, and I meant by this, in part, to give them some notice so that when we get to the question period there won't be kind of surprise answers, and maybe there are some of those diligent people who came over with them for the ride sitting behind them who can work on some of these things, and by the time we get to the question period we won't have to have the usual whispered conferences, they will have already written it out. Not that these individuals aren't capable of doing it on their own, but not everybody can remember everything at all times, which is why my chief staff person is sitting behind me, and they all make our conversations more fruitful. Thank you.

Chairwoman ROUKEMA. Thank you. Are there any other opening statements?

Mr. Grucci.

Mr. GRUCCI. Thank you, Madam Chairwoman. I do have a formal statement that I would like to have entered into the records, but I would just like to make a few brief remarks if I may about the crisis of affordable housing in the district that I represent, which is eastern Long Island, New York, an area that has seen pockets of extraordinary wealth, but more commonly are pockets of middle-class America and pockets of poverty. And what I am very concerned about, with the CDBG block grant reallocation of the formula, is what kind of an effect will it have on my community, and I will certainly be interested in hearing that if it does come up in the testimony here today. Most assuredly, it will come up in the question section.

But, I wanted to bring out another point that I think, that I would like the Administration to be considering, as it is helping to forge forward in creating affordable housing. Affordable housing is kind of like art: It is in the eye of the beholder. In a community where you have very high cost of real estate, you have high tax burden on the people, you have high cost of energy, you have high cost of transportation, high cost of living, what is affordable by us, or I should say is what is affordable in other areas of the country is poverty level in certain areas of my district. And I just encourage you all to think about how we can make affordable housing a reality in suburban America.

I represent the County of Suffolk where the median income is high, but the cost of living is higher, and therefore the ability to access the affordable housing subsidy programs are out of the reach of the people who earn greater than $30,000 or $40,000 for a family. But in my area, if you earn that kind of money, you are certainly not living in the lap of luxury. You are struggling to get by, you are working two or three jobs in order to be able to put food on the table, and certainly affordable housing, housing of any kind, including rental housing, is just completely out of their reach.

I would encourage you to think about that in the crafting of any regulations or policies. I would like you to consider ways to widen that net so we can capture more people who are truly in need of affordable housing. And I thank you, Madam Chairwoman, and I will yield back the remainder of my time, but ask that my official comments be entered into the record.

[The prepared statement of Hon. Felix J. Grucci Jr. can be found on page 430 in the appendix.]

Chairwoman ROUKEMA. So moved. Are there other opening statements? Yes, Ms. Sanders? Well, I was going in the order in which you came, but all right, if you want to yield to Ms. Schakowsky, fine. It is up to you.

Mr. SANDERS. Yes.

Ms. SCHAKOWSKY. I thank the gentleman, and I thank you, Madam Chairwoman, and Ranking Member Frank for convening this hearing. The lack of affordable housing has a tremendous impact on families in my home State of Illinois. One out of five renters in Illinois spends more than 50 percent of their income on rent, and in Chicago we are short over 150,000 units of affordable housing for extremely low-income households. Thirty thousand units of project-based housing are going to be expiring within the next 5 years, many of them in my district, and the problem will grow worse if we don't do something about it now.

Low- and moderate-income families face several barriers to finding a safe and affordable place to live. I wanted to emphasize one of those barriers, and that is discrimination. Landlords across the country discriminate against Section 8 holders. Back in my home city of Chicago, the City Council passed ordinance that prohibits landlords from rejecting a tenant based on source of income, yet I have talked to too many tenants who were rejected despite this law. And I am concerned that our efforts to address the affordable housing crisis will be fruitless or at least hampered if we don't address the widespread discrimination in our housing markets.

Unfortunately, the Administration wants to provide only $46 million for fair housing enforcement and investigations. Fair housing programs have received flat funding during the past 2 years, which, actually, if you index it for inflation, represents a significant cut, and that is really unacceptable. Our committee needs to this issue.

Toward that end, I am going to ask the General Accounting Office to conduct a study to investigate the problem of housing discrimination and HUD's response. I hope that all of my colleagues on this subcommittee, at the very least, will join me in this request, and I hope very much that Chairwoman Roukema will call a hearing to investigate this problem of housing discrimination. Thank you very much, Madam Chairwoman.

Chairwoman ROUKEMA. Thank you. Are there other statements, Mr. Miller or Ms. Tiberi? No opening statements?

Mr. MILLER. I would submit a statement in the record. I prefer to hear the witnesses today. Thank you.

[The prepared statement of Hon. Gary G. Miller can be found on page 433 in the appendix.]

Chairwoman ROUKEMA. All right. Yes. I think we would all like to get to that, especially with the votes coming up. Yes, Mr. Sanders. Excuse me, Mr. Sanders.

Mr. SANDERS. Thank you, Madam Chairwoman, and thank you very much for holding this important hearing. And I would like to submit my full statement for the record. And I look forward to dialoging with Mr. Weicher and Mr. McCool later on.

As you know, Madam Chairwoman, I have introduced H.R. 2349, which is the National Affordable Housing Trust Fund. Just this morning we had a press conference where over 200 prominent religious leaders signed a letter to the President urging support for this legislation. It currently has 174 co-sponsors, including a number of Republicans. And most interestingly, because of the severity of the housing crisis in this country, over 2,000 national, State and local groups, from business groups to religious groups, to trade unions, to low-income groups are supporting this bill.

Others have already talked about, and I don't need to go into great depth, there is, gentlemen, as I hope you know, a severe housing crisis in this country. In the United States of America, children should not be sleeping out on the streets. That is a national disgrace. In the United States of America, millions of working families should not be force to pay 50 or 60 percent of their limited incomes on housing. That is a national disgrace. People are working in my State of Vermont, they are working in California, in the Midwest. They are working incredibly hard, and in many parts of this country, because of the limitation in terms of affordable housing, they are paying a large chunk of their paycheck for rent of for their mortgages.

The bottom line is that the housing crisis is not caused, in all due respect, by the Endangered Species Act, it is not caused by overregulation; that may be a problem here or there. It is caused by the fact that the cost of housing for a variety of reasons is high and millions and millions of people are earning inadequate wages. Millions of people are earning below what we consider to be a living wage for the American worker. So you have got a crisis, and there is no other way that that crisis is going to be solved, to my view, unless the Federal Government puts in substantial sums of money.

Now, I believe very strongly that we have got to step up to the plate and put in real money, which is what the National Affordable Housing Trust Fund is about. It is my view that given the fact that Congress and the White House are not addressing this crisis, it is appropriate that there be a trust fund. It is appropriate that that money come from the Mutual Mortgage Insurance Fund.

Now, I will later on dialogue with you, but I understand that the White House is very concerned that that money now, which would be some $26 billion over a 7-year period, is now being used for deficit reduction, which raises a very fundamental issue. This is an Administration which apparently thinks it is OK to give hundreds of billions of dollars in tax breaks for the richest 1 percent of the population, people who are earning $375,000 a year minimum, but somehow when some of us want to use money which is now going into the general fund to build affordable housing, and by the way, put millions of American workers to work at decent wages, my goodness, we are impacting deficit reduction.

Chairwoman ROUKEMA. Mr. Sanders, can you conclude, please? You are well over the 5-minute time limit.

Mr. SANDERS. I conclude. Thank you.

Chairwoman ROUKEMA. Thank you.

Mr. Miller, Congressman Miller.

Mr. MILLER. Thank you, Madam Chairwoman. There are varying opinions. To begin with, nobody at the top levels of the tax bracket gets a cut for another 4 years. So I am tired of listening to the rhetoric on the Minority side about all this money being spent on rich people who did not get a tax cut.

Mr. SANDERS. Will a friend yield?

Mr. MILLER. No, I will not yield. You had your time, you had your moment, sir. Endangered Species Act some believe not to be an issue. There was a project in Colton, California that I am just dealing with today that Fish and Wildlife set aside 33,000 acres of habitat for a rat that just wiped out 2,500 units of affordable housing that were approved after a 6-year project and process through the county that was approved 5-0 by the Board of Supervisors. And now, because of Federal law, rats are more important than people. You know, there was a time in this country when we used to swat flies and poison rats. Now we set aside habitat for them on private property, and Government is too stingy to pay the cost of the private land. We want taxpayers who pay for that property to take and foot the bill for habitat for flies, rats, mosquitos, frogs, lizards, snails, everything you can imagine, and I am tired of hearing the rhetoric from socialists about Government not being the problem. If the builders could——

Mr. SANDERS. Who is the gentleman referring to?

Mr. MILLER. I don't think I am speaking to you, and I prefer you hold your speech till you have time, sir. I am tired of individuals talking about Government not being the problem when builders in this country are trying to provide housing for people who need it, yet, because of the red tape and the process they have to go through, it is almost impossible to keep up with the demand, that when you don't meet the demand, as you all know, what happens to the prices? When the demand outproduces the supply, when there are more people wanting to live in a home than we have houses for, prices artificially increase, and that is what is happening in California. And I applaud the Chairwoman, and I applaud the Bush Administration for trying to deal effectively with the housing crisis in this country.

But, we are dealing with another issue that I talked about yesterday, and that is Canadian lumber. Forty percent of all the softwood coming into this country that is needed on the West Coast comes from Canada, because of a bunch of wackos who don't want us to cut down any trees in this country, so we can't go out and provide lumber to build houses. We have to buy it from Canada or other countries who are willing to sell it to us. So I am tired of us blaming the private sector for Government interference and Government mandates and Government restrictions when we are the problem for affordable housing, and we would need to resolve it.

And I applaud the Chairwoman for making that effort, and I yield back what time I had left.

Chairwoman ROUKEMA. Thank you. Thank you. We didn't set the time correctly, but I think you were very mindful of your time limitation.

Now, we do have a vote on the floor, but Congresswoman Schakowsky—I am sorry, Velazquez or Schakowsky, who would like to be next, and would you like to take your time now? Yes, yes, Velazquez.

Ms. VELAZQUEZ. I could do it now.

Chairwoman ROUKEMA. Yes.

Ms. VELAZQUEZ. Well, thank you, Chairwoman. I would like to thank you and Ranking Member Frank for holding this hearing. The home ownership opportunities afforded by the Fair Housing Administration are important cornerstones of our national housing policy. I am eager to hear the testimony of our two panels on the various proposals put forth in this bill. Title II of the Housing Affordability for America Act deals with the FHA authorizing and qualifying a number of very important proposals which have long been advocated by Members from both sides of the aisle. I was glad to see that it included such provisions as downpayment simplification, incentives for teachers and public safety officers to purchase homes and increases in the loan limits for high-cost areas. I strongly support each of these provisions and commend the Chairwoman for including them in this bill.

In fact, my concerns with Title II lie not as much with what it includes as with what it excludes. It is a well-established fact that unfortunately a large percentage of FHA loans are targets of predatory lending, yet there is no attempt to take simple steps to ensure this issue is dealt with effectively. Specifically, in my district, this has become an increasing scourge. Twenty years ago, we couldn't get lenders to invest in much of central Brooklyn. Today, the investment exists. But it is frequently in the form of loans that have unfair and unrealistic terms.

More alarming still is the growing pattern of foreclosures on FHA-insured properties in this area. Nationwide, default rates on federally insured mortgages are up more than 100 percent in the last decade alone. This year, in the New York region, default rates on these same loans are three times the national average. Of particular concern for me is the fact that three-fourths of the FHA-insured mortgages in this region are located in Brooklyn and Queens and centered in minority communities.

From property flipping of FHA-insured homes to inflated appraisal prices on these properties, to the recent 203(k) crisis in New York City, we are seeing a growing number of predatory lending scandals in minority communities. In many of these, HUD and FHA reveal their quiet complicity simply through their lack of aggressive action. One thing that has been consistent among all of these problems has been the realization that when HUD or FHA delegates any obligation imposed upon it to an interested party in a loan, we are asking for trouble.

The bill before us today gives us an opportunity to fix some of the problems that have been plaguing our communities, but we need to take additional steps, perhaps aggressively, to stop the growing practice of predatory lending. I look forward to working with Chairwoman and the Ranking Member to put an end to these troubling practices. I commend the Administration for its commitment to increasing minority home ownership. However, equally important must be insuring that those who enter the ranks of homeowners have the ability to remain there. I hope that before this bill moves forward, we take a few simple steps to ensure this goal becomes a reality. Thank you.

Chairwoman ROUKEMA. Thank you. Now I must apologize to the panelists. You have heard that the lights are on and the 5-minute vote rang. We are having a series of votes on the floor, and Congressman Frank and I agreed that we should adjourn this hearing until the three votes are voted upon. There is a 15-minute vote, a motion to recommit and final passage. So we will adjourn this hearing until those three votes are concluded. And I would simply ask please to have the Members return as soon as possible so that we can give the courtesy to our distinguished panelists here. At that point in time, I think we will have uninterrupted time. Thank you so much.

[Recess.]

Chairwoman ROUKEMA. Our votes are concluded on the floor so there should be no more interruptions. And I would specifically outline to the panelists the rules of engagement, so to speak. Your written statements will be made a part of the record, your full written statements. But your testimony will have to be limited to 5 minutes. I will recognize each of you individually for your statements, and of course every Member who is here will be able to ask questions, and they will also be limited to 5 minutes for their questioning period.

With that, I would like to introduce each of our panelists individually, as you are speaking and testifying. And with that, I will introduce our first panelist, and I hope I am pronouncing his name correctly. Is it Weicher?

Mr. WEICHER. Yes.

Chairwoman ROUKEMA. John Weicher. Mr. Weicher is the—excuse me, excuse me, you do know, I think I outlined to you earlier the time limit and the timers that are on the desk up there on the table so that you will be alerted to the time constraints. John Weicher is the Assistant Secretary for Housing and the Federal Housing Commissioner at HUD. And we certainly appreciate the fact that he has just recently been appointed, within the past year, by President Bush, and he at that time—prior to this appointment he was director of Urban Policy at the Hudson Institute. I believe, Mr. Weicher, also you held a policy position when Jack Kemp was Secretary, correct?

Mr. WEICHER. That is correct. I was the Assistant Secretary for Policy Development and Research.

Chairwoman ROUKEMA. And with that, I will welcome you here today and look forward to your testimony.

STATEMENT OF JOHN C. WEICHER, ASSISTANT SECRETARY FOR HOUSING/FHA COMMISSIONER, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. WEICHER. Thank you, Chairwoman Roukema. I was the Assistant Secretary for Policy Development and Research with Secretary Kemp. I appreciate the opportunity to testify on behalf of the Department and the Office of Housing concerning the Housing Affordability for America Act of 2002. The bill contains 23 sections on housing programs, which works out to 13 seconds apiece to discuss them. And in your letter of invitation, you also asked me to discuss several specific questions about FHA programs. So I will confine my answers to those questions and comment on just a few of the corresponding sections in the bill. My full statement talks about all of the bill in detail.

I'll begin with FHA's basic Section 203(b) Home Mortgage Insurance Program. As you know, the President and the Secretary have made promoting home ownership a cornerstone of domestic policy, especially for minority households. FHA is very much a part of this policy. About 80 percent of our mortgages serve first-time home buyers and about 35 percent serve minority households. The national home ownership rate and the minority home ownership rate both set new records last year.

FHA's business this year is running well ahead of expectations. If the second half of the year matches the first, we will need to seek an increase in our $160 billion commitment limitation for the MMI Fund. The fund had a net worth of 3.75 percent at the end of Fiscal Year 2001, and having been personally involved in developing the FHA reform legislation, as was Chairwoman Roukema and Ranking Member Frank 12 years ago, I am very pleased to report this.

The bill contains several provisions to improve FHA's ability to operate our single-family programs. Section 221 would make permanent the 1998 Downpayment Simplification Act. Secretary Martinez supported this proposal during his testimony before the Appropriations Subcommittee last month. Similarly, Section 227 should help FHA establish our hybrid ARM Program as the Administration proposed last year.

Sections 229 to 231 will help us prevent a recurrence of the 1998/1999 Section 203(k) fraud problem in New York City where a number of unqualified non-profits were persuaded by unscrupulous lenders to buy small, multi-unit buildings in Harlem and Brooklyn, supposedly to rehab them for owner occupancy. This fraud will cost the taxpayer some $268 million. And may I say in response to Ms. Velazquez' opening statement, we did not countenance fraud, we have prosecuted it. Moreover, we have worked closely with the City to develop a plan that will fix that housing, make it livable, and protect the tenants and the neighborhoods in which they live.

The committee has asked about our single-family REO activities. Since the introduction of the management and marketing contracts in March of 1999, the Department has greatly improved our disposition process. As of March 2002, the inventory of HUD-owned homes is at its lowest level since 1996, 28,000 homes compared to a March 1999 inventory of 42,000. Moreover, the inventory has been stable during the recession instead of rising, as has been typical in the past.

Currently, homes remain in inventory an average of 183 days compared to 221 days for this same period in 1999, and losses per claim have been reduced from 39 cents to 29 cents on the dollar. That loss rate is the lowest in at least 20 years. With this record, we do not think that additional statutory authority for property disposition is required.

FHA's basic multifamily insurance program, Section 221(d)(4), has required credit subsidy ever since credit reform was enacted in 1990. Three times in the last 8 years, the program was closed down because the available credit subsidy was exhausted. To end this stop and start cycle and place the program on a breakeven basis, the Department raised the premium from 50 basis points to 80 for Fiscal Year 2002. There were concerns that the program would be hamstrung by this increase. That has not happened. Already in this Fiscal Year, FHA has insured over $1.5 billion worth of (d)(4) projects, more than we did in all of last year. Moreover, with the 25 percent increase in mortgage limits that was proposed by the Secretary and enacted by Congress, we are seeing the first applications in years from several high-cost metropolitan areas, including at least one in New Jersey.

In addition, we have conducted the first systematic analysis of the premium and credit subsidy since credit reform was enacted. We concluded that (d)(4) can be operated on a breakeven basis at a much lower premium—57 basis points. The President's budget contains an announcement of this premium reduction, effective in October. We are also reducing either the premium or the credit subsidy for nearly every other multifamily program.

Sections 201 and 202 address the question of who should be served by the programs. FHA generally serves moderate-income renters. Most FHA-insured projects are affordable to families in the lower half of the income distribution. And about half are in underserved areas. These are important markets. These families and these communities need FHA. To state our views very briefly, we favor Section 201, indexing the multifamily mortgage limits. We would prefer to wait on Section 202, analyze our experience with the new limits and the future effects of indexing before proceeding with any additional increase.

I just want to mention in conclusion that we support the housing impact analysis proposed in Title VIII. This was advocated by President Bush during the campaign 2 years ago. And then thank you for the opportunity to testify, and I will answer any questions.

[The prepared statement of John C. Weicher can be found on page 437 in the appendix.]

Chairwoman ROUKEMA. Thank you, Secretary Weicher.

Our second panelist here today is Mr. Roy Bernardi. Mr. Bernardi currently serves as HUD Assistant Secretary for Community Planning and Development, and with that kind of experience we welcome you here today, but I also understand that you served as Mayor of Syracuse, New York, elected at that time and re-elected, served—you were obviously a very popular elected representative and a Republican at that, as I understand. We are not making this partisan, but for Syracuse it is my understanding that that was a rather renowned tribute to the party. All right. And with that, Mr. Bernardi, we give you your 5 minutes of testimony.

STATEMENT OF ROY A. BERNARDI, ASSISTANT SECRETARY, OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. BERNARDI. Thank you, Madam Chairwoman, for your efforts, and Minority Member Frank, for all of your efforts to bring the issue of affordable housing this attention through legislation. We thank you for your leadership and your compassion for the less fortunate among us.

H.R. 3995 proposes some significant changes to many programs in the Office of CPD. I have addressed these changes fully in my prepared statement, but I would like to summarize for you this afternoon these proposed changes. Starting with the HOME Program, the HOME Program has demonstrated remarkable success in developing affordable housing, particularly in producing rental units to serve extremely low-income families. We believe reforms of this program should build on its notable successes. I can indicate to you that of the number of units that are produced, 41 percent are for extremely low-income individuals, who pay up to 30 percent of median income in rent.

We have a concern that the proposed Production and Preservation Program and other significant proposed changes for the HOME Program will have consequences that will not help the worthy objective of H.R. 3995 which is to provide affordable housing for extremely low-income families. Abandoning the FMR standard and adopting the State median income as a floor for determining rents could actually, in many instances, increase rents generally across the country and have unintended consequences.

Production results as well as feedback that we received from housing providers indicate the changes made over the 10 years to this program to improve its effectiveness have been largely successful. One hallmark of the HOME Program has been the close and continuing communication between HUD and the recipients of HOME funds and their representatives. Certainly, we are receptive to further improvements and when the report of the Millennial Housing Commission is published next month, HUD will be eager to work with this subcommittee to build on your efforts and those discussed by the Commission to expand affordable housing opportunities under the HOME Program.

I would also like to address our Homeless Assistance Program. The McKinney-Vento homeless assistance provisions of the bill are carefully crafted and correctly recognize the important elements of current law that should be retained. Specifically, we support the goal of reauthorization for the support of housing, Shelter Plus Care, Section 8 moderate rehabilitation and the emergency shelter grants. However, the Department will propose the consolidation of these programs into one that is needs-based and performance-driven. We also are pleased with reauthorization of the Interagency Council on the Homeless and the transfer of the Emergency Food and Shelter Program to CPD.

In the 2003 budget process, the Department reviewed proposals, now in the bill's language, to transfer the costs of renewing expiring Shelter Plus Care projects and projects funded under the permanent housing component into the Certificate Housing Fund. We believe they would be better addressed as part of a consolidation of homelessness funding.

Now, I have comments on the community and development block grants, and the CDBG Program provisions of H.R. 3995. Section 902 on housing counseling programs would require the Secretary to consolidate housing counseling under a single HUD office. The cornerstone of the CDBG Program is local discretion of program design and implementation. We would caution against adopting a one-size-fits-all approach that would take away discretion from the CDBG grantees. We would rather urge support for the Administration's request of $35 million for a new categorical counseling program, nearly doubling the current level of funding and removing the program from the home block grant.

Section 905 concerns the funding eligibility for secular activities carried about by religious organizations. HUD strongly supports the involvement of faith-based organizations in our programs. HUD supports Section 906, adding a new eligibility criteria category to the CDBG Program to authorize the construction of tornado or storm-safe shelters in manufactured housing and parks. We do that in public property right now. We support this new eligibility category; however, we do not want to see it as a set-aside.

Now, Section 907, CDBG renewal communities. CDBG right now does provide assistance to empowerment zones, and we agree that there should be assistance to renewal communities through the CDBG Program. And HUD also supports reauthorization of the self-help ownership opportunities Program (SHOP). The President's request to triple to $65 million for SHOP in Fiscal Year 2003 reflects its popularity and success in helping low-income families become home owners.

I think I am within two seconds of my time being up, so I want to thank you for the opportunity, and I will be happy to answer any questions.

[The prepared statement of Roy A. Bernardi can be found on page 447 in the appendix.]

Chairwoman ROUKEMA. Thank you. I appreciate your cooperation.

Our next panelist is Mr. Michael Liu, Assistant Secretary for Public and Indian Housing at HUD. It is my understanding that you have had considerably experience as a member of the Federal Home Loan Bank of Chicago; is that correct?

Mr. LIU. Yes, ma'am.

Chairwoman ROUKEMA. But I hope you can help us give us some insights of yours during the time period in which you are serving at HUD on this subject of Section 8 rental housing and assistance for Native American programs at HUD. I thank you.

STATEMENT OF MICHAEL LIU, ASSISTANT SECRETARY, OFFICE OF PUBLIC AND INDIAN HOUSING, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. LIU. Thank you, Madam Chairwoman. We appreciate you and your co-sponsors developing and introducing the Housing Affordability for America Act of 2002. The bill contains many proposals that will allow us to do a better job of providing the most effective low-income housing assistance possible with the funds available. With respect to vouchers, Section 401 of the bill proposes a new Thrifty Production Voucher Program. This program is patterned after the current project-based voucher program, but assumes that the capital for production will be found from other programs or sources and provides for reduced subsidy designed to cover only operating costs. HUD generally supports additional tools that may help public housing authorities (PHAs) meet their community's housing needs, and in that context will work with the subcommittee to develop a means of offering vouchers that can be combined easily with capital subsidies.

The current proposal, however, seems rather complex and differs from the project-based voucher program in ways that may not be necessary, such as waiting list administration and development of requirements by location, to name just a few. I look forward to further discussions on this matter.

The bill also contains several initiatives designed directly or indirectly to increase the successful use of appropriated voucher program funds. HUD supports the increase in allowable rent to 40 percent of gross income, but believes PHAs also need flexibility to address compelling situations. For example, where a family already in the program would like to move into a significantly less expensive unit, they cannot do so because the family still would be paying more rent than the current limit.

HUD would consider allowing the use of some program funds to help increase voucher utilization for PHAs that are effectively using their administrative fees solely for the Section 8 Program. However, at the proposed maximum limit of five percent, this could translate into $500 million which may affect the administration of the core program. Any such reauthorization should be substantially narrower and structured to include appropriate oversight.

With respect to administrative fees, HUD recommends that it be given broader guidelines, not just to provide a bonus for high performers, but also to restructure the fees to promote performance in general and the accomplishment of specific program priorities, including families' movements to self-sufficiency and home ownership.

With respect to public housing, HUD appreciates that Title V contains the Administration's Public Housing Reinvestment Initiative, because that initiative can provide a new and effective means of improving public housing. The Public Housing Reinvestment Initiative provides a means of addressing this problem with the dollars available. The Public Housing Reinvestment Initiative allow PHAs that choose to participate to trade their public housing subsidies for project-based vouchers on a property-by-property basis. PHAs could then borrow money for capital improvements on the same individual property basis now used for Section 8 developments and multifamily housing generally. The bill contains a proposal to suspend the PHA plan requirement for 3 years for the smallest PHAs, up to 100 units. HUD has provided some streamlining of PHA plan requirements for these PHAs, but we need to go further, and we are developing a regulation that we believe will accomplish this. This bill's proposal is certainly along the same lines.

The bill would also require HUD to develop and test a third party system for public housing performance evaluations through an outside contractor. This year, HUD has implemented a binding public housing management assessment that contains an independent inspection of physical conditions. However, experience with the Public Housing Assessment System (PHAS), during its extended advisory period raised so many questions regarding the adequacy of its physical inspection and finance components that HUD has substantially simplified and in some respects pared back these components prior to implementation. HUD is committed to working with public housing groups in an effort to revise the system, and this includes research into a third party system that would be accepted as appropriate by all stakeholders and parties concerned.

The bill provides for a 2-year reauthorization of HOPE VI and for measures to ensure that a broader group of communities in terms of size and location have a realistic possibility of receiving HOPE VI awards. HUD supports reauthorization and the effort to promote broader program participation. Title VII reauthorizes both the Native American Block Grant Program and its related Loan Guaranty Program, and HUD supports the reauthorization of both of these.

I look forward to working closely with the subcommittee as you continue to develop this important legislation.

[The prepared statement of Michael Liu can be found on page 453 in the appendix.]

Chairwoman ROUKEMA. I thank you very much.

Now our final panelist is Mr. Thomas McCool. Mr. McCool is the Managing Director of Financial Markets and Community Investment at the General Accounting Office, which analyzes cost factors in the legislative branch of our Government, and we are happy to have you here today, because you had considerable responsibility and experience in analyzing Federal housing and financial matters and their relationship. With that, Mr. McCool, for you.

STATEMENT OF THOMAS J. McCOOL, MANAGING DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GENERAL ACCOUNTING OFFICE

Mr. MCCOOL. Thank you, Madam Chairwoman, Members of the subcommittee. We are here today to discuss H.R. 3995, the Housing Affordability for America Act, and in particular we are here to discuss Section 226, which would establish risk-based capital requirements for the Mutual Mortgage Insurance Fund of the Department of Housing and Urban Development's Federal Housing Administration.

We first presented the results of our analysis last year and suggested ways to better evaluate the financial health of the fund, so I won't go into details as we presented those last year. I will sort of cut to the chase, as it were. When we did our work last year, we concluded in our report that 2 percent capital ratio appeared sufficient to withstand moderately severe economic downturns that could lead to worse than expected loan performance. Some more severe downturns that we analyzed also did not cause the estimated capital ratio to decline by as much as two percentage points. However, in the three most severe scenarios that we used in that particular analysis, an economic value of 2 percent would not have been adequate. Nonetheless, because of the nature of such analysis, we urge caution in concluding that the estimated value of the fund implies that the fund would necessarily withstand any particular economic scenario under all circumstances.

Determining an appropriate capital ratio depends in part on the level of risk Congress wishes the fund to withstand, as well as the composition and performance of the portfolio and the way the fund is managed in the future. We believe that to evaluate the actuarial soundness of the MMI Fund, one or more scenarios that the fund is expected to withstand needs to be specified. As a single, static capital ratio, does not measure actuarial soundness.

Once the scenarios are specified, it would be appropriate to calculate the economic value of the fund or the capital ratio under the scenarios. As long as the scenarios result in a positive estimated economic value, the fund could be said to be actuarially sound. However, it might be appropriate to leave a cushion to account for factors not captured by the model, especially those related to managing the fund and the inherent uncertainty attached to any forecast.

Our view is that Section 226 of H.R. 3995 will permit FHA to develop capital standards that more adequately reflect the risk the fund faces. By establishing what it calls a minimum risk-based capital ratio based upon economic scenarios that could adversely affect defaults and prepayments, the act would more fully capture the credit risk the fund faces. By establishing a 1 percent minimum basic capital ratio, the act recognizes the unknown risk, such as operational risk, that the fund faces.

Overall, Section 226 of H.R. 3995 seeks to provide a method for determining whether the fund has capital adequate to cover its credit risk under defined conditions and provides a cushion to cover continuing operational risk, thus clarifying what is meant by actuarial soundness and helping FHA manage the fund to achieve that goal.

Madam Chairwoman, this concludes my statement. We would be pleased to respond to any questions.

[The prepared statement of Thomas J. McCool can be found on page 460 in the appendix.]

Chairwoman ROUKEMA. I thank you for your testimony. And I have a couple of questions, and they may relate to a number of the testimonies here, but I did note that Mr. Roy Bernardi talked about, and I wasn't quite sure the exact connection that you were making, about the unintended consequences that might be out there in terms of actually raising rents. And I guess you were talking about the HOME Program or what was the connection? Would you amplify that, please, for me?

Mr. BERNARDI. Right now, rent is determined by either the fair market rent or the median—30 percent or 60 percent of the median income by county. And the proposal, as we read it, indicates that the substitute would be the statewide median income, which would be higher and would make the maximum rents higher for the people that is intended to serve. And I think the chart here gives some examples as to what would occur if the State median income were used as opposed to the present fair market rent.

Chairwoman ROUKEMA. Staff is telling me that it was recognized in our preliminary discussion, and this should be something that we will have to go back and look at, but I would appreciate your help in specific terms as to how you think we should be addressing this to correct the legislation. Yes?

Mr. BERNARDI. We would be more than happy, obviously, to work with your staff.

Chairwoman ROUKEMA. Please.

Mr. BERNARDI. And we know there are areas where there is a production difficulty. And if we can identify those areas, maybe we can work within the fair market rent in those areas and tweaking that, if you will, so that we can have more productivity in the areas that presently don't have as much production.

Chairwoman ROUKEMA. Is there any other member of the panel that has had some experience with this or insight, a perspective on it? If you do, please contact us by phone, e-mail or even in written form.

But I do have another question, and that is Ms. Velazquez is not here, but she had asked earlier today or in her introductory statement, and I acknowledge that that was an important issue, and I didn't hear, but maybe some of you referenced the predatory lending question. Do any of you have any comments or help or observations to give us about the questions raised regarding predatory lending? Yes, Mr. Weicher?

Mr. WEICHER. Madam Chairwoman, we have been concerned at HUD about predatory lending in this Administration and the previous Administration. Efforts go back at least to 1997, to my knowledge, to address the concerns. We have done a number of things with respect to FHA programs, and we can really only deal with FHA. But Ms. Velazquez mentioned her concerns about FHA in her district in central Brooklyn. We have issued, this fall, a proposed rule to prevent flipping in FHA programs. If the rule becomes final, you will not be able to obtain insurance on the second transaction involving a home within a 6-month period, unless there is a case to be made that this is a legitimate second transaction. We issued that, I believe, in November. We received a number of comments, and we are in the process of putting a final rule together.

We have established a program that we call Credit Watch where we i dentify the FHA lenders with high early default and early claim rates on the loans that they have originated for FHA. We know that early defaults and early claims within the first year to 2 years in large numbers is evidence that something is fundamentally wrong. Anybody can have a default, a claim or two, and anybody will have claims as time goes on. But a lot of claims right after the loans have been made is a warning sign.

We have conducted Credit Watch investigations of lenders on a quarterly basis, those lenders with these high rates. We have sanctioned, removed from our roster, over 100 lenders over the space of 4 years. We have another 100 lenders who have been given warnings that we are particularly concerned about their performance. We are now extending that same approach to appraisers in something that we call Appraiser Watch that the Secretary mentioned, I believe, in his Senate appropriations—Senate-authorizing testimony last month. Again, this involves looking at the early default and claim rates on loans based on who the appraisers were on the loan.

Finally, for loans which are in default, we have established a loss mitigation program. We expect lenders to take any of several steps to try to help families who are delinquent on their loans from going into foreclosure. Our National Loan Servicing Center in Oklahoma City works with lenders all over the country and tracks the performance of the loans by lender to see which lenders have been successful in keeping people in their homes and which have not. Last year, we cut our claims by 10,000 loans at the same time that we increased our loss mitigation activities by 20,000 loans around the country. We are working in a lot of ways to prevent predatory lending and to help people who are the victims of predatory lending.

Chairwoman ROUKEMA. Well, we have no more time now, but for you or any other member of the panel, if you have any recommendations as to how the law can be improved to make it more effective in terms of dealing with predatory lending, please forward that to us, and I am sure that there will be others that have questions regarding predatory lending. With that, I will yield to Mr. Frank.

Mr. FRANK. Let me begin by asking on the two points I raised before, Mr. Weicher, on the availability of risk sharing FHA under 202, have we got a definitive Department policy on that?

Mr. WEICHER. Yes. The Department is working on specific instructions to our mortgagees for the process of implying that. We expect to have a revised letter out in 60 to 90 days.

Mr. FRANK. And that will go to the regional offices.

Mr. WEICHER. That is right. In Massachusetts, I know we have had one project which has been under consideration for 18 months, and we are giving specific instructions regarding that project.

Mr. FRANK. I appreciate that, but we can tell them that is a harbinger of good news to come.

Mr. WEICHER. Yes. And we know MHFA has other projects that they want us to move forward.

Mr. FRANK. Yes. They have changed their name now to Mass Housing.

Mr. WEICHER. I know, but it is still——

Mr. FRANK. Yes, I agree with you.

[Laughter.]

Now, on the interest reduction payments being made available for maintenance, where are we on that?

Mr. WEICHER. Well, we have been discussing that with OMB for the last 2 months.

Mr. FRANK. Ah, the magic words; we know what the problem is.

Mr. WEICHER. And those discussions are continuing, and we do expect that we will be able to advise you in the not very distant future.

Mr. FRANK. But this is a congressional mandate. We are not talking about an option here.

Mr. WEICHER. I understand that.

Mr. FRANK. I know they do. Does OMB understand it?

Mr. WEICHER. Yes. I think the Administration understands this, Mr. Frank.

Mr. FRANK. OK.

Mr. WEICHER. And if I may say, I think there are some technical issues here, because we are dealing with money which was originally a stream of payments, and the legislation turns it into a capital grant to avoid scoring, and you were talking about that problem in your opening statement. You can't spend the capital grant any faster than you can spend the original payment, and it is complicated.

Mr. FRANK. Let me just say this, because I think this is important. Again, it is important for us to have maximum flexibility. Is it a possibility that some statutory change is needed or do you think you can work this all out when you say technical problems?

Mr. WEICHER. I think we will either get the technical problems resolved reasonably quickly or we will tell you we can't.

Mr. FRANK. In which case, I hope you will do it in time, and I think—you know, I would be prepared to go to our friends, the appropriators, and ask them if they can clean it up there. But this really, obviously, is important to get it forward. I thank you for that.

Let me ask now, Mr. Liu, in your comments, you talked about thrifty vouchers. We are agreed in this room most of the time that we need a production program. Thrifty vouchers can't vote. Here is what you said in your written statement about thrifty vouchers: "The current proposal seems rather complex and differs from the project-based voucher program in ways that may not be necessary. I look forward to further discussions on this matter." I guess I would put you leaning against if I was whipping this. So that sounds fairly negative about the thrifty vouchers. What are your problems with them and what could we do to make them less complex and less not necessary?

Mr. LIU. Congressman Frank, my comments should not be an indication of a negative stance toward the proposal. It is a tool.

Mr. FRANK. Well, Mr. Liu, could I ask you a question?

Mr. LIU. Yes, sir.

Mr. FRANK. When you do feel negative, can I see that? That will be great reading.

Mr. LIU. Sure, sure. It will be——

Mr. FRANK. If these aren't negative, I want to see when you are negative what you say.

Mr. LIU. Absolutely, sir.

Mr. FRANK. No swearing is allowed.

Mr. LIU. Absolutely, absolutely, absolutely. No, it should not be viewed as a negative statement. It really is a statement, on its face, that we would like to work with the subcommittee to develop another tool to try and deal with the issue.

Mr. FRANK. I understand, but you—I mean, did something happen between the time you wrote this and now? You say it doesn't—I shouldn't take it as negative. "It seems rather complex and differs in ways that may not be necessary." There is nothing favorable in here. Oh, and you also say, "It assumes that capital will be found from other programs and sources and provides for reduced subsidies." I mean what is good in here?

Mr. LIU. Well, I think the good part is that we are saying that we are willing to work with the subcommittee to make the tool, at least in our view, workable.

Mr. FRANK. So, what is good in there is that the American Constitution has not been suspended, and you will continue to work with Congress. But I must say this is not a very ringing endorsement of the program.

The next question I have has to do with Section 505, and in particular on the public housing. I understand the flexibility, but what bothers me is about every fourth line there is an ability of the Secretary to waive restrictions. And what bothers me is that if you had a Secretary who was not too happy with public housing, you could wind up with a lot fewer units. And the fear that many of us have is that the best units will be put to a use which is good as far as it goes, but if you waive all these use restrictions, then they go out of the stream of being affordable. Some of them could be, and we all know housing developments in public housing that could, in fact, be very desirable. And I am concerned. Do you contemplate—what do we do to prevent under this, if we enact 505, a loss over time of some of the best public housing units on into the future?

Mr. LIU. Well, we believe that there is an adequate dynamic at the local levels, in combination with HUD approval, that will prevent an abuse of the situation. On the other hand, if there are specific ideas that your staff or that the subcommittee might have so that we might inject some balance, if there is need for that, we are willing to discuss those.

Mr. FRANK. Just to finish up, in other words, to quote a phrase, you look forward to further discussions on this matter too.

Mr. LIU. That is a nice phrase, sir. Thank you.

Mr. FRANK. Thank you. Thank you.

Chairwoman ROUKEMA. That is the purpose of these hearings, I believe, at least I hope so. I hope so. Yes, Congressman Miller.

Mr. MILLER. Thank you, Madam Chairwoman. I have a phrase I would like to use. I call it the "new homeless." And it is not people who are unemployed, it is people who, husband and wife, are out there working very hard. One might be a school teacher, one might be a fireman. And there is a lack of affordability for those people too. I mean, I like good examples. I had one of my staffers that happened to put in a bid for a small condo over here in Arlington yesterday. It was an 874 square foot condo for $199,000. So we would consider that a move-up home for people getting out of affordable, low-income house being able to move up. The problem was in 2 days they received 26 bids and that $199,000 listing sold for $260,000, because we are just not providing enough units to meet the demand out there. And I am just firmly convinced if there is no place for people to move up to, there is never going to be affordable housing in this country.

Now, in L.A. County, 59 percent of the Section 8 voucher holders have no place to use that voucher because there is no place for them to move because there is no place people can reasonably afford to move up to and buy a home. And in my comments earlier, I got a little excited. I talked about a builder in Colton that because of a ESA, Endangered Species Act, application for a rat on 33,000 acres, it is going to wipe out a 600-acre development that was going to provide 2,500 affordable units that would have been probably from $120,000 to $150,000 price range, the first move up for people from low-income Section 8 affordable housing. The first place they can go to buy a home. And that is what I think is wrong with this Government, and I have a real problem with that.

But on your status report of select programs, your note that public housing is ineffective. What could be done from the Federal perspective to create an effective program for Federal housing? That may be a difficult question, and maybe you will require more time than you have.

Mr. LIU. Well, specifically, Congressman Miller, we have been spending a lot of time addressing this issue—and I think the comments that you read are really based on a lot of managerial issues that we have within HUD and within Public and Indian Housing. We must do a better job of working with the housing authorities to ensure that there is both timely and effective use of their dollars, both operating and capital fund dollars. We have seen an improvement, but things could certainly be a lot more effective.

For instance, in our HOPE VI Program, which comes up for reauthorization this year, we have allocated for the life of the program over $4.3 billion, close to $4.4 billion. Less than $1.6 billion has been actually spent on hard units coming up. Now, there are dollars that are ostensibly obligated, there are dollars which are ostensibly in the pipeline working on very complex financing. When we look at the promises that these types of dollars hold for the program, we have to revisit that as we look at it going forward. And, again, we were heartened to see a comment made in this bill that attempts to address one of the fundamental issues of our program for HOPE VI. Take for example, the housing stock, and is it today the same that we talked about 10 years ago? So it gives you an idea of the type of challenge that we have in getting these dollars out the door and dollars used to benefit the people out there.

Mr. MILLER. See, a lot of the problem I have is a lot of individuals who care about housing are well-intended. I am not an attorney and I could read all the books associated with law that I could gather. And for me to stand up here and debate trial procedure having never been an attorney would be rather ridiculous. I have spent 30 years in the development industry from when it was a process 30 years ago that was very simplistic and you could rapidly gain permits and approvals to build. And I have many friends that are in that industry, and I talk to them repeatedly about the process they are going through and the difficulties. The 2,500 units I talked about were proposed by personal friends of mine, I know what they have gone through for 5 years.

Another issue on the FHA charge that we have borrowers insurance premiums. We are running a surplus on that. We have an excess of funds on that, which some Members believe that money should be taken and used for other programs. To me it means people who are paying that premium to buy homes are being overcharged, and perhaps we need to refund some of that money back to them or drop those rates in the premium so they are not paying more than they should be. Maybe you can address that.

Mr. WEICHER. Well, Mr. Miller, we certainly think that the FHA funds should be used for FHA purposes.

Mr. MILLER. Yes.

Mr. WEICHER. For the purposes of the home buyer.

Mr. MILLER. Of the fee.

Mr. WEICHER. The premiums that they are charged a fee for are charges we levy on individuals for their benefit and not charges that we levy to finance other activities.

Mr. MILLER. But if they are not needed for that, some Members, I have heard, want to use that money for another purpose.

Mr. WEICHER. Yes.

Mr. MILLER. Rather than taking that money that belongs to somebody who paid it and giving it back to them, because it is their money, it is not our money, and then going in the future and saying, "Let us drop that rate to an amount we need." Is there something to be done in that line?

Mr. WEICHER. As I mentioned in my opening statement, the Congress spent a great deal of time 12 years ago establishing a set of premiums and policies for FHA to prevent the fund from going the way of the S&L industry, which there was some concern about in 1989 and 1990. And we have built up the fund to the point where our net worth is higher than the levels that Congress mandated back in 1990. There is a question— and Mr. McCool's testimony goes into this in some detail— whether the capital standards that Congress established in 1990 are adequate to protect the fund against serious economic downturns of a kind we have not seen in the last 10 years and more, but of a kind we have seen once or twice in the past.

Mr. MILLER. So you think they should be applicable to the service they were——

Chairwoman ROUKEMA. Excuse me. We are much over time.

Mr. MILLER. Thank you, Madam Chairwoman, and I hope Mrs. Kelly will address the issue on appraisals.

Chairwoman ROUKEMA. Let Mr. Weicher finish his response to you, and then we will move on.

Mr. WEICHER. I think that does finish it, Madam Chairwoman.

Mr. MILLER. Thank you for your graciousness, Madam Chairwoman.

Chairwoman ROUKEMA. Thank you. Thank you. I am going to try to go in the order in which people arrived, and I think Mr. Sanders was one of the early arrivals.

Mr. SANDERS. Thank you, Madam Chairwoman. Let me start off, if I might, with Mr. Weicher. Mr. Weicher, according to Deloitte & Touche, over the next 7 years the FHA Fund balance is projected to grow from over $18 billion in Fiscal Year 2001 to $44 billion in Fiscal Year 2008. If Deloitte & Touche is correct, the FHA surplus will exceed $26 billion over the next 7 years. And I just wanted to ask you, and most of us are not actuaries or accountants here, but in English is that roughly correct, would you agree with that?

Mr. WEICHER. I would not call it a surplus, Mr. Sanders. It is the net worth of the MMI Fund. It is the——

Mr. SANDERS. But is that figure from Deloitte & Touche correct?

Mr. WEICHER. That is the best estimate that Deloitte——

Mr. SANDERS. OK. So we agree on that.

Mr. WEICHER. We——

Mr. SANDERS. Excuse me. I will ask you questions. If I might, sir, OK? You do not call it a surplus but others might. I understand where you are coming from; you have made your point before. It is a fair question as to what we do with that money. Now, the President, as I understand it, and the Administration believe that that money should be used to counter the deficit, that it is a surplus, I call it a surplus, to be used to counter the deficit. Other people have different ideas. But, in fact, what we are looking at is $26 billion more that some people believe that, in fact, we need to protect that fund. It is an honest debate as to what we should do with that money. I understand that there are different points of view on that issue. I would strongly suggest that given an—and I will use the word "surplus"— that we have that surplus, that this comes, in fact, from housing transactions. Given the fact that this Administration, and, in fact, previous Administrations, have not adequately dealt with the crisis in affordable housing, given the fact that some are proposing and have supported huge tax breaks for the wealthiest people in this country, I believe that it is appropriate in order to address the housing crisis that I think almost everybody in this room perceives to exist, to put that money into affordable housing. And I would like you to tell me if there is anything extraordinary—you may not agree with it, but there has been some confusion on this issue—if the United States Congress decided, as I hope that they will, and we have 174 co-sponsors on this legislation, to create an affordable housing trust fund using this surplus, dedicating this stream of money for affordable housing if it passed the House of Representatives, if it passed the Senate, if the President signed the bill, am I correct in saying that we would have a National Affordable Housing Trust Fund with that money, sir?

Mr. WEICHER. I think what you are asking is will the Department of Housing and Urban Development abide by legislation that is passed by the Congress and signed by the President.

Mr. SANDERS. That is right. And I hope the answer is——

Mr. WEICHER. You can hardly expect any of us to say, "No, we will reject the decisions of the Congress and the Administration that we serve."

Mr. SANDERS. Of course, and I appreciate that answer, and I knew that would be your answer. But I did ask you that because we have heard some discussion in the past from various authorities that suggest that somehow this can't be done. And the answer is if the Congress deems it and the President signs it, that is, in fact, what can be done.

And, Madam Chairwoman, let me just suggest that what this issue really comes down to, in one sense it is very complicated and so forth, in the other sense it is really pretty simple. And that is you have a pot of money and honest people have honest differences of opinion what you do with that money. My feeling is that that money should be directed into dealing with the affordable housing crisis, that one of the spin-offs of that will be the creation of large numbers of decent paying jobs and that children will not have to sleep out on the streets of this country, and millions of people will not have to pay 50 or 60 percent of their income in housing. So I would hope that we will use that money for affordable housing, and we look forward to moving that bill forward. Thank you.

Chairwoman ROUKEMA. All right. I thank the congressman from Vermont. Now we have Congresswoman Kelly from New York.

Mrs. KELLY. Thank you, Madam Chairwoman. Mr. Liu, a little while ago, I went to New Orleans and held an oversight hearing in New Orleans. That was a situation where the New Orleans Housing Authority had over $800,000 available to them. They had knocked down a huge amount of housing and they had not had a HOPE VI grant since 1994. There were people who were displaced, but there was no new housing being built. And yet there was $800,000 available to that housing authority that wasn't being utilized. Now not all of that was HOPE VI money, but I noticed that you have talked just quickly about HOPE VI in your testimony, and, again, Mr. Miller brought up some things. I would like you to address what exactly you are doing, and if you are not able to do that, perhaps you could work with my office. I would like you to address what is happening with the availability of a public housing authority to move money that is available into that HOPE VI rebuild program if they have this need to rebuild housing.

In addition to that, that flexibility I hope would happen, but I also am thinking about a timeliness, and you addressed that a bit. Are you thinking about time certain after something is knocked down? And I am not talking about one-for-one replacement, but just simply the fact we are dislocating families, we need to rebuild something, and I, in New Orleans, found it appalling that all that money was there and yet we had people living in such terribly substandard housing. Could you address that for me, please?

Mr. LIU. Yes, Congresswoman. You have touched on a subject which is of great concern to the Department, and as we move forward in looking at the issue of reauthorization of HOPE VI, we welcome ideas and suggestions and certainly welcome the chance to work with you and other Members of the subcommittee on that. Project readiness is an issue. For instance, currently under the HOPE VI Program, under the 2001 NOFA, and prior NOFAs, a "successful housing authority" need not have put in as part of its application a project schedule. I will repeat that again. You could win a HOPE VI grant and not have a project schedule. And most of our HOPE VI awardees proceeded in that fashion. After they get the award, we would then negotiate or work with them to develop a project schedule.

Now sometimes that could take years so that we have projects today 2 or 3 years after the award where the housing authorities don't even have a developer partner. We have situations where grants were made in 1995, and not a dollar has been spent, nor a subsequent revitalization plan, which is also not necessarily required under the current NOFA, is there. So these are issues that we hope to address as we talk about reauthorization, because you are absolutely right, it is a shame to have these dollars available and not used.

Mrs. KELLY. I thank you very much, and I know that this subcommittee will work with you on this. One other thing, Mr. Weicher, I heard you mention quickly about going back and looking at what the appraisers have done and so forth. I am very interested in pursuing that a little bit with you simply because appraisal can often not necessarily mean the same thing from one appraiser to the next, and I wish you would elaborate a little bit on what controls you are thinking about with regard to appraisals. Could you do that for me, please?

Mr. WEICHER. Certainly, Ms. Kelly. In the last 2 years, we have insured 1.8 million loans that have appraisals on them. We are looking at our early default and claim experience on those loans, classified by who the appraiser was on the loan. And we have the name of the individual appraiser, John Weicher, if I were an appraiser. We would have the name of the individual appraiser. We then look at those appraisers whose default rates and claim rates are high compared to the default rates and claim rates of the field office area, which is either a State or part of a State in the larger States, and we look at those who are high relative to the markets in which they are working. Those give us a group of appraisers who are creating risks for the FHA Fund and putting people in houses where they are not able to sustain the mortgage. We then will go in and look at the appraisers on an individual field review basis and see whether this is bad luck, whether this is incompetence, or whether it is something worse.

Mrs. KELLY. How long does that process take?

Mr. WEICHER. Well, in the——

Chairwoman ROUKEMA. Excuse me. I am sorry. I am sorry, but let us conclude this. Give a short answer and conclude, please.

Mr. WEICHER. In the first 3 months of the year, we have identified 24 appraisers for field office review.

Mrs. KELLY. Thank you. Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. All right. Thank you. I am sorry. I don't like to be forcing people to comply with the 5-minute rule, but I will tell you it is my opinion that we are going to have conclude this hearing at five o'clock, so that if we are going to get through this next panel, we are going to have to use some discretion here and adhere to the 5-minute rule. Otherwise we will never get through to the second panel. Yes. And with that, Congresswoman Lee.

Ms. LEE. Thank you, Madam Chairwoman. Let me just ask Mr. Weicher with regard to the HUD's budget, it is my understanding that it does not include any funding for rehab of federally assisted housing programs. And I wanted to find out if that is so, and if it is, what do you think in terms of your recommendations to address this need? And then also, in your response to our Ranking Member, Congressman Frank, with regard to Section 236, if all of the difficulties and issues are worked out with, is it OMB, would you actually go back to the drawing board and put a request in for those funds for Section 236?

Mr. WEICHER. The answer to the latter question is, yes, if we can work out the complications with this, then we would expect to have funds which we would be able to make available through the usual process. We would need regulations, and we need a NOFA if these were to be made available competitively, which they probably would be. But the short answer is, yes, we would make those funds available. With respect——

Mr. FRANK. Would the gentlewoman yield, because she asked a very good question? Would that have to be reflected in appropriation or have you got sufficient authority to do that now without any further appropriation?

Mr. WEICHER. It is a question of the timing. The 236, the interest reduction payments have already been scored as a stream of payments over time, and the OMHAR legislation in 1997 established that these funds could continue to be spent but on the same basis. And that, as I think I mentioned, is part of the problem. What was a stream of payments needs to be somehow handled as a capital grant, and if the timing of the outlays changes, the scoring would change, and that is part of the complication.

Mr. FRANK. But if necessary, you would then request the authority to spend it if that were necessary.

Mr. WEICHER. Yes.

Ms. LEE. OK. Thank you very much, Madam Chairwoman. So then is it safe——

Chairwoman ROUKEMA. Your time is not yet concluded if you have a follow-up.

Ms. LEE. OK. Thank you.

Chairwoman ROUKEMA. Brief, brief.

Ms. LEE. Very quick. With regard to the proposed rule, with regard to predatory lending, in conjunction with FHA insurance, it would generally prohibit the use of FHA to finance homes that were resold within the 6-month period. And I just wanted to know if you plan on issuing a final rule on this or what is the status of that?

Mr. WEICHER. Yes. We do plan on issuing a final rule. We are reviewing the comments now, and we expect to have a final rule out this summer.

Ms. LEE. This summer.

Mr. WEICHER. If not sooner.

Ms. LEE. OK. Thank you very much, Madam Chairwoman.

Chairwoman ROUKEMA. I thank you. And now Congressman Watt.

Mr. WATT. Thank you, Madam Chairwoman. Mr. Liu, I confess a little concern about your approach to one or two things that suggest that the subcommittee should be making proposals to HUD. I think maybe we got this backward, and we are trying to write a piece of legislation, and we are having trouble getting input from the Department that we are trying to be responsive to in writing that legislation. We write the legislation over here.

And so I want to, first of all, without asking for a response from any of you, just ask you all to please encourage Secretary Martinez to respond to a list of questions that this subcommittee sent to him after he testified on February 13 that have never been responded to. If we don't get the responses to the questions we ask, then we can't be sensitive to the concerns or how you as a—how HUD would like to have this done. So please take that message back to him. I had three questions that I still haven't gotten the answers to. The subcommittee asked a bunch of questions that the subcommittee has not gotten answers to, and it is just very difficult to be responsive to concerns that HUD has.

Now I am going to segue into your testimony——

Chairwoman ROUKEMA. Excuse me. Mr. Watt, I just want to concur with you, because I also, as Chairwoman of the subcommittee, have, on two occasions, requested those responses from Mr. Martinez and we haven't gotten them.

Mr. WATT. I am aware of that. And Mr. Frank was making the same point here. If this is not your position, then what is your position, and your position seems to be, well, let us have some more discussions, and the problem with that is very soon now we are going to be marking up legislation that really doesn't have your input in the process. And this is the opportunity to give that input. One thing in particular, and this will drive home the point, and Ms. Kelly made it, if you look at page 5 of your testimony, you say about HOPE VI, "More discussion of concepts ion regard to reauthorization of HOPE VI will be constructive."

And then you say a report on HOPE VI lessons learned is due to Congress on June 15, 2002. This bill may be gone by June 15, 2002 somewhere else out of this subcommittee, and we have nothing other than, yes, the two things that we do that the Chairman's bill does with regard to HOPE VI you think are good, but we don't know what else you would like to have, other than that you want to have some more discussions about concepts in regard to the reauthorizations which you think would be constructive inputs right now.

So having said that, and I don't mean to lecture you on this, but we had a hearing yesterday in this subcommittee about HOPE VI, and we had some people who have actually been out there in the field dealing with HOPE VI and they raised several things. And what I would like to do is get kind of a general response about whether you think these are good ideas. Is this part of the constructive discussion that we are having?

You give points now to applicants for HOPE VI funding, and then you rank them according to points. Would you think it would be helpful to have some provision in this legislation which says that HUD would reward an application that has a project schedule already in place, that minimizes displacement or provides for one-for-one replacement of housing—because yesterday our witnesses said that is a serious problem in HOPE VI communities—that addresses the issue of timeliness? What would you think about us writing some criteria into the HOPE VI reauthorization that addressed some of those points that seem to be lacking now?

Mr. LIU. First, Congressman, let me say that under the——

Chairwoman ROUKEMA. Excuse me, I want you to note that the time has been concluded, so, Mr. Watt, I am sorry, but given our limited——

Mr. WATT. Are you going to ask him to give us our response 90 days from now?

Chairwoman ROUKEMA. No. I am going to ask them that they give the response within a time period of a week or two.

Mr. WATT. But Madam Chairwoman, you did take about 45 seconds of my time, so at least give him 45 seconds to——

Chairwoman ROUKEMA. I already gave you 42.

Mr. WATT. No, the red light just went on as I got through asking my question.

Chairwoman ROUKEMA. All right. We will conclude this, please, and now we will go on to—if you will please get the responses back ASAP, which I think, from our point of view, Mr. Watt's and mine, means within the next 2 weeks.

Mr. FRANK. Madam Chairwoman, under the category that hope springs eternal, I ask unanimous consent that Members be allowed to ask further questions of HUD in this hearing so we will have a longer list that we are waiting for.

Chairwoman ROUKEMA. I am sorry?

Mr. FRANK. I would ask unanimous consent that Members would be allowed to submit questions in writing.

Chairwoman ROUKEMA. Oh, of course. Absolutely, absolutely. You understand that we will each submit questions in writing if we have them.

Mr. WATT. But, Madam Chairwoman, I hope that that doesn't mean that I have got to submit my question.

Chairwoman ROUKEMA. Oh, no. No, your question is on the line there, but Mr. Frank is talking about additional questions. And with that, we will conclude with Ms. Velasquez. I already did ask your question if you want to have a follow-up on the subject of predatory lending.

Ms. VELAZQUEZ. I was watching on TV.

Chairwoman ROUKEMA. All right.

Ms. VELAZQUEZ. And I was in a meeting, so please excuse me. But I wasn't satisfied with your response, Secretary Weicher. I just want to say that I do appreciate HUD's recent actions to address the 203(k) crisis in New York City. However, my statement was meant to address the fact that HUD's response to predatory lending, in this case and others, has been reactionary rather than preventative. For this reason, I was happy to see the proposed rule issued by HUD this fall to prohibit the resale of FHA-insured homes within 6 months. I understand we can expect a final rule this summer; is that correct?

Mr. WEICHER. That is correct.

Ms. VELAZQUEZ. Furthermore, I think the situations I outlined in my statement highlight the need for this rule and further preventative measures: Steps such as mandatory home buyer counseling for first-time home buyers in high foreclosure neighborhoods or allowing a good-faith challenge to FHA appraisal values. Would you be willing to consider these proposals?

Mr. WEICHER. Ms. Velasquez, we have requested in the budget a separate categorical counseling program funded at $35 million in place of the $20 million set aside within HOME, which has been the practice in the past. And if Congress approves this, this will be the first free-standing counseling program in HUD in 30 years. We very much hope you will support that.

With respect to 203(k), may I say that as soon as Secretary Martinez came in, he was aware of this problem. The loans were originated in 1998 and 1999. They began to default in 2000. I do take exception, if I may, to the suggestion that we have been reacting to this. We have been working very hard for a year with the people in New York to address the problem. We have reached a solution in which we are putting up $268 million of the taxpayers' money for 514 properties in New York, and the City is putting in another $125 million.

Ms. VELAZQUEZ. Well, what we had in New York was a real mess.

Mr. WEICHER. It was indeed, and I think we have also been prosecuting. The government of the United States and the government of New York have been prosecuting lenders and other participants there, and we are continuing that as well.

Ms. VELAZQUEZ. You mentioned in response to Representative Kelly's question that when identifying appraisers and lenders who are less than scrupulous, you compare their foreclosure rates with others in the region. How are you dealing with this in the New York region where the foreclosure rate in last year's—it was three times the national average?

Mr. WEICHER. The comparison is to other appraisers in the HUD field office area, which is the New York Metropolitan Area in your case, and so we are looking not at the fact that foreclosure rates are three times as high in New York as they may be in the country as a whole, but on whether the foreclosure rate on the loans you have appraised is three times as high as the foreclosure rate in the New York Metropolitan Area.

Ms. VELAZQUEZ. So it is acceptable that we have more unscrupulous appraisers?

Mr. WEICHER. I don't think all the foreclosures in New York relate to unscrupulous appraisals or unscrupulous lenders. There was a large volume of adjustable rate loans that were underwritten in 1996 and 1997 under what turned out to be lax ARM's underwriting procedures and which were changed in 1998. But the loans that were underwritten under the earlier procedures are reaching the stage at which they are most likely to default.

Mr. FRANK. If the gentlewoman would yield, I wonder if Mr. Liu now—we have a couple of minutes left—could respond to Mr. Watt.

Mr. LIU. The answer, Congressman Watt, is we would be open to working with you on those concepts, as I mentioned in my answer to the congresswoman. Project readiness and all of the issues that you mentioned are certainly issues that we want to have addressed. Now we can address them——

Mr. WATT. But do you think it is a good idea for us to write it into the statute?

Mr. LIU. We think that it can be done in an effective way. We also think that we can implement by rules and regulations to the NOFA under a strict reauthorization.

Mr. WATT. But you haven't done that, and HOPE VI has been around for a while.

Mr. LIU. The 2002 NOFA is not yet out.

Mr. WATT. Is there any way to get a heads up or a preliminary draft of this HOPE VI lessons learned report? Because by June 15 I don't think we are going to be still dealing with this?

Mr. LIU. We will do our best to get it done before the deadline.

Chairwoman ROUKEMA. I thank Mr. Watt and all our colleagues here. We do appreciate your testimony here, and we will be submitting to you follow-up questions, I am sure, but you will be presenting to us your quick responses. I hope Mr. Watt is accurate in predicting when we are going to have this legislation up. I would like to think we would have it up that soon. But in any case, we are going to try to expedite consideration of this legislation by the House of Representatives. We do thank you for your testimony here today. And with that, we call up the second panel.

Mr. WATT. Madam Chairwoman, while they are coming forward, I would just say to you that I wasn't projecting that we would deal with it on the floor, but I think these kinds of considerations really need to be dealt with in the subcommittee and in the full committee. And if we don't get the information we need, it is hard to deal with it.

Chairwoman ROUKEMA. I would like to—that is right, in the subcommittee, and then I would like to think that that foundation would be laid so that we could take it up and conclude it on the floor of the House before the Congress goes into election recess.

Very good. I am going to give a short introductions so that we will permit more time for you to testify and less time for me to discuss your backgrounds. But each of you are very well-qualified to represent the private sector in terms of how the private sector is relating to Federal legislation. And you have heard the rules. We are going to try to limit you and ourselves each to 5 minutes. And the yellow light goes on, which is the sum up warning light before the red light goes on after 5 minutes.

And with that, I will introduce Mr. John Courson, who is president and CEO of Central Pacific Mortgage Company, and he is here today as the Chairman-elect of the Mortgage Bankers Association of America, and we greatly appreciate your being in attendance here today and look forward to working with you as the Chairman of the Mortgage Bankers Association as we move through this process. Mr. Courson.

STATEMENT OF JOHN COURSON, PRESIDENT, CENTRAL PACIFIC MORTGAGE COMPANY, ON BEHALF OF THE MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. COURSON. Madam Chairwoman, thank you very much. You obviously have my statement, and so in the interest of time I am going to just summarize, and I would like to talk just briefly about three key principles of FHA, as both a representative of the mortgage lenders, mortgage bankers and a practitioner who makes FHA loans. Really there is three things that guide FHA, in our mind. It needs to be sound, it needs to be consistent, and it needs to be innovative. And as you have heard earlier today, obviously, FHA, 80 percent last year of the first-time home buyers were—80 percent of FHA's business were first-time home buyers, 40 percent were minorities, and 80 percent of the FHA loans that were made were made by members of the Mortgage Bankers Association. In my own company that is a retail mortgage banker with retail branches, over 40 percent of our business was FHA business. And so the idea that FHA needs to be sound, fiscally sound and viable, is key to me personally and to our members to keep it viable to be there in the times that it is needed.

Which brings me to talk a little bit about FHA must be consistent. You know, FHA is always and has always been there. It is there for creditworthy borrowers in challenging times when the private industry may exit certain markets. I had the experience, and quite an experience it was in 40 years, of being in Texas in the energy crisis days of the mid-1980s, and we saw private mortgage insurance companies exiting the State, exiting a number of States that had the economic distress that was related to the energy crisis. And as they exited or as they increased their underwriting requirements, who was there for those borrowers? FHA. They were there with a consistent premium, they were there in a counter-cyclicle role to help first-time home buyers and those who needed housing at the time. So the consistency is key in those marketplaces.

Having left Texas, I went to California. Maybe it is me, maybe it is not the marketplace. I go to California and we have an economic distress situation in the early nineties. A key part of our business is FHA. The same repeat thing, even in California, a different marketplace than Texas. FHA is consistently there. So we believe that the soundness, the consistency, the level of premium that is counter cyclical to help those borrowers that need the help are key.

And, of course, thirdly, FHA must continue to be innovative if it is going to be viable to serve the marketplace, first-time home buyers, minority home buyers that it helps, it has to innovate to give those borrowers the same tools that are available in the conventional marketplace. We applaud H.R. 3995; it has those tools: downpayment simplification.

We were in Alaska at the time this program was there in a demonstration program about 5 years ago and substantially saw our ability to qualify people who have the biggest challenge of cash to buy a home in Alaska. We also saw the problem of when that program started to sunset and not being able to help borrowers for a period of 30, 60 days not knowing what their downpayment or cash requirement was going to be. We need to make that permanent. Clearly, the 5/1 hybrid ARMs, which were authorized last year, we need to deal with that issue on one segment of those, the 5/1 ARM, which was treated differently than the 7/1 or the 10/1s and give that tool to these borrowers.

And thirdly, of course, the FHA multifamily loan limits, which were also enacted last year, and they need to be put on the same par as the single family. Let us not have to go through every 3 years coming back to get a multifamily loan limit. Let us index it so that it can move as the market moves, just as we do in the single family.

Outside of innovation the third thing that I would like to mention very quickly is the Ginnie Mae guaranty fee. Obviously, there was passed in 1998 a 50 percent increase in that fee. Ginnie Mae is a viable program, it is profitable, and if that is not rolled back, somebody is going to have to pay for that, and the fear is that somebody will be the American borrower from FHA. Thank you very much.

[The prepared statement of John Courson can be found on page 474 in the appendix.]

Chairwoman ROUKEMA. I thank you very much, Mr. Courson.

Now, Mr. Martin Edwards, who is a realtor from Memphis, Tennessee, but you are here representing the National Association of

Realtors as the new President of the National Association of Realtors?

Mr. EDWARDS. I wouldn't say new, 3 months old, yes.

Chairwoman ROUKEMA. No? All right.

Mr. EDWARDS. 2002 president. Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. All right. Thank you. Thank you and we appreciate your attendance.

STATEMENT OF MARTIN EDWARDS, JR., PRESIDENT, NATIONAL ASSOCIATION OF REALTORS

Mr. EDWARDS. Thank you, Madam Chairwoman, and I will try to be as brief and stay with our time limit. On behalf of more than 800,000 realtors, I want to take this opportunity to thank you and Ranking Member Frank to appear and testify on this bill.

We believe it takes a creative approach to reducing barriers to affordable housing while stimulating much needed housing opportunities for American families. As you well know, there is a housing crisis, and I have heard this several times today, in this Nation, and it will not go away. That is why this legislation is both timely and appropriate. It is why the National Association of Realtors has joined in a fight to make affordable housing one of our national priorities. Realtors are in a unique position to champion this cause, because we can make a difference at the local level. We are extremely committed to ensuring that every American has the opportunity to live in a safe, decent and affordable home, because we want to see our communities that we serve survive.

Which is why last year the National Association of Realtors began working on a comprehensive housing opportunity of initiatives to identify and find three ways to do things better: One, stimulate affordable housing, which is what we have been talking about, improve access to housing and close the home ownership gap. Through a Presidential Advisory Commission of the National Association of Realtors, we have started working on those in a comprehensive plan. Our focus is geared toward meeting some of the greatest needs and unmet needs of the housing market, keeping in mind minority outreach, rental housing opportunities, immigrants, the disabled, low- and moderate-income citizens and senior housing. While the Nation's home ownership rate is at 68 percent, the highest level ever, the gap between those who can and those who cannot afford decent housing has grown.

Going forward, the biggest source of household growth in this decade will come from minorities and immigrants. Minorities will account for 64 percent of all new households. Between 1993 and 2000, minorities accounted for a 44 percent increase in home ownership. By 2010, African Americans will account for 19 percent of home ownership growth; Hispanics, 38 percent of home ownership growth; and non-whites, 37 percent of home ownership growth. This creation of additional housing households will require some more construction, more innovative ideas and favorable economic conditions to move forward. We believe that the real estate industry and the Federal policymakers have responsibility, all of us, and really an obligation to ensure that groups are not ignored in this plight.

Again, Madam Chairwoman, I want to commend you and this subcommittee for your outstanding leadership. Specifically, the National Association of Realtors strongly advocates language under Title II of H.R. 3995, Section 8 that seeks to index FHA multifamily home limits and allow maximum high-cost percentage to be increased in high-cost markets. We believe these provisions ensure FHA multifamily loan limits will not be outpaced by inflation or growing construction costs and make multifamily programs more favorable in the Nation's worse-case scenarios.

There are other provisions we strongly endorse in H.R. 3995, and they fall under the single-family area. Specifically, we back provisions that would, as John mentioned, make permanent the FHA downpayment plan, simplification calculation plan, reduce FHA downpayments for teachers and public safety officers as well as permit them to purchase HUD-foreclosed homes at a discount in neighborhoods that they work in, eliminate the cap on the FHA 5/1 hybrid adjustable rate mortgages, create a 3-year pilot program for no downpayment FHA loans to qualified public service officers if they buy homes in designated high crime areas.

In conclusion, Madam Chairwoman, let me say that real estate has been one of the pillars of American prosperity. It provides the capital that makes it possible for families to build and own their own homes. We discovered much last year when Federal Reserve Chairman Alan Greenspan asked us and urged us to examine the wealth effect of housing. We found that home equity is the largest source of wealth for three out of four homeowners. Housing is also important to our national economy. Its overall share of GDP is 14 percent. Between 15 and 24 cents of every dollar realized in capital gains from home sales goes into goods and services or savings. Plus 40 percent of disposable income is spent in housing-related goods and services. These are all benefits of home ownership that cannot be ignored, and I appreciate the opportunity to visit with you this afternoon.

[The prepared statement of Martin Edwards Jr. can be found on page 482 in the appendix.]

Chairwoman ROUKEMA. I thank you, Mr. Edwards.

Now Kevin Kelly, President of Leon Weiner Associates in Wilmington, Delaware, and he is testifying on behalf of the National Association of Home Builders. Mr. Kelly.

STATEMENT OF KEVIN P. KELLY, PRESIDENT, WEINER & ASSOCIATES, WILMINGTON, DEL, ON BEHALF OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. KELLY. Thank you, Madam Chairwoman, for this opportunity to speak to the subcommittee today. I will confine my remarks, per your letter to the association, to Title II of the Housing Affordability for America Act. I am speaking, as you indicated, on behalf of the 205,000 members of the National Association of Home Builders.

Specifically, Title II of the bill contains important reforms to both multifamily and single family FHA programs. Together these proposals will increase the availability of affordable housing and expand home ownership and rental housing opportunities across the country. The FHA multifamily mortgage insurance programs are a critical component in addressing the Nation's affordable housing needs. Last year, Congress took the first step in making the FHA multifamily insurance programs more workable in most markets in the country by passing legislation to increase multifamily loan limits by 25 percent. The limits had not been adjusted for 10 years; however, NAHB's analysis indicates that there are high-cost urban centers where these increases simply are inadequate and that costs exceed the current limits. We believe we can and should do more.

Two provisions in Title II would make the necessary adjustments so that programs can be fully utilized throughout the country. First, we would strongly support the inclusion of Section 201 of Subtitle A, which would require HUD to index FHA mortgage loan limits each year beginning in 2003. The index is the annual construction cost published by the Bureau of the Census of the Department of Commerce. Indexation will help stabilize the programs, give builders and lenders the confidence that they will be able to use the programs in their communities every year despite increases in construction and land costs.

NAHB also strongly supports Section 202 of Subtitle A, which addresses the need for high-cost markets where the base loan limits are still too low. Current law permits the HUD Secretary to increase base limits by up to 110 percent in geographic areas where construction costs are very high and up to 140 percent on individual projects. Section 202 would give the Secretary greater latitude to raise mortgage limits in areas where construction costs are high. It further provides the Secretary of HUD the discretion to increase high-cost factors from 140 to 170 percent on a project-by-project basis. These provisions, allowing for indexation and adjustment upward for high-cost areas, will make the FHA multifamily programs more workable throughout the entire country.

On the single family side, NAHB supports the provisions of H.R. 3995 that are aimed at improving the FHA single family mortgage insurance programs by making permanent the simplified downpayment calculations, the revisions to the hybrid ARM as well as the proposal to facilitate to home ownership opportunities for teachers and public safety workers. With regard to what is referred to as the downpayment simplification, this actually offers a simplified method to arrive at a maximum mortgage calculation. The simplified method results in a greater loan to value than currently permitted under current programs and will ultimately expand home ownership opportunities.

NAHB also supports Title II, making of a hybrid adjustable rate ARM available at competitive rates and terms for FHA borrowers who otherwise would be unable to obtain funding in the conventional ARM programs. The bill amends current law to shorten the allowable timeframe for the first adjustment of the FHA hybrid adjustable rate mortgage to 3 years from its present 5.

In closing, Madam Chairwoman, I would also applaud Chairman Oxley, yourself and Congressman Green for including Title VIII in H.R. 3995. Title VIII, as you are aware, requires the Federal Government to conduct housing impact analyses for any new proposal or final rule if that rule has an economic impact of $100 million or more on housing affordability. This measure will help raise awareness to the extent to which regulatory barriers impede housing.

That concludes my remarks, Madam Chairwoman, and we thank you for the opportunity to speak.

[The prepared statement of Kevin P. Kelly can be found on page 495 in the appendix.]

Chairwoman ROUKEMA. Thank you very much. Everyone is being very considerate of the time constraints here.

Mr. Shapoff, Vice President and senior member of the Health Care Group at Goldman, Sachs & Company. And Mr. Shapoff is here today, I guess, representing your company and the Health Care Group at Goldman, Sachs. And giving us some insight with your experience of 13 years in the health care—as a manager in the Health Care Group. Thank you for coming here today, and we are happy to have you.

STATEMENT OF EDWARD L. SHAPOFF, VICE PRESIDENT, GOLDMAN, SACHS & COMPANY, ON BEHALF OF THE HEALTHCARE FINANCING STUDY GROUP

Mr. SHAPOFF. Good afternoon, Madam Chairwoman and distinguished Members of the subcommittee. I thank you for the opportunity to testify in support of H.R. 3995. In addition to being a member of Goldman, Sachs, I am also here on behalf of the Healthcare Financing Study Group, an association of national and regional investment bankers and municipal bond insurers. We welcome and appreciate your support and thank you for including in H.R. 3995 legislative provisions which are so important to America's aging and ill populations.

Sections 203 through 206 of H.R. 3995 would amend the FHA health care and assisted living programs of the act to modernize and make them more consistent with today's methods of delivering quality affordable health care service to rural and urban American communities, which have been unable to enjoy the benefits of the act in its present form and, importantly, where conventional financing may not be readily available. The Study Group, whose members have worked with FHA programs for three decades, strongly support these amendments.

As you know, two sections of the National Housing Act, Section 232, for nursing homes, and Section 242, for hospitals, provide mortgage insurance for health care projects. Enacted over 30 years ago, these two sections have netted hundreds of millions of dollars to the Treasury from FHA fees and mortgage insurance premiums. Furthermore, these programs do not compete with private sector financing but have fostered a sound working relationship between Government and private industry, which has materially reduced the cost of financing, thereby helping to assure repayment of the insured loan and reducing FHA's insurance risk. Debt service savings realized under these programs have also resulted in lower Federal and State Medicare and Medicaid reimbursements.

At the same time, FHA insurance is available to fill a void left by the conventional private sector, which traditionally has preferred to lend only to the very best investment grade credits. That is not to say, however, that all health care projects should or do have free entitlement to FHA. Indeed, few high-risk mortgage insurance applications would survive FHA's rigorous underwriting process.

Enacted over 30 years ago, Section 232 and 242 have been modified only slightly so that the act does not entirely reflect or accommodate today's methodology and regulation of health care and assisted living delivery. For example, the narrow definition of eligible facilities fails to reflect the continuum of care now commonly provided within an individual facility or in a campus environment for the purpose of operational and cost efficiency and continuity of care. This is a shortcoming that would be corrected by the amendments.

Another important element deals with Certificates of Need. Mortgage insurance under the hospital and nursing home programs require receipt of Certificates of Need. In fact, many States have eliminated all or part of their certificate of need programs or the agencies that would, in fact, issue these certificates. Examples of these States are Arizona, California, Colorado, Iowa, Kansas, New Mexico, Oregon, Texas and Wyoming and others. While the act contains alternative requirements for such States, and while well-intended, these alternative requirements have proven unworkable or difficult to implement. This impediment has made it difficult for FHA to diversity its own loan portfolio geographically and made it difficult, if not impossible, for critical-access hospitals and rural hospitals to modernize facilities, which may date back to the mid-1900s. The amendments would solve this problem as well.

Without in any way intending to slight or diminish the stature of any portion of the amendments, all of which we support, I would like to summarize the more important accomplishments of the amendments. Mortgage insurance is authorized for integrated service facility projects for the sick, injured, disabled, elderly or infirm or which provide services for the prevention of illness. Such projects may furnish outpatient services, including community health, clinical services and medical practice facilities to serve those people and achieve that purpose through individual facilities, which may incorporate a continuum of care. The alternative Certificate of Need procedures of Section 232 and 242 would be updated to make them more workable and would help to assure that States without CON laws or implementing agencies would not be excluded from the programs.

Third, under current law an assisted living facility does no qualify for FHA insurance if it is located in a State or political subdivision which does not issue licenses for such facilities. The amendments authorize FHA to formulate alternative underwriting standards in such cases so that the benefits of mortgage insurance will be available.

In conclusion, Madam Chairwoman, this concludes my testimony. I thank you very much for your time.

[The prepared statement of Edward L. Shapoff can be found on page 504 in the appendix.]

Chairwoman ROUKEMA. I thank you.

And now our final panelist is Mr. Lou Cannon. Mr. Cannon is an inspector with the United States Mint Police here in the District of Columbia, but he is here today testifying on behalf of the National Fraternal Order of Police and its more than 300,000 members. We welcome you here today.

STATEMENT OF LOUIS P.CANNON, PRESIDENT, DISTRICT OF COLUMBIA STATE LODGE, FRATERNAL ORDER OF POLICE,

Mr. CANNON. Thank you. Good afternoon, Madam Chairwoman, Ranking Member Frank. I am an inspector with the United States Mint Police and president of the DC. Lodge of the Fraternal Order of Police. I am here today on behalf of National President Steve Young and the more than 300,000 members of our organization in support of Sections 222 through 224 of H.R. 3995, the "Housing Affordability for America Act." This legislation contains a three-pronged approach to increasing home ownership among our Nation's public safety personnel, and we appreciate the opportunity to appear before you here today.

The FOP is no stranger to this issue. Since 1997, our organization has been proud to support and work with HUD on the Officer Next Door Program. In the 106th Congress, the FOP also supported the inclusion of public safety officer home ownership assistance language in the "American Home Ownership and Economic Opportunity Act of 2000." And last year, we joined Representative LaFalce and Leach for the introduction of H.R. 674, the "H.O.U.S.E. Act."

As we begin this new millennium, it is more important than ever to find innovative ways to improve the ties between America's law enforcement officers and the communities they serve. Like most Americans, police officers and other public safety employees work hard to realize the dream of owning their own home. But, because these men and women often sacrifice higher-paying jobs in the private sector to serve our communities, it is often difficult to make this dream a reality. And while the high cost of living in many areas does affect officer morale, it also has a noticeable impact on the ability of local governments to recruit and retain public safety personnel and on the ability of the individual officer to make a difference in his or her community. Most officers who have chosen to make a career of law enforcement also become involved in the life of the neighborhoods they serve.

The three programs contained in H.R. 3995 are designed to facilitate these goals and activities, and all represent a tremendous tool for local communities to recruit and retain public safety personnel. The first initiative provides for the establishment of reduced downpayment requirements through the National Housing Act for mortgage loans to law enforcement officers and other public safety personnel to purchase homes within the jurisdiction that employs them. This provision will serve to encourage officers to continue to work in their local communities.

The second initiative, entitled, the Community Partners Next Door Program, provides discount and downpayment assistance for teachers and public safety officers. Like HUD's Officer Next Door Program, this provision authorizes a 50 percent discount for those law enforcement officers purchasing certain homes designated as eligible assets, and who agree to use the home as their primary residence for at least 3 years. Section 223 further authorizes the sale of these properties to units of local government and non-profit associations who can then resell or transfer that property directly to the officer, again, improving their ability to recruit and retain these vital public servants.

The third and final program under this legislation authorizes a 3-year pilot program to assist Federal, State and local public safety officers purchase homes in locally designated high crime areas. Like Section 223, this provision requires officers to agree to use the home as their primary residence for at least 3 years. Eligible law enforcement personnel would then qualify to purchase a home in one of these communities with no downpayment required. Like the other two initiatives, this will not only help law enforcement officers achieve home ownership, but by purchasing homes in troubled neighborhoods, it will also assist communities to begin the process of reclaiming distressed areas from the effects of crime.

In light of the positive impact this legislation will have in cities across the Nation, I would also like to point out a provision which the FOP believes should be amended during the future markup of H.R. 3995. Under the definition of "public safety officer" found in Section 222, the term is defined as specifically excluding Federal law enforcement officers from participation. Although these officers would qualify for home ownership assistance to purchase property located in high crime areas, they would be ineligible for the other two programs. The current Officer Next Door initiative operated by HUD allows Federal, State and local enforcement officers to participate. Therefore, we request that the definition in Section 222 be amended to ensure that nothing will affect the participation of Federal law enforcement officers in any program authorized by this legislation.

All three of these programs contained in the "Housing Affordability for America Act" are designed to strengthen local communities and assist public safety officers and their families achieve the dream of home ownership. This legislation builds on the success of the Officer Next Door Program and will enhance our ability to protect our neighborhoods from crime and violence.

On behalf of the membership of the Fraternal Order of Police, let me thank you again, Madam Chairwoman, for affording us the opportunity to testify before the subcommittee. I would be pleased to answer any questions you may have at this time.

[The prepared statement of Louis P. Cannon can be found on page 515 in the appendix.]

Chairwoman ROUKEMA. Thank you very much. I must tell you that I am very glad that my staff was intelligent enough to put Mr. Edward Shapoff here on the panel, because he opened up a component of this discussion that I was not at all aware of. And I am not going to ask you a specific question at this point in time, but I am not quite sure why FHA insurance is needed under those circumstances. But I will go through your testimony, but I do appreciate the fact that they have recognized and you have recognized that there would be a problem here if we weren't to make that connection and understand its relationship, Section 232 and Section 242. All right. So I appreciate your being here today. But that was new information for me, I must tell you.

What I am concerned about, and one of the previous panelists, Mr. Bernardi, made the point that there were unintended consequences that some of this legislation was going to add to increase in rents. Now, three of our Members here deal with rental production and home building and so forth. Can you address that? Do you think that this is a potential problem, that it is really going to increase the rents? And at the same time, the contingent question that I have, and that others have said, there really isn't enough incentive here for new housing production. How would you address those two components of the issue? Who would like to be first? Mr. Kelly? Who wants to be first? And keep your responses short, because I would like to hear from all three if they each have a comment to make. Yes?

Mr. KELLY. Madam Chairwoman, I am not sure what the previous speaker was alluding to in terms of the issue of the unintended consequences of increasing rents. I mean our position is that the production and the supply of housing will have the reverse effect, be it in the arena of home ownership or rental housing, and that is why we strongly advocate some of the positions taken here in Title II of the legislation.

Chairwoman ROUKEMA. Will that provide enough housing production to meet those needs?

Mr. KELLY. I am not sure that——

Chairwoman ROUKEMA. Because they are related. I mean they are definitely related. Go ahead.

Mr. KELLY. Yes. It is certainly a very positive step forward. On the multifamily side, I think the most significant step taken in the last decade was the increase in the FHA mortgage insurance limits. That program was encountering problems across the country. We view the availability of rental housing as the first step on the ladder to home ownership, and increasing the supply is critical.

In addition, where many, many significant shortages occur in major metropolitan areas where the cost is so high to develop housing, we think that giving the Secretary the discretion, first of all, to raise the limits first and, second, to give the Secretary discretion to approve projects up to 170 percent of those mortgage limits is critical to ensure that there is supply in those communities.

Chairwoman ROUKEMA. Mr. Courson, what is your perspective as a mortgage banker? What is your perspective on this?

Mr. COURSON. Well, and I certainly agree with the gentleman. The key is, and obviously being from close to the San Francisco area, as we see in Boston and certainly in areas in New Jersey and the east, the new FHA loan limits are helpful, but not in those marketplaces. We still can't produce enough housing.

There are two components here. One is there is the affordability issue, and the affordability index we have all talked about, and the other is the lack of supply. And until you solve both of those, particularly the supply is going to help the affordability issue, we have got to have the affordability and we have got to get the program into those high-cost areas.

Chairwoman ROUKEMA. But, you don't have any specific as to how we could improve this bill to deal with that question.

Mr. COURSON. Well, we actually—I know you had a hearing and we did testify on a production program about 2 weeks ago, I believe.

Chairwoman ROUKEMA. Yes, it was.

Mr. COURSON. And, frankly—and at that time what we said was we think that there needs to be a mixed use program. Certainly, there are programs, and there need to be programs to address those renters and those people who are below the 60 percent of median. But there also needs to be production program there to talk to those folks and provide housing for those who are the 60 to 100 percent of median, and our production program recommendation, as we testified to in the previous hearing, was that there needs to be a mixed use. We have examples of successful mixed use projects, and we would advocate that.

Chairwoman ROUKEMA. I am glad you referenced that to me, because that was helpful in that first hearing that we had. Mr. Edwards, do you want to add anything?

Mr. EDWARDS. I don't think I can add anything to what the gentlemen on my right and left said, other than the fact that it is a crucial issue. When you think that there are 7.5 million renters in this country that have a critical housing need and that 7.5 million people pay up to 50 percent of their income toward their housing costs. Not included in your bill, but you are going to have to someday face the issue that you are going to have to renovate and retain existing housing, whether it be rental or home ownership in existing infrastructures. We keep continuing to go out and build new, new, new. America's cities are going to have to retain the existing infrastructure and we are going to have to come up with some solution to retain existing housing where people work, where people live, where people want to go to school and church, and that is the issue that you are really—that is one of the issues you are really talking about. Thank you.

Chairwoman ROUKEMA. Thank you. One that we may not be able to deal with completely, but it is important for us to recognize that as a component of this discussion. Mr. Frank?

Mr. FRANK. This has been very useful, because I think we want to be very clear. Affordability at the low end requires money, and I think this country can afford it. That is a value question. I think one of the things we have learned is prosperity is a very good thing, but it is not equal in its effects on everybody. And in areas, Mr. Courson alluded to that, in the San Francisco Bay area, in the Boston area, New York Metropolitan area, increasingly in some other areas, for many people prosperity was bad news. Law enforcement officers, their incomes have not gone up proportionately with economy so that as the economy, as a whole, prospers and as land values go up in particular areas, people who are not benefiting, they are not only not benefiting they are worse off. The rising tide has swamped their boat, it hasn't lifted it, and the question is do we have the social responsibility in this society to take some small part of that wealth that is created and help out?

But the fact is that is no reason not to go forward with the FHA. And the issues of affordability and supply are obviously linked. Yes, for some people there is going to need to be subsidy, but we are also talking about a spectrum. We are talking about a housing market, and supply and demand do function, and at whatever level of income people have, if there is a short supply, we are going to have higher prices. I mean that is one of the most important reasons for a production program, frankly, is in the absence of a production program a very well-intentioned program that does some good from the equity standpoint probably overall exacerbates things in other ways. That is the voucher program. Because if all you have is a voucher program in some areas, you have got a program that adds to the demand for housing in a way that is guaranteed not to increase the supply. Because if you have got annual vouchers, no one can build housing based on a year-by-year voucher. No one would lend to them. No one is going to commit to them. So what you are doing with the vouchers is you are increasing the demand, but in a way that does not increase the supply and the price goes up.

Now that has got an equity justification. So it does seem to me we then have a responsibility to couple it with a production program. And the FHA is one production program. FHA is a production program for moderate-income and even upper-income people. And am I correct there are some of you who study this more closely than we do, that, in fact, the more you raise the FHA limits, the more money the FHA Fund makes. Isn't that correct, Mr. Courson?

Mr. COURSON. Yes, that would be correct.

Mr. FRANK. Yes. I mean sometimes you have these difficult decisions, but the FHA is priced to make a little bit of a profit, more of a profit than it ought to, in fact. And we have had the testimony, once again, that the FHA Fund is significantly in surplus. It is in surplus beyond what is needed for an economic disaster. And as we have raised the limit on the FHA, what we get is more money. So unlike other situations where you have to choose, raising the FHA limits is very reasonable.

So let me ask, to follow up Ms. Roukema's question, should we, in the judgment of particularly the first three of you, raise the FHA limits not just incrementally, but fully to the point where they could be operational, the FHA, in the highest cost housing markets? Let me put it to you this way: Knowing what you know about public policy, can you think of any negative, any downside, to raising the FHA limits so they are fully operational in San Francisco and Boston and Manhattan? Let us start with you, Mr. Courson.

Mr. COURSON. Well, Congressman, if in fact, and I think the bill is going to address, if we go to 140 percent, which is from the 110——

Mr. FRANK. That is not what I asked. What about going above—why 140 percent?

Mr. COURSON. The question really becomes on the production—for our production program, for example, there was a utilization of dollars that we are talking about in this mixed use project that would be an interest rate subsidy. We use an example in there. So the question becomes then what is the authorizers, the Congress and public policy is how high do you want to authorize that subsidy right now?

Mr. FRANK. But I am asking you can you see any negative from any important value that we ought to be concerned about if we got to the level that make it usable in Boston, San Francisco and in Manhattan?

Mr. COURSON. No. As a matter of fact, we recommend really the Secretary has the right to raise those limits to the same as right now they are in Alaska and Hawaii for the single family. So we don't see any negative to that.

Mr. FRANK. And that would then accommodate the rest of the country if you got to Alaska and Hawaii?

Mr. COURSON. As far as I am aware.

Mr. FRANK. All right. Mr. Edwards.

Mr. EDWARDS. I agree.

Mr. FRANK. Mr. Kelly.

Mr. KELLY. I agree.

Mr. FRANK. Well, I think we ought to—that means that if we just pass the bill, the bill is an improvement, but it is not enough of an improvement, and we shouldn't be—we have allowed people—let me put it this way: We have allowed the general sort of rules that apply to restrain us. In general, the higher you go in eligibility, the more it costs the Government. But the FHA is different. The higher you go in eligibility, the more you help housing get built less expensively than it might otherwise and the Government makes money. So what I am saying is that the bill doesn't go high enough. And you heard what the GAO said, you listened to his testimony, we ought to go up even further. And so I am all for that.

One other question now to the inspector. I am all in favor of this, and I voted for it before on the floor, on the question of certain people who have decided to dedicate themselves to public service. I would point out we have a particular problem, because in some cities we have residency requirements, and then the police officers and the fire fighters and the teachers are caught in a bind. They are legally required to live in a city where they can't afford on the salary they are getting paid to buy a house. The one concern I have is, I think it is mentioned somewhere, that there be a 3-year minimum. That seems kind of little to me. If we had a 7-year minimum, would that be a problem? Or maybe you could have less of a minimum if people have emergency situations, but then there ought to be some sort of a recapture. I mean the notion of getting a very significant subsidy, but only living there for 3 years seems to me insufficient. Do you think that would be a problem if we tried to raise it?

Mr. CANNON. I think that you might want to go halfway and do about a 5-year mimimum. To be honest with you, if you look at your national averages, most people, after 5 years, start to look at turning over their home and moving up. So I would say 5 years would probably be more——

Mr. FRANK. I think that is a reasonable point. All right. Thank you. My time is expired. I thank the witnesses, because I agree with them.

Chairwoman ROUKEMA. I thank Mr. Frank. You agree with them. I agree with them in principle as well, but I am not quite sure about the particulars. But I think we see here, both on this panel, the previous panel and certainly with Mr. Frank and I and the questions that have been asked that we have a lot of common understandings and mutual goals here. But we have made it sound a little too simple, I think, right at this point in time to deal with it and how we can correct it. But with the sincerity of purpose that I think we all have, I think we can work with you and with HUD and other consumer groups and housing groups to get a good bill out and really improve not only the production, but the availability of home ownership and we will deal with it and hopefully it will be a great accomplishment in this Congress. Mr. Frank, you want to conclude?

Mr. FRANK. Well, only just again to say—and it is not really a quip, but it is important—it is not home ownership, it is home, because we do want to—rental housing is every bit as important as home ownership.

Chairwoman ROUKEMA. Well, that too.

Mr. FRANK. And we are talking about people having homes that are decent and affordable.

Chairwoman ROUKEMA. That is, of course, also true. But I think it is a combination of things here, and if we can get that question of home ownership more properly addressed and appropriately addressed, maybe we have been putting in our own impediments against it, I don't know.

Mr. FRANK. Well, again——

Chairwoman ROUKEMA. I don't know.

Mr. FRANK. I would object. We will lose the consensus if we try to kind of put home ownership ahead of a home, because there are different segments of the population and different needs, and I think, in fact, when we talk about multifamily housing, I think we are talking about residences that people live in. Some will want to own, and if people can own, fine. But I am afraid that we will stint people at the lower end if we focus it only on home ownership.

Chairwoman ROUKEMA. all right. We shall deal with this, and I appreciate the panel here because it has been very constructive. And I know that one way or another Mr. Frank and I are going to come to agreement. You just stand by and watch. Thank you very much.

[Whereupon, at 5:17 p.m., the hearing was adjourned.]

A P P E N D I X

April 10, 2002

Opening Statement of the Honorable Marge Roukema
Chair
Subcommittee on Housing and Community Opportunity

"HR 3995, the Housing Affordability for America Act of 2002"

Wednesday, April 10, 2002

Today the Subcommittee on Housing and Community Opportunity will begin a series of hearings on H.R. 3995, the Housing Affordability for America Act of 2002. HR 3995 introduced on March 20 is designed to increase the availability of affordable housing and expand homeownership and rental opportunities across the country.

This country is facing a growing housing affordability problem for low and moderate-income families. Last year, the Housing Subcommittee held a series of hearings to explore housing affordability and availability. The Subcommittee heard from community activists, housing experts, local and federal government officials, and representatives from the home building, real estate and mortgage industries on the obstacles to home ownership and affordable rental housing across the country.

Housing is the number-one consumer product in America. While the homeownership rate in this country is an impressive 68 percent, there are still some that are unable to share in that dream. The Housing Affordability for America Act includes provisions to expand home ownership and affordable rental opportunities. H.R. 3995 makes mid-course corrections of housing programs that are underused, duplicative or have been hindered by muddled objectives. This legislation provides increased flexibility for local governments and programs so that they can better meet the needs of their individual communities.

First, the bill includes a housing production and preservation program within HOME targeted toward very low and extremely low income families. In addition, it provides flexibility and increased leverage opportunities for local governments and local decision-makers so they can better meet the needs of their individual communities.

The FHA program was originally designed to encourage lenders to make credit more readily available and at lower rates for various purposes that might otherwise go unmet. H.R. 3995 includes provisions designed to strengthen the FHA program and provide additional tools to encourage homeownership opportunities and to increase the supply of affordable rental housing for all Americans.

Needless regulation adds to the cost of housing. The cost of homeownership can be lowered by reducing the cost of regulation. H.R. 3995 requires Federal agencies to do a housing impact analysis of any new rule that has an economic impact of $100,000,000 or more. H.R. 3191, the Home Ownership Opportunities for Public Safety Officers and Teachers has also been incorporated into this legislation.

Finally, H.R. 3995 reauthorizes HOPE VI, HOPWA, the Homeless Housing Programs, and the Native American Housing Act.

Today's hearing will focus specifically on the HOME program, housing production, the National Housing Trust Fund as proposed in H.R. 2349, and the thrifty production voucher as proposed in HR 3995.

New production of affordable single and multifamily housing is essential to the goal of expanding home ownership and affordable rental opportunities. H.R. 3995 creates a separate production program within HOME targeted toward very low and extremely low incomes. HOME is the largest Federal block grant to State and local governments designed exclusively to create affordable housing for low-income households. H.R. 3995 amends the HOME program to establish a housing production program to increase the production and preservation of mixed income rental housing affordable to very low (50 percent of median income) and extremely low income families (30 percent and below of area median income). Funds will be compatible for use in combination with other housing programs including the Low Income Housing Tax Credit, the HOME program and the CDBG program. Eligible activities include new construction, substantial rehabilitation, and preservation of existing affordable housing.

Other housing production proposals exist such as H.R. 2349, the National Affordable Housing Trust Fund Act. This would establish a National Affordable Housing Trust Fund for the development, rehabilitation and preservation of affordable housing. This trust fund would be financed with revenues from Federal Housing Administration's (FHA) Mutual Mortgage Insurance Fund (MMIF) and GNMA (Government National Mortgage Association). Proponents of H.R. 2349 contend that the Trust's revenue, in part, would come from a surplus of funds held by the Federal government as a result of premiums paid by FHA-insured borrowers. States and non-profits would be permitted to draw from this trust fund to build affordable housing rental units in mixed-income locations, to construct affordable homes for low to middle income citizens, and provide rental subsidies to low-income individuals.

H.R. 3995 includes a provision that establishes a thrifty production voucher. This thrifty voucher could be used in conjunction with new construction or substantial rehabilitation. Reaching even some extremely low-income tenants is an important housing production challenge. Extremely low-income households are those households with incomes below 30 percent of the median income. These families generally cannot afford to pay enough rent to cover a property's operating expenses. The thrifty voucher included in H.R. 3995 is a different type of voucher because it is based on the property's operating costs, instead of the Fair Market Rent (FMR) used for regular vouchers.

Thrifty production vouchers could be combined with any capital subsidy program, such as the Low Income Housing Tax Credits, HOME, CDBG or the proposed housing production program included in H.R. 3995. The thrifty voucher program would be limited to 25 percent of units in a property (with the exceptions for properties serving elderly and disabled residents and supportive housing for families and other singles).

Since operating costs are generally substantially below the Fair Market Rent (FMR), a thrifty production voucher would cost less than a regular voucher. For example, if the FMR is \$700 monthly and a tenant contributes \$150, a voucher costs \$550. If the operating cost for the same property were \$450, then a Thrifty Production Voucher would cost \$300, or 45 percent less than a voucher.

Decent affordable housing is essential to the stability of both families and individuals. I want to thank all the witnesses for being here today. We look forward to hearing from each of you this morning and I will now turn to the Ranking Minority Members, Congressman Frank.

Prepared, Not Delivered
Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Housing and Community Opportunity
H.R. 3995, the Housing Affordability for America Act of 2002

Wednesday, April 10, 2002

Thank You Madame Chairwoman.

Today marks the first of three hearings this Committee will hold on H.R. 3995—the "Housing Affordability for America Act of 2002."

I am reminded of many of our experiences where once we graduated from college, we either moved back to our hometown, or explored new communities. In either case, there was always the understanding that with our new jobs, we would find our first apartment and begin the life of adulthood. Today's young families, whether working or professional, do not have those same housing expectations.

It is these types of housing expectations or disappointments that we learned about in last year's series of housing affordability hearings. In some pockets of our country, a housing problem persists where working families are unable to afford rent. In other cases, there are simply not enough available units.

In Monday's Washington Post there was an article entitled "In Maryland, Families Go from Welfare to Work without a Place to Live." I was moved by the story of Crystal Green who is disabled and working hard to support herself and her two children at Sarah's House near Fort Meade. What was most striking was the program director's closing statement that Ms. Green and others are "worried about getting housing at all and worried about the troubled public housing they are likely to get. They are worried about making their lives work outside..."

If we are to continue our mission of strengthening and building safe communities, home ownership, along with better schools and public safety, is the primary ingredient. H.R. 3995 is great foundation for rebuilding some of our communities.

I want to commend Chairwoman Roukema and Vice-Chairman Green on introducing comprehensive legislation that addresses these issues.

Oxley, page two
April 10, 2002

Today's hearing will focus on the proposal to amend HOME to include a housing production program that would add units either by new construction or significant rehabilitation. In either case, the proposal targets very-low and extremely-low income families who are oftentimes the citizens whose annual incomes are too low to benefit by existing programs such as the Low Income Housing Tax Credit program, or HOME as it currently exists. This is a first step in providing a public-private partnership to achieve mixed-income housing and local government involvement.

I also applaud the Subcommittee for hearing testimony from my colleague Mr. Bernard Sanders who has introduced H.R. 2349, proposing to establish a National Housing Trust Fund. As I understand, both proposals attempt to address questions of affordability, particularly at very low levels of income.

Housing is the number one consumer issue. Our economists suggest that the housing market last year cushioned the recession and provided for a quick rebound. As the country continues its recovery, the housing market can provide a key impetus. This legislation will aid that effort.

I want to thank Chairwoman Roukema, Vice Chairman Green and Ranking Member Frank for their great working relationship and the ability to tackle bipartisan issues related to housing. I look forward to working with the Subcommittee to improve H.R. 3995 and move the bill as quickly as possible.

Finally, I want to welcome Mr. Bill Faith of Columbus, Ohio who is here to testify on behalf of the National Low Income Housing Coalition. I'm sure I speak for all the Committee Members but in particular Messrs. Tiberi, Ney, Gillmor, LaTourette and Mrs. Tubbs-Jones, all of the Ohio delegation that sit on the full panel of the Financial Services Committee, to say we are proud of your accomplishments and look forward to working with you on H.R. 3995.

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Congressman Felix J. Grucci, Jr.
Financial Services Committee
Subcommittee on Housing and Community Opportunity
Hearing on HR 3995
April 10, 2002

Thank you Madame Chairwoman.

I would like to thank you for holding this hearing today. The Housing Affordability for America Act, which you introduced, is a great step towards providing more affordable housing to low and very low income Americans.

Among other things, this legislation accomplishes two very important goals. First, it makes needed corrections and changes to current housing programs that are either underused, in need of simplification or duplicative. Secondly, HR 3995 empowers local governments to control housing programs and initiatives, mainly by providing local governments with the flexibility they need to properly adapt housing programs to their communities.

With a greater need for affordable housing nation-wide, it is important to ensure that current housing programs are being used as efficiently as possible. To do this, we must ensure that local governments have the ability to administer these programs effectively. Providing flexibility will allow local governments to utilize housing programs in a way that best fits their community.

Prior to coming to Congress, I was a town supervisor on Long Island. In an area where affordable housing is extremely important, I know first-hand that barriers currently exist that prevent many families from either owning their own home or finding affordable rental opportunities. Local governments must also have the flexibility to make housing programs better serve their communities.

As an original cosponsor of this legislation, I believe that we are taking a great step towards providing the affordable housing America needs. Communities across the country rely on affordable housing, but are often hamstrung by the lack of flexibility of some of the programs. HR 3995 will not only better the system and the programs that support it, it will also provide more access to affordable housing to those that really need it.

As members of this committee, we must find ways to increase homeownership to all families and also provide affordable rental opportunities. I believe that this piece of legislation makes great strides in accomplishing both of these goals.

I would like to welcome the witnesses and look forward to working together in order to find reasonable solutions to the affordable housing problems Americans face today. I look forward to your testimony.

Thank you.

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April 10, 2002
Opening Statement
Subcommittee on Housing
Committee on Financial Services
HR 3995, *the Housing Affordability for America Act of 2002*

Madame Chair, thank you for calling this hearing, for your work on this legislation and for your leadership on housing issues. I look forward to working with you for the rest of this session in getting a housing bill passed that will stimulate housing production in my Suffolk County community and across the country.

I represent Long Island, and there is a perception that everyone there is wealthy and that they live in mansions. Let me share with you the reality of our situation, how much of a crisis affordable housing is for too many Long Island families.

According to a Hofstra University study in 1998, the Latino population living in Long Island had a homeownership rate of 41% compared to Latinos nationwide at 46%. We must increase Latino homeownership, not only in Long Island, but across the country.

The national average for homeownership of African-Americans is 47%, compared to 67.7% of Caucasians. We must increase African-American homeownership, not only in Long Island, but across the country.

Newsday, my local newspaper, has reported a number of times about the lack of affordable on Long Island. The fair-market rent for a two-bedroom unit in New York State is $834. In New York City, the fair-market rent for a two-bedroom unit if $949. On Long Island, that SAME two-bedroom apartment's fair-market rent is $1,173. This is outrageous.

And, according to a study by the Long Island Housing Partnership and the Long Island Association, 24.3% of Suffolk County renters and 13.9% of homeowners are spending more than 50% of their incomes for housing, including taxes. 50%!

Monthly housing payments consume more than 30 percent of the incomes of roughly 235,000 Long Island homeowners and 78,000 Long Island renters - roughly one-third of all housing units on the Island.

As a result, Suffolk County housing prices increased by 16% in 2000. Closings in Suffolk County have dropped and average sale prices of homes in Suffolk County is an exorbitant $222,850.

I ask that the Newsday article of November 29, 2001 be inserted into the record.

With numbers like this, it is hard for any young family to be able to afford a home. That means they lose out on all of the benefits. And not just the benefits of long-term investment or the intangibles, but real monetary benefits.

A young family that would like to buy a home but can't faces significantly higher tax bills. In high cost areas like mine, young people are essentially priced out of the market. That means they will pay more in taxes this April 15^{th}. The high price of housing is a marriage tax Madame Chair.

We need to get more housing onto the market. We need more supply. Affordable housing is among the greatest economic development challenges in Long Island, and I imagine, in the districts of every Member here.

I have co-sponsored Mr. Sanders' housing trust fund bill because I appreciate the approach he has taken. Mr. Sanders' bill would use the projected $26 billion FHA profit to create a national housing trust fund with a permanent revenue stream.

Indeed, I have first-hand experience with this concept. As a Huntington Town Councilman, I sponsored and passed a local Affordable Housing Trust Fund. I also sponsored and passed an innovative local zoning regulation that requires developers who receive density bonuses to contribute some of the enhanced profit to the trust fund to provide seniors and working families with expanded affordable housing stock.

Madame Chair, I have other concerns besides production. The Section 8 program needs to be strengthened, especially to reflect the fact that high cost areas like mine face severe problems in utilization. Public housing needs improvement. And we must end homelessness.

But I believe that a real housing production policy, based on a trust fund, will address all of these issues by bringing more supply onto the market.

Again, thank you for holding this hearing and I look forward to working with you throughout this process.

Newsday.com

The Myth Of Affordability

Study finds some on the Island still struggle with housing costs

By Jamie Herzlich, STAFF WRITER, November 29, 2001

Darcel Curtis is about to close on a subsidized home at South Wind Village in Bay Shore.

She's been saving for a long time to be able to afford her own home, and two years ago moved with her son from a two-bedroom apartment in Central Islip to a one-bedroom apartment in Bay Shore in order to help save for the downpayment.

"I've been waiting for three years to get the home, and as I've been waiting the rent and security costs have increased," said Curtis, a payroll clerk. She has been working with the Long Island Housing Partnership, which developed South Wind with the Town of Islip, and will be able to purchase the three-bedroom home for $83,375, thanks to a federal and state subsidy.

Curtis will have to spend about 30 percent of her monthly income on housing costs, compared with 36 percent of her income for her current apartment. Monthly housing costs above 30 percent of income level are considered "unaffordable" by federal guidelines, but it is not an uncommon scenario for many Long Islanders.

Monthly housing payments consume more than 30 percent of the incomes of roughly 235,000 Long Island homeowners and 78,000 renters - roughly one-third of all local housing units - a new study done for the Long Island Housing Partnership has found.

The study was presented to the partnership board yesterday by Pearl Kamer, chief economist of the Long Island Association, the region's largest business group, who conducted the study as a consultant to the partnership.

This is the first part of ongoing research intended to determine how many affordable units the Island needs.

"We know there is an affordable housing crunch on Long Island," Kamer said. "We are trying to determine the dimensions of that crunch."

The initial research has found that a sizable percentage of Long Islanders are, in fact, spending half their incomes on housing.

In Nassau County, 20.4 percent of all renters and 16 percent of homeowners spent 50 percent of their incomes or more for monthly rent or mortgage payments.

In Suffolk, 24.3 percent of renters and 13.9 percent of homeowners spent 50 percent or more of their incomes on monthly housing costs.

The completed report, which is expected to be available by the second half of next year, will compare Long Island with other regions and the nation, as well as develop housing-cost data for each community.

"This will help all of us involved in the affordable housing community quantify the need," said Jim Morgo, president of the Long Island Housing Partnership, which has more than 150 names on waiting lists for about 90 housing units planned for next year.

Joseph Mottola, chief executive of the Long Island Board of Realtors, said these numbers will help demonstrate to municipalities the need for affordable housing.

"The long-term economic health of Long Island is dependent upon people who work here having a place to live," he said.

Added LIA President Matthew Crosson: "Affordability of housing is probably Long Island's number-one economic development challenge."

STATEMENT OF THE HONORABLE NICK J. RAHALL, II
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING
Hearing to review the current status of Empowerment Zones and Renewal Communities
Wednesday, April 10, 2002
2:00 p.m., 2128 Rayburn

Thank you, Chairman Roukema, Ranking Member Frank, and Members of the Subcommittee for allowing me to join you today to introduce my constituent, Cathy Burns, the Executive Director of the Huntington – Ironton Empowerment Zone, helping people in West Virginia and Ohio. Our colleague Ted Strickland and I can account for you the tremendous benefits the Empowerment Zone has given our constituents.

Cathy Burns is a native of West Virginia and graduated from Marshall University of Huntington, West Virginia. She worked for the Mayor of Huntington as a grant writer, and then moved to the Department of Development and Planning. Under her leadership, the Department earned national recognition as a top-performing Enterprise Community and a model of excellent community and economic development.

Ms. Burns played a key role in getting the Huntington – Ironton area designated as a Round II Empowerment Zone, and in September of 1999, she was hired as its Executive Director.

Through Cathy Burn's diligent work, and the diligent work of her staff, the Huntington - Ironton Empowerment Zone has created 620 jobs in Huntington, renovated buildings, developed sites for future industrial use, created new housing and child care facilities and created school-based training and services.

In addition, the Huntington – Ironton Empowerment Zone has created another 715 jobs in the surrounding region.

As you know, the fiscal year 2003 budget includes no new funding for empowerment zones. I joined other Members of the Empowerment Communities Caucus in urging President Bush and the appropriators to fund empowerment zone at least at the fiscal year 2002 levels.

I received a letter back from Mitch Daniels, Director of the OMB, saying the Administration did not request additional funds because "Most EZs have been slow to spend their grants." Daniels also said "The Administration believes that tax benefits are the driving force behind these programs and that additional grants will not increase their effectiveness."

Chairman Roukema, and Ranking Member Frank, I thank you for giving me a platform to rebut these charges. First, EZs are not slow to spend their grants. They draw down the funds as necessary. Under the able hand of Cathy Burns, the Huntington-Ironton Empowerment Zone has committed 100% of its funds, but has actually drawn down 43% of the funds, to pay for projects as they progress, while leveraging over $120 million in the process.

Just because the money hasn't been spent doesn't mean the money hasn't been put to work.

Second, tax benefits are not the only driving force behind empowerment zones. I have heard statements from the directors of many empowerment zones discuss their projects, and they each say the tax credits are just one tool in a package – empowerment zones need cash to work with the tax credits.

Finally, at a time when we all are working to overcome the recession and stimulate the economy, it is a mistake for the Administration to zero out funding for the Empowerment Zone (EZ) program in the fiscal year 2003 budget proposal.

It is wrong for the Administration, and the budget resolution that just passed in the House, to attempt to balance the budget by kicking Empowerment Zones. Cathy Burns and her colleagues at all empowerment zones are working diligently and creatively to expand their economies and improve the quality of life for all their residents. And it is particularly unfair to cut them off in mid-stream. Many of these communities' development plans are built around the expectation of ten years' funding.

In order to solve the funding problem, I am pleased to co-sponsor Mr. LoBiondo's bill, HR 2637, the "Round Two Empowerment Zone\Enterprise Community Flexibility Act of 2001" to ensure full funding for empowerment zones and rural enterprise communities across the nation through 2009.

What the Special Forces are to the war against terrorism, Empowerment Zones are to our economic security. No one can dispute the real results we have seen in West Virginia, that Cathy Burns will describe. The parts of West Virginia and Ohio that the Huntington – Ironton Empowerment Zone covers are in Appalachia. For those people who need a job, a decent home, or basic life skills, this unique program can be a ticket to success.

I want to thank you again for holding this hearing, and I know you will be impressed with the achievements Cathy Burns will describe to you.

STATEMENT REGARDING THE NEED FOR ADDITIONAL RESOURCES

More than 15 million families in this country have critical housing needs. Some live in unsafe and substandard housing, others pay too much of their income as rent or a mortgage, still others are living in overcrowded conditions. Too many are homeless. Overall, this represents about one in every seven households who do not have a decent, affordable place to call home.

We believe that to correct this problem, a significant and sustained commitment to increase funds for housing in both urban and rural areas should be made at the national level. A reasonable downpayment on that commitment would be an increase of $15 billion in the coming fiscal year's federal budget for housing and community development. This could include both tax expenditures and outlays benefitting low and moderate income families which can leverage state, local and private funds beyond the $15 billion.

These funds would provide significant benefits to the national economy at a time when it needs it most. A $15 billion expenditure in the first year alone could provide for the production of 85,000 new housing units and the preservation of 225,000 more homes through rehabilitation. Over half a million new families, including many elderly, will receive housing assistance and a quarter of a million additional jobs will be created.

Safe, stable housing for America's families is essential to achieve our national goals. Now is the time to act.

National Housing Conference
Mortgage Bankers Association of America
American Association of Homes and Services for the Aging
Public Housing Authorities Directors Association
National Affordable Housing Management Association
National Alliance to End Homelessness
Council of Large Public Housing Authorities
Citizens Housing and Planning Association (Boston, MA)
Housing Assistance Council
National Leased Housing Association
National Low Income Housing Coalition
Council for Affordable and Rural Housing
McAuley Institute

Consortium for Citizens with Disabilities Housing Task Force
National Community Development Association
Local Initiatives Support Corporation
U.S. Conference of Mayors
Enterprise Foundation
National Rural Housing Coalition
Corporation for Supportive Housing
National Fair Housing Alliance
Alliance For Retired Americans
National Association of Counties
National Association for County Community and Economic Development
National Association of Local Housing Finance Agencies
Network, A National Catholic Social Justice Lobby
National Community Reinvestment Coalition
National Council of State Housing Agencies
Center for Community Change
National Housing Trust
Council of State Community Development Agencies
National Multi-Housing Council
National Apartment Association
National Association of Affordable Housing Lenders

April 15, 2002 (1:33PM)

$15billion signed statement.wpd

Statement of

The Honorable Javier Gonzales

Commissioner

Santa Fe County, New Mexico

and

President, National Association of Counties

Before the
Subcommittee on Housing & Community Opportunity
U.S. House of Representatives

On behalf of

National Association of Counties
National Association for County Community & Economic Development
National Association of Local Housing Finance Agencies
National Community Development Association
U.S. Conference of Mayors

On H.R. 3995, The Housing Affordability for America Act of 2002

April 10, 2002

Madam Chair and Members of the Subcommittee:

My name is Javier Gonzales, and I am a County Commissioner from Santa Fe County, New Mexico. I currently serve as the President of the National Association of Counties. I am appearing before you today on behalf of the National Association of Counties, the National Association for County Community & Economic Development, the National Association of Local Housing Finance Agencies, the National Community Development Association, and the U.S. Conference of Mayors. We applaud the subcommittee's leadership on the important issue of affordable housing, and thank you for inviting us to speak today on H.R. 3995—the Housing Affordability for America Act of 2002.

The groups that I represent here today would like to congratulate you, Madam Chair, on the introduction of H.R. 3995. We believe that this bill will help our members in better addressing their affordable housing needs and strengthen our communities. We applaud the creation of a new affordable housing production and preservation element within the existing HOME Investment Partnerships (HOME) Program, the refinements that you have made to existing HUD programs within this bill, and the new tools that you have created through this bill. More importantly, we appreciate the advocacy and leadership that you have provided over the years on the issue of affordable housing.

Today I'd like to address 4 key themes: the need for more affordable housing, elements of a housing production program, HOME program refinements, and our support of homeless assistance programs.

The Need for More Affordable Housing

It is undisputed that communities are in need of more housing that is affordable for lower-income families and individuals. Research presented in 2001 by the U.S. Department of Housing & Urban Development indicates that nearly 5 million renter households still have worst-case housing needs. "Worst-case housing needs" is defined as those families or individuals who pay more than half of their income for housing, or live in severely substandard housing. Many of these are families with children, the elderly, or the disabled.

In addition, HUD data shows that the number of housing units available to those with worst-case housing needs continues to diminish. This trend has continued for the last 12 years. Moreover, the lack of availability of housing that is affordable increases the overall demand for it. As a result, above average rent increases may occur at the lower end of rental housing stock, further reducing the supply of affordable housing. Further, the report concludes that the private market is not producing enough affordable housing to meet demand.

It is clear that additional housing that is both affordable and available to low- income households must be produced. The federal government plays a key role in assisting local governments in addressing affordable housing challenges. Our collective organizations are strong advocates for increasing the stock of affordable housing because it contributes to the stability and viability of our communities. For these reasons, we support H.R. 3995. It is an important piece of legislation because it provides additional resources to local governments to create affordable housing.

Housing Production

Our organizations strongly support Section 101 of Title I of H.R. 3995 that creates a program for the production and preservation of rental housing within the HOME Investment Partnerships Program (HOME). We are long supporters of the HOME program since its inception in 1990, as are you Madam Chair. The HOME program is already targeted toward creating housing for low- and very-low income families, flexible in allowing local jurisdictions to address their particular housing needs, and has a demonstrated track record of success. Creating a funding stream for the production and preservation of housing within HOME makes sense and mirrors a proposal developed jointly by our organizations.

In the past couple of years, there have been a number of bills introduced in Congress to increase housing production, primarily targeted to households at or below 30 percent of an area median income. These proposals have mainly focused on creating a National Housing Trust Fund, a new and separate program from existing HUD programs that targeted all of the resources directly to States. In an effort to avoid a situation where such a program would compete with HOME, and in an effort to provide a fair share of the funds to both local governments and States, our associations strongly support a housing production/preservation element within HOME. We are very pleased that the provisions of our housing production proposal have largely been incorporated into H.R. 3995.

Our proposal seeks to dramatically increase the production and preservation of affordable mixed-income rental housing. It relies on the infrastructure currently in place within HOME. Our proposal would provide grants and loans for new construction, substantial rehabilitation and preservation of multifamily housing. All of the resources made available under our proposal would benefit very low-income families (families at or below 50 percent of area median income) with at least 50 percent of the funds benefiting those families at or below 30 percent of area median income. Funds would be apportioned 60 percent to local participating jurisdictions and 40 percent to States. This is what is proposed in H.R. 3995.

We would, however, prefer to see a specific authorization level of funding for the production/preservation program. Relying on the Section-8 project reserves would create a situation of funding uncertainty from year to year.

We also support the creation of the Thrifty Production Voucher, a project-based voucher proposed within H.R. 3995, that can be used with capital subsidy programs such as HOME, the Low-Income Housing Tax Credit and the Community Development Block Grant program to support new construction or substantial rehabilitation of affordable housing. This new voucher will work particularly well with the new HOME production and preservation program by providing a means for housing voucher recipients to access housing units made available through the program. It is absolutely essential if we are to serve households at or below 30% of median income. We support use of the HOME allocation formula as a means to distribute these funds, and we also support the use of 15-year contracts and the ability to set up project-specific waiting lists.

Madam Chair, and members of the Subcommittee, the new production and preservation provisions, coupled with thrifty production vouchers in H.R. 3995 would create new affordable housing opportunities for those families most in need. It would help re-build our existing affordable housing stock, while producing new units for needy families on an ongoing basis. We urge you to pass this bill as quickly as possible.

<u>HOME Program Changes</u>

Besides Section 101 of the bill, we are also very supportive of most of the changes to the HOME program that are included in the bill. We are particularly supportive of Section 110, which allows participating jurisdictions to charge compliance monitoring fees to cover the increasing costs of monitoring and program compliance. We are also supportive of Section 108, which allows participating jurisdictions to report their HOME program match on a program year basis, instead of a federal fiscal year basis. This one simple change will greatly simplify grant administration for hundreds of grantees across the country.

We do suggest that Section 103 of the bill be amended to take into account the needs of those jurisdictions with high housing costs and tight housing markets. Section 103 would remove the Fair Market Rent (FMR) as a component of calculating HOME rents. This would serve to help those areas with depressed markets, mainly rural areas, where the FMRs are low in relation to incomes. However, in areas with high costs and tight markets, the situation is reversed, and the FMRs are well above the income-based HOME limits. We propose that rather than eliminating the use of the FMR as a standard, the bill simply revise the limit to the higher of the 30% of 65% standard or the FMR. This would solve the problem in both kinds of areas by allowing the localities the flexibility to establish their own reasonable limits.

Besides the HOME program changes included within H.R. 3995, there are several others that we strongly encourage the Subcommittee to include. The first is a provision creating a loan guarantee program within HOME similar to CDBG's Section-108 loan guarantee program. Allowing jurisdictions to use up to five times their annual HOME allocation would create a large pool of funds for jurisdictions to undertake large-scale affordable rental housing production. Because grantees must put their own funds at risk, this initiative would allow states and local governments to more effectively leverage their HOME grants, while not actually increasing the amount of money the Federal government appropriates for housing. It would allow jurisdictions to address their affordable housing needs more quickly, rather than waiting years to address them on a piece meal basis.

We also recommend that the additional changes be made to the HOME program: (1) Allow the date of the termination of a lease that involves health or safety concerns or serious repeat violations to be based on State or local lease termination laws, instead of the current 30-day notice to terminate a lease required by the HOME statute; (2) Allow participating jurisdictions to substitute environmental reviews, including state and local reviews, which are substantially equivalent to HOME standards for the HOME environmental review; (3) Allow participating jurisdictions the ability to use risk management techniques to determine when, and how often, they should conduct on-site monitoring of projects, with projects being monitored at least once every three years. H.R. 3995 would allow participating jurisdictions to use this approach for HOME projects that are financed with the Low-Income Housing Tax Credit; however, we would like to see this approach used for all HOME projects, whether tax credit financed or not; and (4) Allow grantees to waive the HOME rent restrictions in cases where the tenant was receiving a Section-8 voucher or a state or local rent subsidy. This would mirror a provision in the Low-Income Housing Tax Credit program.

Homeless Assistance

Our organizations also support aspects of the bill addressing homeless housing assistance. We believe that federal resources allocated toward programs that create temporary and permanent housing as well as supportive services for the homeless will enable local governments to better serve their communities.

We are very supportive of provisions in H.R. 3995 that shift the Supportive Housing Program permanent housing rent subsidy renewals and the Shelter

Plus Care rent subsidy contract renewals to HUD's Housing Certificate Fund. This shift will allow more of HUD's homeless assistance funding to be used to create new permanent housing for the homeless, as well as provide a consistent source of renewal funding.

Conclusion

In conclusion, I want to commend the committee for bringing attention to the issue of affordable housing. As local government leaders and community development practitioners, we are aware that decent, affordable housing is crucial to the health, safety and welfare of the citizens whom we represent. We appreciate the opportunity to be with you today to bring the local government perspective to you. Thank you for your leadership, and for inviting our testimony. I would be happy to answer any questions you may have.

U.S. House of Representatives
Subcommittee on Housing and Community Opportunity

Hearings on H.R.3995:
the Housing Affordability for America Act of 2002
April 10, 2002

Testimony of:
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Thank you for inviting me to testify today regarding H.R. 3995, the Housing Affordability for America Act of 2002; the National Housing Trust Fund as proposed in H.R.2349; and, more specifically, about the experience with local housing trust funds in the United States.

My name is Mary Brooks and I direct the Housing Trust Fund Project for the Center for Community Change. The Center is a national non-profit organization that provides technical assistance to community-based organizations on housing and community development issues. The Housing Trust Fund Project is the only national clearinghouse of information on housing trust funds. I provide information and technical assistance to agencies and organizations working to create and implement housing trust funds. I live and work out of California and have been directing the Housing Trust Fund Project since 1986.

I am deeply appreciative of your consideration of the merits of a national housing trust fund. This is an important time to create a housing trust fund at the national level. There are few elements in the human life that are more pivotal than a decent affordable home. If we care about healthy communities, giving citizens a chance to reach their full potential, and providing families with a safe environment, we cannot do so without addressing the critical housing needs that exist in the United States. Housing is a stimulus for the economy and today begs for action from Congress to make a meaningful commitment to provide needed housing for our poorest citizens. Putting H.R.2349 in place would not only help support thousands of new homes, it could create 1.8 million new jobs and $50 billion in wages. *(Home Sweet Home: Why America Needs a National Housing Trust Fund,* Center for Community Change, 2001.)

My intent today is to give you a picture of how successful local housing trust funds have been and why this is the case. There is a lot we can learn from these highly innovative local initiatives. They speak directly to the potential for creating a federal housing trust fund.

Overview of Housing Trust Funds in the United States

The are presently more than 250 housing trust funds in cities, counties and states throughout the country. Attached to this written testimony are maps identifying where housing trust funds currently exist.

These unique funds secure a dedicated source of public revenue to support critical housing needs. They advance the historical way this country has funded affordable housing by providing an on-going stream of funding that is not dependent on annual budget battles to allocate scarce resources. Housing is so basic to the health of every American community that it deserves the kind of funding commitment a housing trust fund can promise.

The earliest housing trust funds were created in the late 1970's—we now have decades of experience with these trust funds. Overall today, they commit nearly $750 million each year to address critical housing needs. They support thousands of homes annually, providing first-time homebuyers an opportunity to purchase a home; creating new rental homes; enabling weatherization and other repairs for those who cannot afford it; providing new opportunities for homeless families; enabling housing to remain affordable and much more.

How Housing Trust Funds Work

There are three key elements of every housing trust fund:

Administration: Most housing trust funds are administered by a public or quasi-public agency because housing trust funds involve *public* funds. Housing trust funds typically create oversight boards that are broadly representative of the housing community, including banks, realtors, developers, nonprofit development organizations, housing advocates, labor, service providers, and low income residents.

Many housing trust funds coordinate the application process for their trust dollars with other available sources of funding, such as the HOME program, the Community Development Block Grant Program, and the federal Low Income Housing Tax Credit program.

Programs: Housing trust funds are created locally to address the most critical housing needs that exist. Most housing trust funds provide funding through loans and grants. Eligible applicants typically include nonprofit developers, for-profit developers, government entities, Native American tribes, housing authorities, and others. Eligible activities are usually quite broadly defined, including: new construction, rehabilitation, acquisition, emergency repairs, accessibility, first time home ownership, and many other activities. Rental assistance is provided by some housing trust funds. There are a few housing trust funds that serve only the needs of the homeless population and define their activities accordingly.

Most housing trust funds serve populations earning no more than 80% of the area median income, but some serve lower incomes or set aside a portion of the funds to serve only lower incomes. It is typical for trust funds to give priority to applicants that are providing homes for those with the lowest incomes. Many housing trust funds require that the units supported through the trust fund remain affordable to the targeted population for a defined amount of time or in perpetuity.

Revenue Sources: Identifying public revenue sources that can be committed to a local housing trust fund is at the core of creating these funds. Without a dedicated ongoing source of revenue, we can funnel funds into housing programs, but there is no opportunity to move beyond what history has proven to be out of our reach. Providing affordable homes deserves a permanent commitment of available resources.

The most common revenue source for a *city housing trust fund* is a linkage program—these are impact fees placed on non-residential developers to offset the impact of their development's employees on the housing supply. Along with linkage fees, inclusionary zoning in-lieu fees are also used by many jurisdictions. Other cities have committed various fees (such as condominium conversion fees, demolition fees, etc.); property taxes; real estate excise taxes; and hotel/motel taxes.

The most common revenue source for *a county housing trust fund* is document recording fees. Other sources used by counties, however, include sales taxes, developer fees, or real estate excise taxes.

The most common revenue source for *a state housing trust fund* is the real estate transfer tax. But states have committed nearly two dozen revenue sources to housing trust funds. Other options include: interest from state held funds (unnamed unclaimed property funds, budget stabilization funds, among others); interest from real estate escrow or mortgage escrow accounts; and document recording fees. Recent new state housing trust funds have dedicated state income taxes, unclaimed lottery earnings, unused TANF funds and unused Section 8 reserves.

Why Housing Trust Funds are Successful

You don't need me to tell you how successful housing trust funds have been. The trust funds can speak for themselves. Here are just a few stories they tell:

- **Nebraska's** Affordable Housing Trust Fund has awarded $15.9 million, leveraging $78.2 million in other funds since the program started in 1998. Funds have helped provide 819 units. These activities will generate $167 million in community investment and create 1,773 new jobs.

- **New Jersey's** Neighborhood Preservation Balanced Housing Program has committed nearly $295 million to provide 16,625 affordable homes. The program supports new construction and rehabilitation throughout the state. Approximately one-third of the funds have supported development in non-urban communities.

- **Illinois'** Housing Trust Fund receives $16-20 million each year. A portion is setaside to support a housing bond program. In 2001, the trust fund received nearly $30 million in dedicated revenue and helped more than 4,000 families obtain decent affordable housing.

- **Arizona's** Housing Trust Fund committed $9,142,258 in 2000 as part of $89.7 million invested by the state's Office of Housing and Community Development. The total estimated economic contribution to the state economy is $612.5 million. This will create 9,929 jobs and $219.3 million in wages. Tax benefits to the state and local governments during construction are estimated to be $32.9 million with an estimated $1.4 million paid in property taxes each year.

- **Vermont's** Housing and Conservation Trust Fund is the only trust fund in the nation serving the dual purposes of preserving affordable housing and protecting natural resources. The state's Governor Dean commends the Fund: *"Investments made through the Vermont Housing and Conservation Board will leave a legacy of healthier communities—economically diverse and ready to grow, yet configured in settlement patterns that reflect the Vermont traditions we all admire."* The Fund has committed more than $38 million to 2,485 affordable homes.

- **Sacramento, California's** City and County Housing Trust Funds have provided more than $19 million, leveraging another $226 million to support 2,000 units of needed housing. Estimates are that each project returned an average of $227,000 to the economy every year.

- **North Carolina's** Housing Trust Fund has won three national awards for innovative programs. 86% of Trust Fund housing benefits citizens earning less than 50% of median income. The Fund has brought good housing into reach for 8,500 low-wage families. *"The Fund's investments strengthen families, rebuild neighborhoods, and enable local leaders to draw other matching investments into their communities. As a result, all 100 counties have better housing and our economy is stronger."* Last year, the Fund awarded $6.68 million to assist 1,114 housing units. They estimate that this will generate 4,300 jobs and $38.5 million in tax revenues.

- **Massachusetts'** Affordable Housing Trust Fund provided $14.5 million last year, leveraging more than $8 for every $1 from the Trust Fund. The resulting development activity from this $125 million investment will provide jobs for hundreds of contractors, builders and tradesmen; provide quality housing; and return vacant and substandard housing back to local tax rolls.

- **St. Paul, Minnesota's** STAR Program has funded more than 260 projects with $27 million since it was created in 1993. Fifty four projects were awarded more than $6 million in 2000. These funds will generate an additional $43 million in outside investments and create an estimated 250 full-time positions and 525 temporary construction-type jobs.

- **Fort Wayne, Indiana** has used its housing trust fund dollars to fund repairs to low and very low income homeowners. *"...our greatest accomplishment is allowing families to stay in their homes."*

- **Boulder, Colorado** committed nearly $3 million to ensure that 284 affordable homes remain affordable during the last fiscal year. This represents more than $37 million of real estate. Boulder's permanently affordable housing inventory was increased by more than 16% during the past two years. Of the 284 homes, 174 are homeownership units and 100 are rentals.

- **Chicago, Illinois'** Low Income Housing Trust Fund has leveraged $37.1 million to successfully subsidize 11,402 units of affordable rental housing for those most in need. Mayor Richard Daley says: *"The Chicago Low Income Housing Trust Fund links business and government, enabling them to work together with landlords and residents to bring affordable housing to diverse Chicago neighborhoods."*

- **Pennsylvania's Act 137** developed a model state-wide program under consideration by several other states. Counties can create their own local housing trust funds using document recording fees. Forty counties have selected to do so, adding nearly $15 million each year for providing affordable homes throughout the state. The Pennsylvania Housing Finance Agency reports that Act 137 provides counties: *"... tangible and potential benefits gained from forming their own local, affordable housing trust funds."*

There are two basic principles that sustain the success of housing trust funds:

<u>*A Dedicated On-going Source of Public Revenue*</u>: A dedicated source of public revenue is the only way to sustain a commitment to addressing the critical housing needs that exist in this country. Appropriating scarce resources each budget cycle works contrary to our best instincts and knowledge about how to produce good housing. Developing decent affordable homes takes years to produce; requires packaging seven to eight or more different sources of funding; needs to successfully move through scores of approval processes; calls for working with the community to ensure the best and most consistent design; and mandates a commitment over time to make sure the housing works for those families in need. An on-going source of dedicated public revenue ensures developers that funding can be obtained as they initiate complex projects.

Housing trust funds enable jurisdictions to develop sound long-range policies and planning principles to guarantee decent affordable housing that builds neighborhoods and provides families with a safe environment. Housing needs that exist today are complex and an on-going source of revenue encourages the careful planning required and the innovation needed to address all needs. Housing trust funds are impressive in the leverage they gain through these trust funds ... anywhere from $5-10 in other public and private dollars for every $1 dollar committed by the housing trust fund.

Flexibility to Address the Full Range of Housing Needs: Housing trust funds typically serve those housing needs that are not being addressed by other programs. They work in tandem with other federal funds, such as HOME, the Community Development Block Grant Program, and the Federal Low Income Housing Tax Credit. Without a doubt, the ability to use local revenue with the flexibility that trust funds allow is the single reason most commonly cited for the popularity of these unique funds.

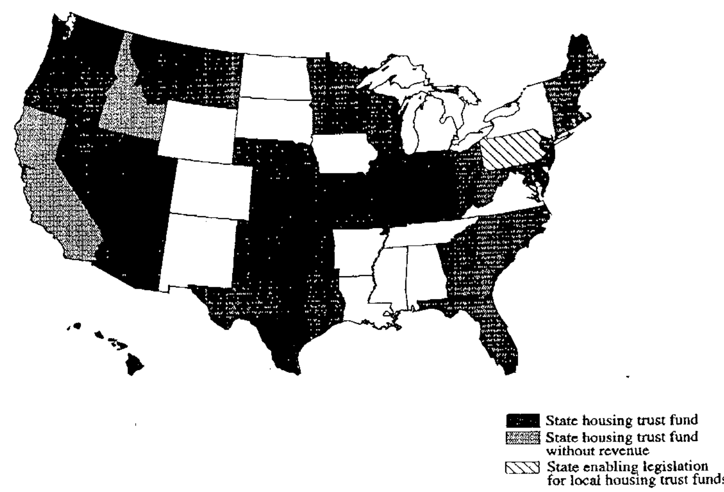
Housing Trust Funds provide a picture of what jurisdictions throughout the country would do to address critical housing needs if left to their own resources. Housing trust funds enable them to direct funds where they are needed most.

Yet jurisdictions should not be left only to their own resources. The federal government can and should be the leader in providing every citizen a decent affordable safe home. 250 local housing trust funds are asking the federal government to do the same—make a permanent commitment to providing a home for every American. The benefits are real—but the commitment must be too. I can confidently tell you that if you create a national housing trust fund with a permanent stream of ongoing revenue, we can make significant gains in addressing the country's housing woes. Isn't it time.

Thank you.

State Housing Trust Funds

Arizona: Housing Trust Fund
California: Housing Trust Fund
Connecticut: Interest on Real Estate Brokers Trust Account
Delaware: Housing Development Fund
Florida: William E. Sadowski Act
Georgia: Housing Trust Fund for the Homeless
Hawaii: Rental Housing Trust Fund
Idaho: Housing Trust Fund
Illinois: Affordable Housing Trust Fund
Indiana: Low Income Housing Trust Fund
Kansas: Housing Trust Fund
Kentucky: Affordable Housing Trust Fund
Kentucky: Single Family Trust Fund
Maine: Housing Opportunities for Maine (HOME)
Maryland: Affordable Housing Trust
Massachusetts: Affordable Housing Trust Fund
Minnesota: Housing Trust Fund
Missouri: Housing Trust Fund
Montana: Revolving Loan Account for Housing
Nebraska: Affordable Housing Trust Fund
Nebraska: Homeless Assistance Trust Fund
Nevada: Account for Low Income Housing Trust Fund
Nevada: Assistance for Low-Income Owners of Mobile Homes
New Hampshire: Affordable Housing Fund
New Jersey: Balanced Housing Program
North Carolina: Housing Trust Fund
Ohio: Housing Trust Fund
Oklahoma: Housing Trust Fund
Oregon: Housing Development Grant Program
Oregon: Low Income Rental Housing Fund
Pennsylvania: Act 137
Rhode Island: Housing and Conservation Trust
South Carolina: Housing Trust Fund
Texas: Housing Trust Fund
Utah: Olene Walker Housing Trust Fund
Vermont: Housing & Conservation Trust
Washington: Housing Trust Fund
West Virginia: Affordable Housing Trust Fund
Wisconsin: Interest Bearing Real Estate Trust Account



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City Housing Trust Funds

Berkeley, California: Housing Trust Fund
Cupertino, California: Affordable Housing Fund
Los Angeles, California: Housing Trust Fund
Menlo Park, California: Below Market Rate Housing Reserve
Morgan Hill, California: Senior Housing Trust Fund
Palo Alto, California: The Housing Reserve
San Deigo, California: Housing Trust Fund
San Francisco, California: Office Affordable Housing Production Program; Hotel Tax Fund; and Bond Housing Program
Santa Monica, California: Citywide Housing Trust Fund
West Hollywood, California: Affordable Housing Trust Fund
Boulder, Colorado: Community Housing Assistance Program and Affordable Housing Fund
Denver, Colorado: Skyline Housing Fund
Longmont, Colorado: Affordable Housing Fund
Telluride, Colorado: Housing Trust Fund
Tallahassee, Florida: Housing Trust Fund
Chicago, Illinois: Low Income Housing Trust Fund
Bloomington, Indiana: Housing Trust Fund
Fort Wayne, Indiana: Central City Housing Trust Fund
Lawrence, Kansas: Housing Trust Fund
Boston, Massachusetts: Neighborhood Housing Trust
Boston, Massachusetts: Local 26
Cambridge, Massachusetts: Housing Trust Fund
Northampton, Massachusetts: Affordable Housing Trust Fund
Ann Arbor, Michigan: Housing Trust Fund
St. Paul, Minnesota: STAR Program
St. Louis, Missouri: Housing Trust Fund
Santa Fe, New Mexico: Community Housing Trust
Greensboro, North Carolina: VM Nussbaum Housing Partnership Fund
Toledo, Ohio: Housing Fund
Portland, Oregon: Housing Investment Fund
Charleston, South Carolina: Housing Trust Fund
Knoxville, Tennessee: Housing Trust Fund
Nashville, Tennessee: Nashville Housing Fund, Inc.
Austin, Texas: Housing Trust Fund
San Antonio, Texas: Housing Trust
Salt Lake City, Utah: Housing Trust Fund
Alexandria, Virginia: Housing Trust Fund
Manassas, Virginia: Manassas Housing Trust Fund, Inc.
Burlington, Vermont: Housing Trust Fund
Bainbridge Island, Washington: Housing Trust Fund
Seattle, Washington: Housing Assistance Funds
Washington, D.C.: Housing Production Trust Fund

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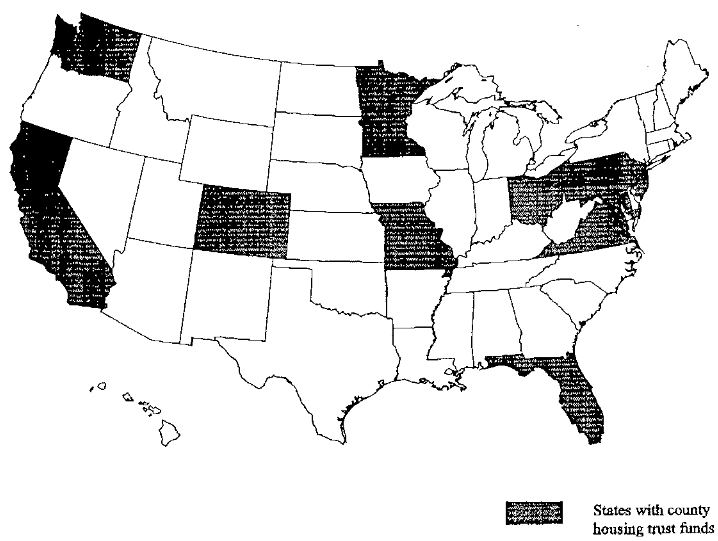
County Housing Trust Funds

California = 5 county housing trust funds
Colorado = 1 county housing trust fund
Florida = 2 county housing trust funds
Iowa = 1 county housing trust fund
Maryland = 2 county housing trust funds
Minnesota = 1 county housing trust fund
Missouri = 3 county housing trust funds
New Jersey = 17 county housing trust funds
Ohio = 2 county housing trust funds
Pennsylvania = 40 county housing trust funds
Virginia = 2 county housing trust funds
Washington = 1 county housing trust fund



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U.S. House of Representatives
Committee on Financial Services

Disclosure Requirement
Required by Clause 2(g) of Rule XI of the Rules of the House and the Rules of the Committee on Financial Services

1. Name:	2. Organization or organizations you are representing:	
Mary E. Brooks	Center for Community Change	
3. Business Address and Phone Number:		
1113 Conger Court Frazier Park, CA 93225 661 245 0318		
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 1999 related to the subject on which you have been invited to testify?	Yes	No
5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 1999 related to the subject on which you have been invited to testify?	Yes	No
6. If you answered "yes" to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether you or the organization you represent was the recipient. You may list additional grants or contracts on additional sheets.		
Signature	Mary E Brooks	

Please attach a copy of this form to your written testimony.

Mary E. Brooks
Center for Community Change
Response to Questions from
April 10, 2002 Hearing
H.R. 3995, Housing Affordability for
America Act of 2002

(1) Is the Housing Affordability for America Act of 2002 flexible enough to meet the needs?

I can only speak from my experience with housing trust funds. In spite of the fact that flexibility is the single most common reason given for why housing trust funds are so popular, I think the term has been misunderstood. Housing trust funds commonly have quite specific restrictions on how the funds can be used, including income limits on the intended beneficiaries of the housing, long-term affordability requirements, and others. These basic requirements are critical if we are to meet the needs that exist. What is impressive with housing trust funds is their ability to get the funds out without a lot of red tape and this is often cited as a positive comparative characteristic to federal housing programs.

(2) Is the revenue sufficient?

Sadly, no. With some thirty years of experience in Advocating for low income housing opportunities, I have never seen the federal government be able to sustain a meaningful housing program, in fact, federal resources for housing have declined over the last two decades, at least. I do not believe we will be able to begin to Address the critical housing needs that exist in this country, unless housing is removed from the appropriations process and given a significant dedicated stream of revenue, such as is proposed in HB2349.

(3) What is the experience with housing trust funds in high cost areas?

Here are a couple of examples:
The Boulder, Colorado Community Housing Assistance Program (its housing trust fund) has as a goal to provide assisted housing that is permanently affordable to 10% of its housing stock, a goal of 4,500 housing units over the next ten years. The fund receives revenues from property taxes and the housing excise tax and received $1-1.5 million each year. The Program assisted 284 units in 2000/2001. Of these, 174 are homeownership units, 110 are rentals. The Housing Trust of Santa Clara County, California has received funds from the County, cities, and private corporations throughout the County. It has received commitments of $20 million to date and developed goals of 800 first time homebuyers, 3,200 affordable rental homes, and assistance to 1,00 homeless people. To date, it has provided 48 first-time homebuyers loans leveraging another $14.9 million; 4 multi-family loans, producing 517 units and leveraging $127 million; five homeless loans, producing 217 units and leveraging $40.5 million.

The United States House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity

Testimony of Bill Faith
Executive Director, Coalition on Homelessness and Housing in Ohio
Chair, Board of Directors, National Low Income Housing Coalition

April 10, 2002

Chairman Roukema, Ranking Member Frank, and members of the Subcommittee, I am Bill Faith and I chair the Board of Directors of the National Low Income Housing Coalition. I am from Columbus, Ohio, where I serve as the Executive Director of COHHIO, the Coalition on Housing and Homelessness in Ohio, a state-wide housing coalition with goals similar to that of the National Low Income Housing Coalition.

I am honored to be here today to represent the National Low Income Housing Coalition whose members include non-profit housing providers, homeless service providers, fair housing organizations, state and local housing coalitions, public housing agencies, housing researchers, private property owners and developers, state and local government agencies, faith-based organizations, residents of public and assisted housing, and other people concerned about low income housing.

The National Low Income Housing Coalition is dedicated solely to ending the affordable housing crisis in America. We believe that this is an achievable objective, a problem well within the capacity of Americans to solve. While we are concerned about the housing circumstances of all low income people, we focus our attention on the lowest income people who by all accounts have the most acute housing problems.

Before beginning my testimony on proposals to advance the production and preservation of affordable housing, I would like to take this opportunity to express our gratitude to both Mrs. Roukema and Mr. Frank, and your staff on the subcommittee, as well the members of the Ohio delegation, Mr. Tiberi, Mr. Ney, Mr. Oxley, and Ms. Tubbs-Jones for your ongoing intervention with HUD to assure payment to the OTAG and ITAG grantees. Were it not for your help and your colleagues in the Senate, many tenant and other non-profit organizations working to preserve valuable affordable housing stock and prevent displacement of thousands of low income residents would have had to close down or declare bankruptcy because of HUD's decision to hold up payments on already existing contracts. Although we have not yet negotiated complete payment for work already performed or resumption of work for all grantees, with your help, we are a lot closer to resolving this situation.

I also want to commend you, Mrs. Roukema, for convening this hearing to discuss HR 3995, the Housing Affordability for America Act of 2002, and HR 2349, the National Affordable Housing Trust Fund Act of 2001. This hearing builds on the important work the subcommittee did last year to study the extent and depth of the affordable housing crisis. Those hearings were widely regarded as thorough, balanced, and an advancement in Congressional insight about low income housing issues.

I would like to update the record of last year's hearings with the latest NLIHC analysis of the disparity between housing costs and income in every jurisdiction in the country. Attached are materials from the 2001 edition of Out of Reach, which reports, for example, that the wage that one must earn to afford a typical two-bedroom rental unit in Columbus, OH is $12.04 an hour. In 33 states, two full time minimum wage jobs per household are insufficient to afford modest rental housing, and in three states, including New Jersey, three minimum wage jobs are not enough. The national aggregate housing wage is $13.87 an hour, well above what most service workers and former welfare recipients earn per hour.

My remarks today are about the proposal for a new component of the HOME program and the campaign to establish a national housing trust fund. Next week, my colleague Telissa Dowling, an NLIHC board member from New Jersey, will testify about the public housing and Section 8 provisions of HR 3995. I want to express our support for the thrifty production voucher proposal that is included in HR 3995 and associate myself with the testimony of Barbara Sard, also a member of the NLIHC board, who will address that section of HR 3995 specifically. This proposal germinated from the National Housing Trust Fund Campaign in order to address the operating costs of rental housing produced through the trust fund. Thrifty production vouchers hold great promise for addressing the longstanding dilemma of finding a cost effective way of bridging the gap between what is costs to operate modest rental housing and the earnings of extremely low income people.

I am also very pleased that you will hear testimony from Mary Brooks, the mother of the housing trust fund movement and the nation's foremost expert on this important source of affordable housing funding. In Ohio, we are fortunate to have a state housing trust fund and local housing trust funds in Columbus, Dayton, and Akron. What Mary's research validates is that as important as state and local housing trust funds are to the overall inventory of housing production and preservation resources, collectively they do not add up to the scope of investment that is required to alter the decline in the quantity and quality of housing stock that the lowest income households can afford. The annual amount generated from the four housing trust funds in Ohio is less than $30 million a year or about 40% of Ohio's total HOME allocation. A substantial increase in the federal investment is required.

After over 25 years of housing policy advocacy with and on behalf of low income people, the National Low Income Housing Coalition has come to understand that there is not a single solution to the affordable housing crisis, but rather multiple interventions are required. First, we must preserve the viable subsidized housing stock we already have, preventing further depletion of housing in which federal taxpayers have invested billions of dollars. Gains made in adding to the supply of affordable housing through new production should not be offset by losses in the existing stock. Ohio has the third highest number of Section 8, project-based units in the country, behind only New York and California. Every county in Ohio has at least one Section 8 development. Despite Ohio's efforts to preserve this housing stock; despite many successes in transferring ownership to new owners who will maintain the housing as affordable; and despite preservation being a priority in our Low Income Housing Tax Credit Program, our HOME program, our bond financing, and our state housing trust fund, Ohio still has 58,000 units (with over 150,000 elderly, disabled, or low income residents) in jeopardy of being lost to the affordable housing supply. Ohio has lost 2900 units where owners have opted out of the Section 8 program and there are 2,000 more units where an opt-out is pending. More money is needed to be able to purchase and renovate buildings, and to keep them affordable. We are pleased that preservation is an eligible activity in both HR 3995 and HR 2349.

Second, we must increase low wage workers' purchasing power in the housing market with increased tenant-based housing assistance or housing vouchers. We must improve the housing market's response to voucher holders by breaking down the barriers to successful voucher use by low income people. Imagine being on the waiting list for a voucher for years on end, all the while struggling to maintain a home while paying an excessive portion of your income on housing costs. Finally you rise to the top of the voucher waiting list and are issued a voucher. You spend weeks searching for a suitable home that you can rent with a voucher, only to come to the end of your time limit without finding a place to use your voucher. You have to relinquish it and go back to the end of the line. In too many communities the voucher program has become an exercise in social Darwinism, rather than an effective intervention in the growing mismatch between what low income people earn and what housing costs.

The third element of a comprehensive housing policy is programs that support building new housing or rehabilitating existing housing. If we are to address the most serious housing problems in America, that is, extreme housing cost burdens, poor quality housing, and homelessness, we have to couple tenant-based assistance with actual units of housing. The emphasis in recent years on more vouchers as the solution to the affordable housing crisis for extremely low income people is based on the assumption that there is a sufficient supply of housing to rent with vouchers. This assumption contradicts the real experience in community after community where there simply are not enough places to rent that are affordable and accessible with a voucher. Thus there is a need for expanded capital resources for housing production, rehabilitation, and preservation. While there are housing affordability problems for many low and moderate income people, the data are overwhelming that the most acute affordable housing shortage is for households that are extremely low income or with incomes less than 30% of the area median. In Columbus, OH, we have had some success in addressing homelessness through our Rebuilding Lives Initiative, because we have been able to assemble both capital dollars for production or rehabilitation and vouchers for operating subsidies.

Fortunately, the sponsors and co-sponsors of HR 3995 and HR 2349 understand the data and both bills create new sources of funding for housing production that the lowest income people can afford. The three things that these bills have in common that are exemplary are: one, simply acknowledging the need for new production; two, having the good sense to include preservation as an eligible activity; and three, directing significant percentages of the resources to the income group that needs federal assistance the most.

HR 3995 proposes to add a new component to the HOME program that would be exclusively dedicated to rental housing production and preservation for very low and extremely low income households. The funds would be distributed to states and localities based on a formula that reflects relative need of each community. Each jurisdiction would be required to provide a match, although the match can include other federal funds. We are concerned about the proposed changes to the HOME rents for the production and preservation program, and advise closer examination of that provision to prevent unintended consequences such as accelerating rents.

Our major concern with the HOME proposal in HR 3995 is the use of recaptured Section 8 funds as the source of funding. We remain committed to 100% utilization of Section 8 dollars through improved voucher utilization, and thus object to the redirection of these funds away from their intended purpose. Further, with the differential targeting between the voucher program and this proposal (75% < 30% AMI; 50% <30% AMI respectively), fewer extremely low income people would be served under this proposal. Finally, the level of Section 8 recaptures does not equal the level of funding that we think is required to seriously impact the housing shortage. This year the City of Columbus has $1,500,000 in HOME funds to distribute and over $12,000,000 in requests. If that experience is typical of most cities, you can see the limitations of funding levels that are small incremental increases over current allocations.

Thus, while we think the production and preservation proposal in HR 3995 warrants further exploration, we remain committed to the National Housing Trust Fund as the key to new production and preservation resources. The amount of funding envisioned through the use of FHA profits has enough promise to alter the dynamics of the housing market in a manner that will give the lowest income families, and thus everyone else, greater housing choice. We know that there are concerns about trust funds in general and the use of FHA profits as the source of capitalizing the national housing trust funds specifically. But in the absence of the political will to allocate substantial new funds to housing production and preservation, this is the most viable approach proposed to date. The most recent actuarial review by Deloitte & Touche reveals a healthy program with extensive earnings forecasted. A copy of the Deloitte & Touche report Executive Summary, with a press release from the HUD Secretary extolling the value of the fund, is attached for your review.

We are grateful to Mr. Sanders for his strong commitment to a major new investment in housing production and preservation, to the 172 members of the House of Representatives who have co-sponsored HR 2349, to the growing number of local elected officials who have endorsed the establishment of a national housing trust fund, and to the over 2000 organizations in every state that have signed on to the national housing trust fund campaign. I would like to enter into the record the most updated list of trust fund endorsers.

We urge all the members of the subcommittee to co-sponsor the National Housing Trust Fund bill in recognition of the severity of the housing crisis. We look forward to working with all of you as you take the lead in the United States House of Representatives in expanding the federal investment in the national housing goal of safe, decent, affordable housing in a suitable environment for all Americans. We can afford to do this; we can't afford not to.

Thank you again for this opportunity to represent the members of the National Low Income Housing Coalition at this important hearing today.

Out of Reach 2001

America's Growing Wage-Rent Disparity

Jennifer G. Twombly
Research Director

Nancy Ferris
Communications Director

Cushing N. Dolbeare
Founder and Chair Emeritus

Sheila Crowley
President

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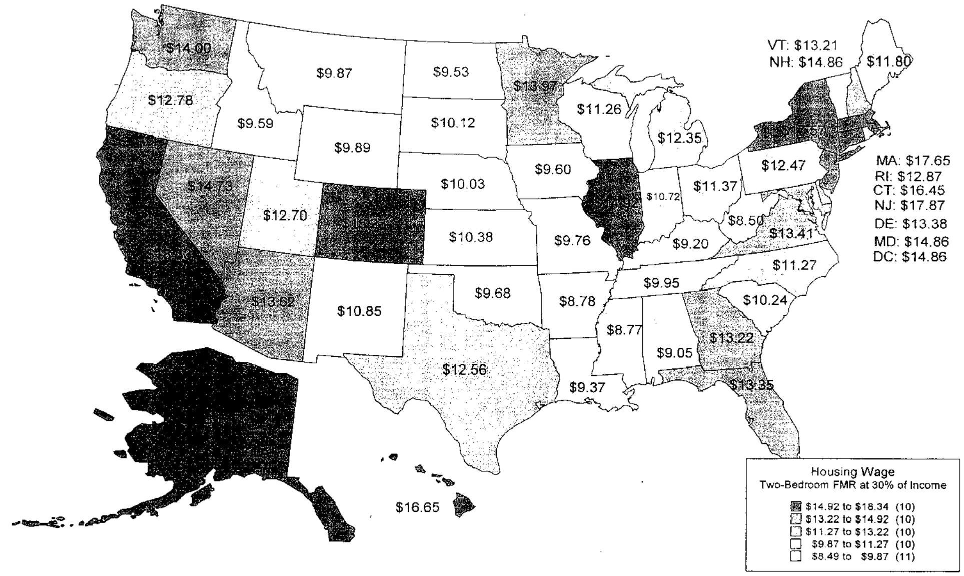
Housing Wage

Housing Wage figures represent the hourly income necessary (at 40 hours per week) to earn enough income to afford the Fair Market Rent for a 2 bedroom unit 30% of income.

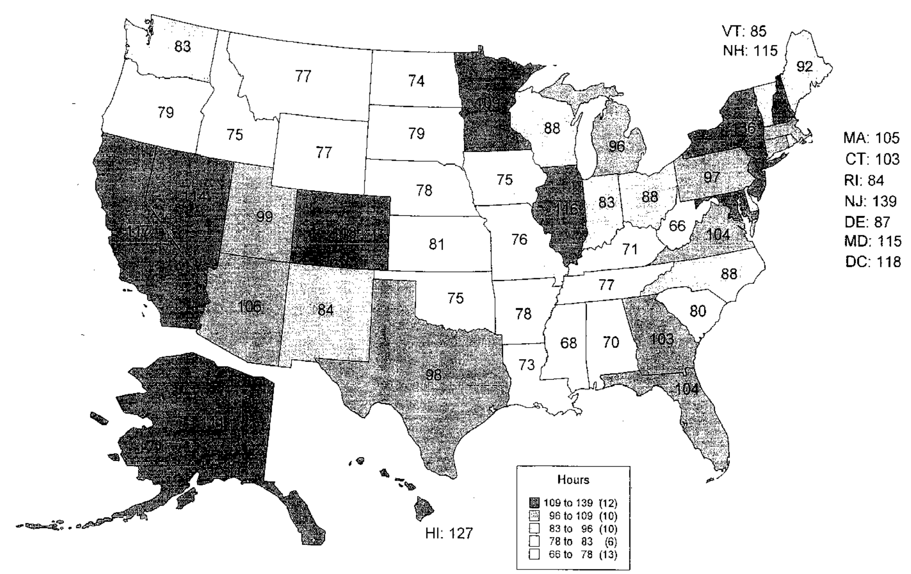


State Ranks Based on Two Bedroom Housing Wage

Rank	State	Housing Wage for Two Bedroom FMR
52	California	$18.33
51	District of Columbia	$18.13
50	New Jersey	$17.87
49	Massachusetts	$17.65
48	New York	$17.57
47	Hawaii	$16.65
46	Connecticut	$16.45
45	Alaska	$15.70
44	Colorado	$15.23
43	Illinois	$14.92
42	New Hampshire	$14.86
41	Maryland	$14.86
40	Nevada	$14.73
39	Washington	$14.00
38	Minnesota	$13.97
37	Arizona	$13.62
36	Virginia	$13.41
35	Delaware	$13.38
34	Florida	$13.35
33	Georgia	$13.22
32	Vermont	$13.21
31	Rhode Island	$12.87
30	Oregon	$12.78
29	Utah	$12.70
28	Texas	$12.56

Rank	State	Housing Wage for Two Bedroom FMR
27	Pennsylvania	$12.47
26	Michigan	$12.35
25	Maine	$11.80
24	Ohio	$11.37
23	North Carolina	$11.27
22	Wisconsin	$11.26
21	New Mexico	$10.85
20	Indiana	$10.72
19	Kansas	$10.38
18	South Carolina	$10.24
17	South Dakota	$10.12
16	Nebraska	$10.03
15	Tennessee	$9.95
14	Wyoming	$9.89
13	Montana	$9.87
12	Missouri	$9.76
11	Oklahoma	$9.68
10	Iowa	$9.60
9	Idaho	$9.59
8	North Dakota	$9.53
7	Louisiana	$9.37
6	Kentucky	$9.20
5	Alabama	$9.05
4	Arkansas	$8.78
3	Mississippi	$8.77
2	West Virginia	$8.50
1	Puerto Rico	$8.36

Minimum Wage Work Hours Per Week
Needed to Afford Two-Bedroom Fair Market Rent



This page is located on the U.S. Department of Housing and Urban Development's Homes and Communities Web site at http://www.hud.gov/news/release.cfm?content=pr02-025.cfm.

homes & communities
U.S. Department of Housing and Urban Development

news release

HUD No. 02-025
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For Release
Wednesday
February 20, 2002

FHA HOME MORTGAGE INSURANCE PROGRAM STRONG, SAYS INDEPENDENT STUDY

WASHINGTON - An actuarial report issued today by the accounting firm of Deloitte & Touche says the Federal Housing Administration's Mutual Mortgage Insurance Fund, that helps low- and moderate-income families become homeowners, is in its strongest financial condition since at least 1989, when the first annual independent actuarial study of the MMI Fund was conducted. The Fund's capital adequacy ratio is 3.75 percent, well above the Congressionally mandated minimum of 2.0 percent.

FHA mortgage insurance encourages mortgage companies to make loans to borrowers who might not otherwise be able to meet conventional underwriting requirements, by protecting the mortgage company against loan default.

"Homeownership in America continues to set records," said Housing and Urban Development Secretary Mel Martinez. "FHA is the federal government's largest program to promote homeownership, and this report shows that we can continue helping thousands of families to realize the American dream."

Martinez noted that the capital ratio increased even though the economy has been in a recession. "Housing has been the strongest sector of the economy, and has helped to moderate the economic problems of the last year," he said. He cautioned, however, that FHA claims typically are highest in the early stages of an economic recovery.

The Deloitte & Touche study also reported that the economic value of the MMI Fund rose to $18.5 billion, an increase of $1.5 billion from fiscal year 2000. The economic value of the fund is defined as the sum of existing capital plus the present value of current insurance in force.

"This new study shows that FHA is working for America's families," Martinez said. "Very few programs can say they help millions of families realize the American dream without costing taxpayers a penny."

FHA does not make mortgage loans directly, but rather insures loans made by private lenders to homebuyers. The program is sustained entirely by borrower premiums. Since 1934 it has enabled almost 30 million American families who would otherwise be locked out of the mortgage market and homeownership to qualify for mortgages.

FHA now insures more than 6.6 million single-family mortgage loans with a total value of $499 billion. When homeowners fail to make payments on mortgages insured by FHA, the agency first tries to help them stay in their homes through foreclosure avoidance. If this is not successful, the lender forecloses on a home and conveys it to FHA in exchange for FHA payment of the outstanding mortgage balance. FHA then puts the home up for sale.

FHA-insured loans also benefit homebuyers in these ways:

- FHA downpayments of three percent are lower than the minimum that many lenders require for non-FHA mortgages. Higher downpayments are a major roadblock to homeownership.
- FHA's requirement for homebuyer credit ratings are more flexible than those set by many lenders for non-FHA borrowers.
- FHA permits a borrower to carry more debt than a private mortgage insurer typically allows.

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Read the Deloitte & Touche actuarial review

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Actuarial Review of MMI Fund as of FY 2001

Sources of Change in the Status of the Fund

Change in Economic Value from FY 2000 to FY 2001
We estimate the economic value of the MMI Fund (the Fund) to be $18.510 billion at the end of FY 2001; this is a decrease of $1.723 billion, or 8.52 percent, over the FY 2001 estimate reported last year.

Our $18.510 billion estimate of the Fund's economic value is comprised of an estimate of total capital resources as of fiscal year-end 2000 of $16.385 billion and the present value of future cash flows for in-force business of negative $0.470 billion. The sum of these two components ($16.385 – 0.470 = $15.915 billion) is shown as the economic value of the Fund at the beginning of FY 2001.

The difference between the economic value of the Fund at the end of FY 2001 and at the beginning of the fiscal year is the result of the activity in the Fund during the fiscal year. That is, the $15.915 billion economic value at the beginning of the year should increase by the present value of any new loans endorsed during the year, increase by the amount of investment income accrued during the year, and decrease by the amount of administrative expenses paid during the year.

The development of the $18.510 billion FY 2001 estimate of economic value is as follows:

Economic value at beginning of FY 2001:	$15.915 billion
Present value of FY 2001 endorsements:	$1.852 billion
FY 2001 investment income:	$1.222 billion
Less FY 2001 administrative expenses:	$0.478 billion
Economic value at end of FY 2001:	$18.510 billion

The same calculation holds for future fiscal years, and is shown in Exhibit II.1 for FY 2001 through FY 2008 (under the baseline economic assumptions).

This 8.52 percent decrease in the estimated economic value of the MMI Fund since fiscal year-end 2000 is accompanied by a 7.46 percent decrease in the unamortized IIF relative to our expectations in last year's Review. These changes result in the capital ratio decreasing by 0.05 percent (a relative change of 1.14%) from 3.80 percent to 3.75 percent for FY 2001.

Actuarial Review of MMI Fund as of FY 2001

Table I-1

Projected MMI Fund Performance for FY's 2001 through 2008 ($ Millions)

Fiscal Year	Economic Value of the Fund (FY end)	Capital Ratio (FY end)	Volume of New Endorsements	Unamortized Insurance In-force (FY end)	Economic Value of New Business	Interest on Fund Balances	Admin Expenses
2001	$18,510	3.75%	$106,802	$493,250	$1,851	$1,222	$478
2002	$22,535	4.24%	$133,557	$531,541	$3,161	$1,370	$504
2003	$26,021	4.38%	$121,674	$593,789	$2,490	$1,549	$554
2004	$29,347	4.47%	$115,593	$655,978	$2,194	$1,746	$614
2005	$32,936	4.62%	$117,612	$712,921	$2,310	$1,950	$671
2006	$36,640	4.77%	$122,544	$767,512	$2,265	$2,164	$724
2007	$40,652	4.95%	$128,453	$821,979	$2,397	$2,389	$776
2008	$44,851	5.10%	$133,329	$878,613	$2,395	$2,633	$828

Current Estimate of FY 2001 Economic Value Compared with the Estimate Presented in the FY 2000 Actuarial Review

This year's estimate of the FY 2001 economic value is $1.723 billion lower than the economic value projected for FY 2001 in the FY 2000 Actuarial Review. This decrease in the Fund's value is comprised primarily of three factors:

1. Change in economic forecasts
2. Revisions to econometric models, chiefly with respect to the unemployment and the probability of negative equity variables used in the loan termination regression analysis
3. Change in the estimate of the present value of the 2001 book of business

We estimate that the change in economic forecast accounted for $585 million of the decrease. The revisions to the econometric model contribute an additional $413 million to the decrease in estimated economic value. The estimated present value of the FY 2001 endorsements and the anticipated investment income and administrative expenses decreased by $676 million relative to the FY 2000 Actuarial Review. Lastly, the estimated Total Capital Resources as of the beginning of FY 2000, used in the development of our FY 2000 estimate of economic value, decreased by $49 million.

The impact of each factor is described in Table I-2 below, and in the paragraphs that follow.

Table I-2

Summary of Changes in MMI Fund Estimated Economic Value Between FY 2000 and FY 2001 ($ Millions)					
		Change in FY 2001 Economic Value	**FY 2001 Economic Value**	**Change in FY 2001 Capital Ratio**	**Corresponding FY 2001 Capital Ratio**
FY 2001 Economic Value Presented in the FY 2000 Review, Excluding the FY 2001 Book of Business			**$16,962**		
Plus:	Forecasted Value of 2001 Book of Business, Interest, and Expenses Presented in the FY 2000 Review	+$3,271			
Equals:	FY 2001 Economic Value Presented in the FY 2000 Actuarial Review		**$20,233**		**3.80%**
Plus:	Change in Estimated Present Value of Endorsements Originating in FY 2001	-$587	$19,646	-0.02%	3.78%
Plus:	Change due to economic forecast	-$585	$19,061	-0.02%	3.76%
Plus:	Change in Interest Income and Administrative Expenses	-$89	$18,972	-0.00%	3.76%
Plus:	Change due to Total Capital Resources estimate	-$49	$18,923	-0.00%	3.76%
Plus:	Econometric Model Refinements	-$413	$18,510	-0.01%	3.75%
Equals:	**Estimate of FY 2001 Economic Value**	**-$1,723**	**$18,510**	**-0.05%**	**3.75%**

Further details of these changes are provided below.

- The net effect of loans endorsed in FY 2001 is a decrease in the economic value of the Fund of $587 million and a decrease of 0.02 percent in the FY 2001 capital ratio due to slower growth in the economic value relative to the IIF. This is most likely driven by an increase in concentration of loans in the less profitable "high" loan-to-value category relative to our estimates from last year's Review.

- The long-term macroeconomic forecast published by DRI as of October 2001 differs from the forecast used in the FY 2000 review. Interest rates are higher in the 2003 and subsequent years, which leads to lower prepayment rates and higher claim rates for the next several years. Unemployment rates are also higher relative to the FY 2000 forecast. Lastly, we are using DRI's house price appreciation assumptions directly this year, whereas last year we based our assumptions on internal analyses. We estimate the impact of these changes to be approximately a $585 million decrease in the economic value and a decrease of 0.02 percent in the FY 2001 capital ratio.

- In the 2000 Actuarial Review, countrywide unemployment was used as an independent variable in the regression analysis we performed. This year, regional differences were considered in the regressions. A second change we incorporated in our analysis was the inclusion of a covariance term in the calculation of the probability of negative equity in the forecast period, where we apply the results of our regression analysis (performed on regional historical data) to economic conditions that are countrywide. The combined impact of the changes to our modeling process is estimated to be a decrease of $413 million to the economic value of the fund, and a decrease of .01 percent in the FY 2001 capital ratio.

Change in Estimated Future Insurance In-force

The estimated IIF for FYs 2001 through 2008 shown in this review are generally lower than the corresponding figures reported in the FY 2000 Actuarial Review. This is driven by a reduction in forecasts of loan volume in the overall mortgage market provided by DRI/McGraw-Hill. For additional detail with respect to our estimated endorsement year volume, please see *Appendix B, Demand Model*.

Estimated Claim Severities

In the FY 2001 review, as in FY 2000, we adopted a method that examines fiscal quarter loss rates and selects a claim severity rate by loan type – see *Appendix C, Claim Severity Model.* Since 1995 average claim severities have gradually decreased, particularly over the last few years. As explained in the *Claim Severity Model* appendix, we base the selected claim severity on the most recent experience. Using claim severities based on the more recent observed experience has a positive impact on the estimated economic value of the fund. This selection is justified, and in fact is most likely conservative, in light of loss mitigation efforts – again, please see *Appendix C* for details.

Effects of Loss Mitigation

It is our understanding that during FY 1996, Congress passed legislation that authorized the FHA to recompense mortgagees for actions taken to mitigate potential losses by providing mortgage foreclosure alternatives, such as special forbearance, pre-foreclosure sales, deed-in-lieu-of-foreclosure transactions, partial claim payments, and loan modifications. It is also our understanding that in the private conventional mortgage industry, Fannie Mae and Freddie Mac have successfully employed many of these loss mitigation techniques.

The loss mitigation program is expected to reduce the number of foreclosures and to significantly reduce the costs associated with many foreclosures. Evidence is emerging that indicates this program is having economic benefits and perhaps social benefits. The loss mitigation program has been employed for the past four years and has experienced rapid growth. The relatively short history of the program makes it difficult to incorporate in the conditional claim rate models. Because of this, the effects of the loss mitigation program have not been explicitly factored into the claim rate model. It should be noted that this provides a level of conservatism in our results. We are, however, beginning to reflect the impact of the loss mitigation program in the selection of the claim severities.

Additional Comments
The estimates presented here reflect projections of events more than 30 years into the future. These projections are dependent upon a number of assumptions, including economic forecasts by DRI and the assumption that FHA does not change its refund, premium, or underwriting policies from those assumed for this review. To the extent that these or other assumptions are not sufficiently accurate, the actual results will vary, perhaps significantly, from our current projections.

Estimation of the equations used for predicting prepayments and claims require large amounts of loan level data. These data take many weeks of intensive processing before they can be used to estimate the model parameters. Additionally, complete data for a fiscal year are generally not available until a few months after the end of the fiscal year because of reporting and processing lags. We obtained a data extract from FHA in June 2001 that represents activity as of March 31, 2001. This data extract contains loan level information, providing information on both the aggregate level of activity and the distribution of that activity. We have used these data to estimate our econometric claim and prepayment rate models.

Finally, while we have reviewed the integrity and consistency of the data supplied by FHA and believe it to be reliable, we have not audited it for accuracy. Additionally, the information contained in this report may not correspond exactly with other published analyses that rely on FHA data compiled at a different time or obtained from other systems.

Impact of Economic Forecasts

The economic value of the Fund and its pattern of capital accumulation depend on several factors. One of the most important factors is the future economic environment that will exist during the remaining life of the FHA's current books of business. We capture the most significant factors in the U.S. economy affecting the performance of the Fund's books of business through the use of the following economic variables:

- FHA mortgage contract rates – 30- and 15-year
- One-year Treasury Bill rates
- Appreciation in house prices
- Growth of mean household income levels
- Number of mortgage originations

The performance of the FHA's books of business, measured by the economic value of the MMI Fund, is affected by changes in these economic variables. Higher mortgage interest rates raise initial and ongoing payment burdens on household cash flows, and hence claim risks of new originations while decreasing the risk of claims on older loans with below-market interest rates. Lower mortgage interest rates have the reverse effect and tend to accelerate refinancing of earlier originations while increasing insurance claims. Faster average house price growth facilitates the accumulation of home equity, which tends to reduce the likelihood of a claim. It also contributes to greater mobility and household asset portfolio rebalancing, leading to greater turnover of housing and refinancing, thereby increasing prepayment rates. Faster income growth reduces the relative burden of mortgage payments on household cash flows over time, reducing the risk of claims as mortgages mature.

The base case results in this report are based on DRI's U.S. Economy forecast as of October 2001 for interest rates, average house prices, and inflation rates. We also considered four additional scenarios, three of which were based GAO's judgmental scenarios in *FHA's Fund Has Grown, but Options for Drawing on the Fund Have Uncertain Outcomes* (February, 2001). Please note that the scenarios we selected are not strictly derived from GAO's analysis, due in part to the fact that the modeling process we employ is not the same as GAO. The characteristics of these three forecasts are described in *Appendix F, Economic Forecast* of this report. The fourth scenario was based on the economic assumptions from the base case, except for interest rate, change in personal income, and unemployment, where OMB's economic assumptions for the FY 2003 Budget were used. It is important to note that these scenarios do not represent the full range of possible outcomes, but represent variations from the base case that might reasonably be expected. We present our estimates of the Fund's performance under each of economic scenarios in Table I-3.

We project that under all five scenarios, the Fund will exceed the NAHA FY 2000 capital ratio target of 2.00 percent.

Table I-3

Projected MMI Fund Performance by Macroeconomic Scenario ($ Millions)

	Base Case	Low House Price Appreciation	High Interest Rates	High Unemployment	DRI/OMB
Current Economic Value (FY 2001)	$18,510	$16,327	$19,581	$17,258	$17,323
Current Capital Ratio (FY 2001)	3.75%	3.31%	3.97%	3.50%	3.51%
Projected Capital Ratio (FY 2003)	4.38%	3.51%	3.25%	3.96%	4.90%
Projected Capital Ratio (FY 2008)	5.10%	3.97%	4.18%	4.23%	6.09%

I. Executive Summary

The Cranston-Gonzalez National Affordable Housing Act (NAHA) requires an independent actuarial analysis of the economic net worth and soundness of the Federal Housing Administration's (FHA's) Mutual Mortgage Insurance (MMI) Fund. This report presents our findings with respect to this required analysis for fiscal year (FY) 2001 using data as of March 31, 2001.

The primary purpose of this review is to estimate:

- The economic value of the MMI Fund, defined as the sum of existing capital plus the net present value of current books of business, and
- The current and projected capital ratio, defined as the economic value divided by the total insurance in-force (IIF).

Status of the Fund

NAHA mandated that the MMI Fund achieve a capital ratio of at least 1.25 percent by FY 1992 and a capital ratio of at least 2.00 percent by FY 2000. Last year's Actuarial Review estimated that the MMI Fund's capital ratio at the end of FY 2000 was 3.51 percent, the sixth consecutive year it exceeded the 2.00 percent FY 2000 requirement. This year, we estimate that the FY 2001 capital ratio is 3.75 percent. We also estimate that the FY 2003 capital ratio will be 4.38 percent and that the FY 2008 capital ratio will be 5.10 percent. Table I-1 provides our estimates of the Fund's current and future economic values and capital ratios.

In defining the capital ratio, NAHA stipulates the use of unamortized insurance in-force. However, "unamortized insurance in-force" is defined in the legislation as "the remaining obligation on outstanding mortgages" – a definition generally understood to apply to amortized IIF. Deloitte & Touche (D&T) uses the unamortized IIF measure (as generally defined) in calculating the capital ratio. However, it is also instructive to consider the capital ratio based on amortized IIF, which is the basis the General Accounting Office has used in its previous reports on the status of the Fund. Our estimate of the FY 2001 capital ratio using amortized IIF is 4.03 percent, our estimate of the FY 2003 capital ratio is 4.66 percent, and our estimate of the FY 2008 capital ratio is 5.49 percent. Unless stated otherwise, all references to the Fund's capital ratios in this report refer to the ratio computed using unamortized IIF.

U.S. House of Representatives
Committee on Financial Services

Disclosure Requirement
Required by Clause 2(g) of Rule XI of the Rules of the House and the Rules of the Committee on Financial Services

1. Name:	2. Organization or organizations you are representing:
Bill Faith	Coalition on Homelessness and Housing in Ohio (COHHIO)

3. Business Address and Phone Number:

35 East Gay Street, Suite 210 Columbus, Ohio 43215 (614) 280-1984

	Yes	No
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 1999 related to the subject on which you have been invited to testify?		X
5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 1999 related to the subject on which you have been invited to testify?		X

6. If you answered "yes" to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether you or the organization you represent was the recipient. You may list additional grants or contracts on additional sheets.

Signature Bill Faith

Please attach a copy of this form to your written testimony.

Testimony on the Housing Affordability for America Act of 2002

before the

House Committee on Financial Services
Subcommittee on Housing and Community Opportunity

by

Katherine Hadley,
Commissioner,
Minnesota Housing Finance Agency

on behalf of

The National Council of State Housing Agencies

April 10, 2002

Chairwoman Roukema, Representative Frank, and members of the Subcommittee, I am Kit Hadley, Commissioner of the Minnesota Housing Finance Agency.

I am testifying today on behalf of the National Council of State Housing Agencies. NCSHA represents the Housing Finance Agencies (HFAs) of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands.

State HFAs allocate the Low Income Housing Tax Credit (Housing Credit) and issue tax-exempt private activity bonds to finance apartments for low income renters and low-cost mortgages for lower income first-time homebuyers in nearly every state. They administer HOME funding in 40 states to provide both homeownership and rental housing assistance for low income families.

First, I want to thank you, Chairwoman Roukema, Representative Frank, and the many other members of the Subcommittee who have cosponsored H.R. 951, the Housing Bond and Credit Modernization and Fairness Act of 2001. This bill provides urgently needed changes to Mortgage Revenue Bonds (MRBs) and the Housing Credit, two of the most effective federal housing programs.

With your support, Congress significantly expanded the annual volume caps on MRBs and the Housing Credit more than a year ago. Yet, many families qualified for MRB and Housing Credit help still do not receive it. Three obsolete statutory provisions prevent it:

- the MRB Ten-Year Rule, which forces states to use payments on MRB mortgages to retire MRBs outstanding more than ten years, rather than make new mortgages for lower income, first-time homebuyers;

- nearly decade-old MRB home purchase price limits, which shut eligible MRB borrowers out of the program because they cannot find homes priced low enough to buy; and

- rigid Housing Credit income eligibility rules that make development infeasible in very low income, predominantly rural, communities.

If enacted, H.R. 951 would solve these problems by repealing the Ten-Year Rule, reforming the MRB purchase price limit, and giving states the flexibility to adjust Housing Credit income rules. It would prevent the loss of billions of dollars annually in MRB mortgage money—$2.3 billion this year alone—and open the door to affordable homeownership and rental housing opportunities to tens of thousands of lower income families.

If you have not cosponsored H.R. 951, we urge you to join the 284 House members who have. We ask all of you to press your leadership and Ways and Means Committee colleagues to include H.R. 951 in a tax bill this year.

Chairwoman Roukema, NCSHA and the State HFAs applaud you for shining light on this country's staggering affordable housing needs through your Subcommittee hearings last year. We commend you for introducing H.R. 3995, the Housing Affordability for America Act of 2002, to respond to these needs.

H.R. 3995 recognizes two essential facts. First, the federal government must commit substantially more resources to the production of affordable rental housing if we are to have any hope of ending our country's affordable housing crisis. Second, the serious scarcity of federal housing resources requires us to streamline, integrate, and coordinate the delivery and use of the precious resources we have.

Authorize State-Administered Rental Production Grants

Your Subcommittee hearings a year ago revealed that America's affordable housing crisis extends from the very poor to the solidly middle class. Alarmingly, this crisis continues to deepen.

According to Harvard University's Joint Center for Housing Studies' 2001 report, one out of every eight American families have critical housing needs, meaning they pay more than 50 percent of their incomes for housing. That's 14 million families, both homeowners and renters.

Yet, indisputably, those families hardest hit are those with the least income. Of those 14 million families with critical housing needs, 80 percent are very low income, earning 50 percent of their area's median income or less. Nearly 60 percent have extremely low incomes, 30 percent of AMI or less.

HUD's 2001 *Report on Worst Case Housing Needs in 1999* reports that between 1997 and 1999, the number of rental units affordable to extremely low income families dropped by 750,000 and the total number of units affordable to very low income families fell by 1.14 million. HUD found that in every region of the country, rental housing affordable to extremely low income renters was in shorter supply than housing affordable to other income groups.

NCSHA commends the Chair for recognizing the urgent needs of very low and extremely low income families and proposing new resources for producing rental housing affordable to them. However, we do not believe that the HOME program is the best vehicle for delivering these resources.

Whether funded through Section 8 recaptures, or newly appropriated money as NCSHA recommends, any new rental production funds will almost certainly be insufficient to meet the enormous need. Therefore, it is essential that whatever limited funds Congress makes available be delivered through an established, integrated system that will facilitate their coordination with other resources and target them to where they are most urgently needed. This system is already in place at the state level.

NCSHA recommends that any new rental production funds be administered by the states for at least four compelling reasons:

First, only statewide government is in a position to judge and allocate the assistance to the most pressing needs, wherever they exist in each state, in amounts sufficient to make a difference. Housing needs in cities, suburbs, and rural areas do not often exist in isolation from one another. Moreover, housing needs, job and commercial development, transportation burdens, health care availability, human services demands, and other neighborhood development requirements flood across city and county political boundaries, sometimes across broad areas of a state. These interrelated needs cannot be addressed as fairly, effectively, or efficiently by a proliferation of individual subdivisions acting alone as by the kind of overall statewide planning and administration in the state-administered Housing Credit program.

The states are uniquely positioned. They are close to real local issues and housing needs, but have enough perspective to bring a state and regional focus to problems that cannot be solved within individual municipal boundaries. States are in an unparalleled position to ensure that funding is applied where it is most needed and is integrated with other public investments in our physical, economic, and human infrastructure.

States have the ability to bring together state agencies and resources in ways the federal government and local communities cannot. For example, state HFAs have partnered with welfare agencies to use Temporary Assistance to Needy Families (TANF) funds to provide housing assistance to families attempting to make the transition for welfare to work. They have teamed up with state health and human services agencies to obtain Medicaid waivers to cover the cost of services in HFA-financed assisted living. They work with state departments of mental health and retardation to provide quality housing linked to supportive services for people with mental illness and retardation.

State HFAs also successfully partner with local governments, nonprofits, the private sector, resident and community groups, and service providers to address the diverse housing challenges they confront. Through comprehensive and coordinated state, regional, and local planning, state HFAs can assure that housing is developed where it is most needed and in sustainable communities with access to jobs, transportation, schools, health care, and other services. This is critically important because providing affordable housing today means much more than providing shelter. Low income families and those with special needs require services and proximity to economic opportunity to have the best possible chance to achieve self-sufficiency and a stake in their communities.

Second, the funds potentially available for any new production program under any reasonably anticipated budget scenario will be too scarce to be divisible among more than the 50 states, if relative needs in all parts of each state are to be considered and prioritized adequately, and the funds marshaled to meet them. Dividing into more than 50 parts whatever additional housing funding Congress provides would dilute those funds in many places to amounts too little to be effective or meaningful.

The $1 billion HOME provides local governments annually are distributed under an entitlement formula to 594 communities. This fractionalization makes HOME very popular among a broad base of local governments, but distributes funds without regard to consideration of or prioritization among statewide or even regional needs and in shares frequently too small to address whatever needs exist even in the county or city receiving them.

Congress was well aware of the Community Development Block Grant (CDBG) entitlement jurisdiction funding formula when it created the Housing Credit, the greatest single federal producer of low income rental housing. Instead of following such a formula, Congress limited Housing Credit administration to the state level, the only possible way to bring always-too-scarce federal assistance to bear in the most comprehensive, coordinated, cost-effective fashion on the most pressing multifamily production problems, wherever they exist in each state.

We recognize that the dual state-local administration of HOME and CDBG is based on political compromises struck years ago. Though we do not propose overturning those compromises, fractionalizing new housing assistance today into hundreds of local entitlements, without regard to the overall needs of a state, cannot be justified, particularly in light of the decade and a half successful experience with statewide Housing Credit administration.

Third, only state government has the capacity in every state to administer sophisticated multifamily financing. State housing agencies possess statewide focus, sophisticated finance, underwriting, and asset management capacity, and a multi-decade record of responsibility, effectiveness, accountability, and success in administering tens of billions of dollars of housing assistance. They are investment grade rated.

In fact, states are the only point in the entire federal system where all federal and state housing resources—Housing Bonds, Housing Credits, HOME, Federal Home Loan Bank advances, FHA insurance, and state-provided funds—can be accessed in one place and brought to bear on housing needs.

Fourth, federal oversight capability can be more effectively concentrated on 50 entities than in programs spread among hundreds of states and municipalities, a point which HUD itself recently recognized in limiting to the states the delegation of contract administration on its 850,000 unit Section 8 project-based portfolio.

For all these reasons, we urge you to authorize state-administered production grants to leverage existing state-administered resources, including the Housing Bonds and the Housing Credit, to reach very low and extremely low income families. This program would build on the success of Housing Bonds and the Credit, utilize the existing, proven state delivery system, and be integrated with existing state housing plans and funding systems. It would not require the building of a whole new program infrastructure, which we understand the Chair seeks to avoid.

We propose that new rental production funds be allocated by State HFAs, subject to a state allocation plan, modeled on and coordinated with the Housing Credit qualified allocation plan. The plan, developed with extensive pubic input, would identify the state's priority rental housing needs and strategies for using the funds to address them.

This approach will only work, however, if states are given the flexibility they need to tailor innovative solutions to their rental housing problems. HUD regulation must be limited to that which is necessary to assure nondiscrimination and accountability for the use of funds to achieve the goals Congress sets.

States should be empowered to use funds for a wide range of activities, including tenant and project-based assistance, new construction, rehabilitation, and preservation. Funds should not be encumbered with program set-asides.

Finally, it is essential that any income, rent, or other rules be compatible with the Housing Credit and other federal housing programs, for the combination of this new funding with them will almost always be necessary to reach extremely low income families.

Make HOME a True Block Grant

The HOME Investment Partnerships (HOME) program is one of the most successful federal programs for producing and preserving affordable housing. It works better than most HUD programs because Congress designed it to allow states and localities, not HUD, to decide how to use HOME funds to best respond to their priority housing needs.

States have done this with dramatic results. State HOME funds have helped finance the production, rehabilitation, and acquisition of over 250,000 affordable homes and apartments. In Minnesota, we have used state HOME funds to rehabilitate 5,500 apartments and single family houses.

Still, HOME has not reached its full potential. Unnecessary, counterproductive federal prescription and inadequate funding have stymied its success.

Since its creation a decade ago, HOME has been plagued with statutory and regulatory rules that exalt process over product. These requirements generate needless delays, inject unnecessary inflexibility, raise administrative and compliance costs, and frustrate state and local government and private sector efforts to coordinate HOME with other housing resources.

Here are just a couple of examples. Recently, HUD engaged in a fruitless multi-year dispute with a state on the Canadian border about whether garages are appropriate in HOME-assisted housing. HUD argued for months with another state over its decision to invest all of its HOME funds in multifamily rental housing, though nothing in the HOME statute prevents this.

Over-regulation also has led to negative selection in program administration. Given a choice, for example, between single and multifamily rehabilitation, most HOME agencies emphasize single-family, not because the need for it is more urgent, but because the regulations needlessly make multifamily rehabilitation more cumbersome and costly.

H.R. 3995 strips away some of HOME's unnecessary and burdensome requirements and provides HOME administrators increased flexibility in their use of HOME funds. In eliminating the Fair Market Rent (FMR) from HOME rent determinations and allowing administrators to use the greater of the state or area median income in calculating maximum HOME rents, for example, the bill makes HOME rental development feasible in very low income communities. H.R. 3995 also assures that HOME developments remain affordable and in quality condition over the long-term by allowing HOME administrators to charge fees to cover their compliance monitoring costs.

These and the other HOME changes the bill proposes are important steps toward making HOME a true block grant. We encourage you, though, to seize this opportunity to go further. We urge you to reduce HOME statutory and regulatory requirements to those rules necessary to effectively protect the federal government's interest in program integrity, quality results, and accountability, while leaving the states empowered to make the program judgments Congress intended.

At a minimum, we urge you to allow HOME rent, eligibility, and other program rules to conform to the Housing Credit rules when the two programs are used together, so their combination, which is often necessary to reach very low income families, is easier to achieve. In addition, we suggest further simplification of HOME's CHDO requirements and program income rules, and removing rules prohibiting refinancing without rehabilitation.

Congress also should provide substantially more funding for HOME. Congress authorized HOME at $2 billion when it created the program in 1990, because it believed that amount was necessary for HOME to accomplish its affordable housing goals. Accounting for inflation, Congress would have to fund HOME at $2.9 billion in FY 2003 just to achieve that purchasing power today. NCSHA urges the Subcommittee to reauthorize HOME at least at $2.9 billion and encourage appropriators to fund HOME at this level in FY 2003.

Thrifty Production Vouchers Are Another Important Tool for Reaching Extremely Low Income Families

NCSHA believes the bill's thrifty production vouchers (TPVs) are a very promising tool for helping to house extremely low income families. Production subsidies alone will often not be enough to support housing for extremely low income families, as their incomes are often insufficient to pay rent adequate to cover operating expenses.

If TPVs are to succeed, though, they must be closely coordinated with production subsidies. For this reason, we recommend that at least some percentage of TPVs be allocated to the states to use with the Housing Credit, Housing Bonds, and any new rental production grants Congress may make available.

We encourage the Subcommittee to provide TPV administrators the maximum flexibility to use them where they are needed. We urge you to establish broad goals for the program, such as mixed income development, but not prescribe how administrators must achieve those goals, such as by limiting the number of units they can assist in a particular development.

A rent limit linked to some percentage of the fair market rents (FMRs) should be examined closely. In many markets, particularly rural areas, the FMR is too low to support operating expenses. Some percentage of the FMR would only compound the problem. In addition, FMRs in many areas do not reflect the rents required to sustain quality housing because they are based on too large an area to reflect local markets or they are based on rents for poorer quality existing housing that does not meet modern standards.

Thank you for the opportunity to comment on the housing production proposals contained in the Housing Affordability for America Act of 2002. We are grateful to you for putting forward this important legislation and look forward to working with you as you move it forward.

WRITTEN STATEMENT of MS. CATHERINE RACER

Associate Director, Massachusetts Department of Housing &
Community Development

Representing the

COUNCIL OF STATE COMMUNITY DEVELOPMENT AGENCIES

Before the House Subcommittee on Housing and Community Opportunity
Of the House Financial Services Committee

Regarding HR 3995, "Housing Affordability for America Act of 2002"

April 10, 2002

INTRODUCTION

Good morning Madam Chair, Representative Frank, and distinguished members of the subcommittee. Thank you very much for the opportunity to testify before you today. My name is Catherine Racer and I am an Associate Director of the Massachusetts Department of Housing and Community Development. I am testifying today on behalf of the Council of State Community Development Agencies regarding HR 3995, the "Housing Affordability for America Act of 2002".

First of all, I want to thank the committee, and you Madam Chair for holding this hearing and drafting a bill that addresses many of our country's housing problems. We appreciate your efforts greatly and our state member agencies stand ready to work with you to address our collective housing needs. With a strong, proven track record of successfully administering housing programs, states are uniquely positioned to address the myriad housing needs facing America's communities.

Today, I would like to focus my remarks on four primary components of HR 3995:

1.) Proposed changes to the HOME Program

2.) The need for a separate rental housing production program

3.) The case for formula allocating the McKinney-Vento Homeless Assistance Programs

4.) Recommendations for the Community Development Block Grant Program.

PROPOSED CHANGES TO THE HOME PROGRAM.

First, COSCDA fully supports the changes to the HOME Program proposed in HR 3995, with the *exception* of the proposed set-aside for a new production program within HOME that I will address shortly. HOME is an extremely efficient and effective housing program responsible for creating hundreds of thousands of housing units across the country while leveraging nearly four dollars for varying housing needs is the key to its success, and HR 3995 will enhance the existing program. We applaud your efforts to streamline the program and promote the flexibility necessary for states to effectively address the unique housing needs of their communities.

Specifically, we support your proposal allowing the use of state or area median income for rent determinations. This flexibility will spur the development of affordable housing, particularly in rural areas not currently served. Along the same lines, the removal of fair market rents as the basis for HOME rents will also enable more development in areas where the FMR is artificially low and will not support the requisite debt service for housing projects.

In addition, we strongly support the provision allowing states to charge monitoring fees to cover compliance monitoring costs. This will provide states with the ability to ensure that HOME projects remain in compliance and affordable to low income people over time. Lastly, on another administrative matter, COSCDA strongly supports the provision in the bill that would allow states to report their match on a program year basis, making it easier for states to comply with federal reporting requirements.

RENTAL HOUSING PRODUCTION

While HOME is an excellent housing resource and we appreciate your focus on rental housing production, we oppose any set-asides within the existing HOME Program. COSCDA agrees there is a need for rental housing targeted to very-low and extremely low-income people, but among our concerns is that a production program within HOME would result in a set-aside without adequate funding, and fail to effectively assist extremely low-income people.

Instead, we strongly support the creation of a separate, state-administered rental housing production program. COSCDA strongly believes that states have a proven, effective delivery system for producing affordable housing, particularly rental housing for extremely low and very low income people.

States have the resources and tools necessary to significantly leverage other funds to maximize federal resources for rental housing production. Additionally, states are uniquely positioned to develop a comprehensive strategy for rental housing production that is fully integrated with existing housing programs. The creation of a separate production program administered by states will allow for strategic targeting of significant resources on a state-wide basis.

In Massachusetts, we fully commit all of our HOME funds each year, with a significant percentage going to rental housing. Even so, the need for additional housing production remains immense. We welcome a separate production program which would complement the productions efforts already underway with HOME. We hope you will consider endorsing a separate program as the bill moves forward.

THRIFTY PRODUCTION VOUCHERS

In order to develop housing targeted to extremely low-income people, HR 3995 creates "Thrifty Production Vouchers". Capital subsidies alone generally cannot support housing for extremely low income people, therefore COSCDA believes these vouchers may serve as valuable and cost effective tool for reaching extremely low income people. COSCDA believes that any effort to create a Thrifty Production Voucher should ensure maximum compatibility with existing production programs as well as any new housing production initiatives.

<u>McKinney-Vento Homeless Programs</u>

Next, HR 3995 re-authorizes the existing competitive structure of McKinney-Vento Homeless Assistance Programs through FY2004. We believe consolidating these programs and distributing the funds by formula allocation is a better approach. Homelessness cannot be solved with a one size fits all national competition. Rather, state and local governments provide the most effective mechanism for planning and coordinating the delivery of homeless services, and developing tailored strategies based on state and local need.

The current competitive system prevents HUD from releasing vital homeless dollars quickly. For example, it often requires more than one year for funds to be distributed. In addition, the current system fails to provide a consistent, predictable funding stream that is vital to creating a sound, comprehensive homelessness strategy.

A formula distribution of these funds would ensure timely disbursement to homeless service providers and allow for state and local decision-making based on local needs. Formula allocation of these programs would also provide the flexibility needed to develop innovative solutions to the problems of homelessness. Lastly, formula allocation would provide states with the consistency of funding necessary to effectively plan solutions. As HR 3995 moves forward, we hope you will re-consider the merits of allocating the McKinney-Vento funds by formula.

On a related issue, given the existing structure of the program, we support the committee's recommendation to fund the renewals of the Shelter Plus Care program and SHP permanent housing through the Housing Certificate Fund. Shifting the renewal of these projects to the Section 8 account will have limited financial impact on Section 8, and will provide states' with a viable mechanism for funding deserving and needed permanent housing projects. At present, many states' renewal burdens are overwhelming and restrict their ability to fund new, innovative permanent housing projects. Without this shift of renewals, many states face "de-funding" some projects and returning people back to homelessness. Enactment of the committee's recommendation in a timely manner would avert the problem of moving people out of federally-assisted housing and back into emergency shelters or onto the streets.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

With respect to the Community Development Block Grant (CDBG), there are a number changes COSCDA would like to see made to the statute that would enhance the ability of states and localities to use the program, particularly in smaller and rural communities. Additionally, there are a few areas of concern that COSCDA would like to address regarding CDBG.

First, COSCDA recommends that States be provided flexibility in the use of their statutorily authorized administrative and technical assistance funds. Currently, states may use only one percent of their CDBG formula allocation for technical assistance, and two percent for administration. Many of the sub-grantees in the State CDBG program are small and rural communities inexperienced in community development and certainly not accustomed to the numerous requirements of the CDBG program. States may need to use some of the administrative fees for technical assistance and capacity building to assist these communities.

Second, COSCDA recommends that a dedicated stream of funding be authorized for CDBG training programs, similar to the current structure in the successful HOME program. In the HOME program, two percent of the funds appropriated are authorized for technical assistance and capacity building. All HOME stakeholders agree that one of the primary reasons for the program's success is the capacity building and technical assistance that is provided for these activities on a regular basis. HOME provides a regular menu of training programs to help new staff from Participating Jurisdictions (PJs) and Community Housing Development Organizations (CHDOs) learn the program requirements, and also provides for direct technical assistance to PJs and CHDOs. For the past three years there has been little or no funding available for similar training for administrators of the CDBG program, yes funding for CDBG is more than double that of the HOME Program. Without this training, personnel from HUD, state and local agencies as well as non-profits are unable to effectively meet the program's goals. COSCDA urges the Subcommittee to authorize training funds for the CDBG program.

Next, I would like to highlight a few of COSCDA concerns regarding the CDBG program. First, COSCDA opposes H.R. 1191, the Community Development Block Grant Renewal Act, which seeks to increase the targeting of the CDBG program, institute proportional accounting, and eliminate area-wide benefit methodology. If this bill is enacted, State and local governments would be restricted in the use of their CDBG funds, particularly for large geographic areas, such as counties, or for rural areas, where population is much less dense than in urban or metropolitan areas. HR 1191 also seriously undermines the CDBG program's flexibility, effectively eliminating area benefit activities, which would restrict funding to important infrastructure projects, particularly water and sewer projects.

The provisions proposed in the bill would turn the program into an inflexible "antipoverty" program, something that Congress never intended. HR 1191 also seeks to target at least 80% of

CDBG funds to low and moderate income people and calls for at least 40% of those funds to go directly to those persons with incomes between 30 and 50% of median income. At this time, CDBG funds are being spent in accordance with statutory requirements. In fact, a recently completed congressionally mandated HUD study documented that 84 percent of CDBG program dollars benefit low and moderate income persons, significantly higher than the statutorily required 70 percent. COSCDA urges the Subcommittee members to reject HR 1191.

Second, COSCDA opposes the Administration's FY 2003 budget proposal to shift CDBG resources from so called "wealthier" communities and give the funds to "poorer" communities. The Administration's proposal ignores the fact that even the wealthiest communities can be home to needy populations and that those communities deserve to have resources to meet their many needs. By design, the formula distributes funding based in part on the percentage of persons living in poverty within an entitlement community or urban county. Therefore, poverty and the need for assistance exist in all entitlement communities that receive a formula allocation.

Lastly, COSCDA seeks clarification of the provision which would allow religious organizations to receive CDBG funds for secular activities. Currently, any non-profit organization may apply for CDBG funds if it meets the statutory requirements of qualification, including community participation on its board. The proposed activity for funding must be a project which meets the national objectives and eligible activities of the program. If a religious organization meets those requirements they are already eligible to apply for CDBG funds. Therefore, it appears this provision is unnecessary unless the intent of the provision is to treat religious organizations differently from other non-profit organizations for the purposes of the CDBG program. If that is the case, COSCDA would not support such a change to the statute. We ask that the Subcommittee clarify the purpose of this provision so that further input can be provided.

<u>CONCLUSION</u>

Madam Chairwoman, this concludes my remarks. We look forward to working with you and the committee as you move forward on this important legislation. I appreciate the opportunity to speak before the committee and will be happy to answer any questions you may have.

TESTIMONY OF BARBARA SARD
Director of Housing Policy, Center on Budget and Policy Priorities
House Financial Services Subcommittee on Housing and Community Opportunity
April 10, 2002

I appreciate the invitation to testify today. I am Barbara Sard, director of housing policy for the Center on Budget and Policy Priorities. The Center is a nonprofit policy institute in Washington that specializes both in fiscal policy and in programs and policies affecting low- and moderate-income families. As requested, my testimony today focuses on Thrifty Production Vouchers, a new component of the Section 8 voucher program that would be created by Section 401 of H.R. 3995.

Description of Thrifty Production Vouchers

Thrifty Production Vouchers are a less costly form of project-based voucher that can be used only to enable extremely low-income tenants -- those with incomes below 30 percent of the area median income[1] – to live in newly constructed or substantially rehabilitated housing and pay an affordable rent. Tenant payments for rent and utilities would be limited to 30 percent of income. Extremely low-income households are the group with the most severe housing problems. Over two-thirds of extremely low-income renters without housing assistance pay more than half their income for rent or live in substandard housing.[2]

Without an ongoing subsidy such as Thrifty Production Vouchers, extremely low-income households generally would not be able to pay enough rent to cover a property's operating expenses, even if the property's capital costs were fully subsidized. As a result, extremely low-income households may be unable to live in housing produced by current capital subsidy programs, such as the Low Income Housing Tax Credit and HOME, or if they are accepted as tenants they will pay a disproportionate share of their limited incomes for rent. A recent HUD study found that while nearly half of all HOME-funded

[1] Section 401 adds a new paragraph to the voucher statute authorizing Thrifty Production Vouchers. As part of this paragraph, the current definition of "extremely low-income" would be expanded, solely for purposes of the Thrifty Production Voucher program, to include families with incomes that do not exceed 30 percent of the national non-metropolitan median income, if higher than the area median income. (See subparagraph (M)(i).) Thirty percent of the national non-metropolitan median income currently is $11,910 for a family of four. This change would ensure that in every area of the country, a family earning the equivalent of full-time work at the federal minimum wage ($10,300) could be assisted by a Thrifty Production Voucher.

[2] Office of Policy Development and Research, U.S. Department of Housing and Urban Development, *A Report on Worst Case Housing Needs in 1999: New Opportunity Amid Continuing Challenges*, January, 2001.

rental units house extremely low-income households, those households in this category who lack rental assistance paid an average of 69 percent of income for rent. What makes this of particular concern is that nearly half of extremely low-income households residing in HOME-funded units lacked rental assistance.[3]

Thrifty Production Vouchers share many of the key characteristics of the new project-based vouchers enacted in Section 232 of the FY 2001 VA-HUD Appropriations Act. To promote mixed-income housing, their use generally would be limited to 25 percent of the units in a property (with exceptions for single-family properties and properties serving elderly and disabled residents and, in some locations, supportive housing for families and other singles). To ensure freedom of choice and enhance market discipline, tenants would have a "Continued Assistance Option" to move after a year with the next regular "turnover" voucher available from the public housing agency (PHA). To guarantee that housing would remain of decent quality, local housing agencies would be responsible for regular inspections.

What makes a Thrifty Production Voucher different is that the "payment standard" would be the property's operating cost, instead of the housing authority's payment standard based on the Fair Market Rent (FMR) that is used for regular vouchers.[4] If sufficient capital subsidies are available for a portion of the units in a property to be debt-free, operating costs will generally be substantially below the FMR. As a result, a Thrifty Production Voucher would cost at least about one-third less than a regular voucher.[5] A cap would be set on the amount of operating expenses that could be covered, to ensure that these vouchers are less expensive than regular vouchers. Section 401 sets the cap at 75 percent of the PHA's payment standard or of the FMR, whichever is higher, unless the Secretary approves a higher cap because local FMRs are too low to support the reasonable operating cost of rental housing. The gross rent for the unit (rent to the owner plus tenant-paid utilities) could not exceed the "payment standard" based on operating costs (or the cap).[6]

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[3] Christopher E. Herbert, et al., *Study of the Ongoing Affordability of HOME Program Rents*, June 2001, available on the internet at http://www.huduser.org/publications/affhsg/ongoing.html.

[4] HUD sets Fair Market Rents based on actual rents paid by recent movers for unassisted non-luxury housing. In most areas, FMRs are set at the 40th percentile of the rent distribution. (That is, 60 percent of available units cost more than the FMR.) In 39 metropolitan areas, FMRs are set at the 50th percentile. Generally, owners of unassisted housing set rents at a level necessary to cover debt repayment as well as other operating costs, and charge as much as the market will bear in light of local supply and demand.

[5] With a Thrifty Production Voucher, the maximum subsidy is reduced by one-quarter compared with the FMR. The tenant's payment toward the rent and utility costs, however, remains unchanged. As a result, if a tenant pays 30 percent of income for rent, the subsidy amount is reduced by about one-third. The reduction is greater if the operating costs are below the maximum allowable level.

[6] Similarly, for units subsidized by regular project-based vouchers, the gross rent may not exceed the PHA's payment standard for the unit. This is different from tenant-based vouchers; a family with a tenant-based may select a unit with a rent in excess of the payment standard and pay the additional cost. The reason for the different rule for project-based vouchers is that a family does not have the ability to apply its voucher to a different unit in order to limit its rent payment. Consequently, to limit the amount of the subsidy payment and enable the tenant to pay no more than 30 percent of income, the project-based

Operating expenses would include owner-paid utilities, contributions to reserves, an asset management fee, and a modest cash flow allowance. Expenses for services, such as property management, performed by entities related to the property's owner would have to be reasonable and consistent with prevailing costs in the community. Unusual operating expenses, such as security costs in supportive housing, would be permitted, subject to the cap. The owner sets the property's overall operating budget independently. The PHA would only need to verify that the operating costs claimed for the subsidized units do not exceed other units in the property without project-based subsidies, and that any expenses charged for services performed by a related entity are reasonable in light of similar costs in the community. Unless the supply of rental housing relative to demand is exceedingly tight, owners would be strongly motivated to minimize operating expenses, since they would have to bear at least 75 percent of any unnecessary expenses if only 25 percent of the units are subsidized.

Why Thrifty Production Vouchers Are Cost-Effective

Capping the subsidy paid by a Thrifty Production Voucher at 75 percent of the PHA's payment standard or FMR necessarily means that the maximum per subsidy cost is about one-third less than a regular voucher. If the operating cost is below the cap of 75 percent of the PHA's payment standard or FMR, the savings will be greater than one-third. Contrary to what some may think, it is in areas with particularly high housing costs, and therefore high FMRs, that Thrifty Production Vouchers in combination with sufficient capital funds are likely to work best. These are the areas where new production of rental housing generally is needed the most. What makes housing expensive in these areas is the relatively high cost of acquiring land or existing buildings in such areas, and possibly higher construction costs. If the capital costs of the newly-produced or substantially rehabilitated units set aside for extremely low-income households are fully paid, however, the debt-free operating costs of such units will not be so different from average operating costs. Compared with the high FMRs in such areas, Thrifty Production Vouchers may cost as little as 36 – 60 percent of the cost of regular project-based vouchers in such high-cost areas as the San Francisco, Boston, Denver and Newark metropolitan areas.[7]

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voucher program does not allow an owner to charge more for rent than the PHA's payment standard for the unit.

[7] These estimates are based on a comparison of the expense level estimated for public housing units in these areas by the Harvard Graduate School of Design (see http://www.gsd.harvard.edu/research/research_centers/phocs/news.html), increased by $200 per unit to account for taxes, utility costs, a replacement reserve, and a cash flow allowance, with 110 percent of the applicable FMR. (This comparison is used because project-based vouchers can pay up to 110 percent of FMR even if this subsidy level exceeds the PHA's payment standard, so long as the amount is reasonable for the particular units. Newly produced housing in a mixed income setting is likely to have lower operating costs than public housing.

HUD consultants have estimated that the average per unit operating cost of properties insured by the Federal Housing Administration in 1998-2000 was $242 per month (in 2000 dollars). Larger units will have somewhat higher operating costs, but newly produced units and units in partially assisted developments will tend to have lower operating costs. These estimates of operating costs do not include taxes, utility costs, a reserve for repairs, or a cash flow allowance. Even if these additional expenses (plus inflation to 2002) were to increase the average operating cost by $200, however, this average would still be substantially less than 75 percent of the national average FY 2002 FMR for a 2-bedroom unit, which is $522.

For example, if the housing authority's payment standard, set at 100 percent of the FMR, is $700 monthly and the tenant's share of the rent and utilities is $200, a regular voucher costs $500, and a regular project-based voucher may cost up to $570. (The payment standard for a project-based voucher may be set above the PHA's payment standard, up to 110 percent of FMR, if that rent level is reasonable for the particular unit.) If the operating cost for the same property plus tenant-paid utilities were the maximum allowable, or $525 (75 percent of the FMR of $700), then a Thrifty Production Voucher would cost $325 (operating cost of $525 minus the tenant's payment of $200). This is 35 percent less than a voucher and 43 percent less than a regular project-based voucher. If the operating cost is below the maximum, the savings will be greater.

Section 401 would enable Congress to appropriate funding specifically for Thrifty Production Vouchers. In addition, it would allow PHAs to convert a portion of their current tenant-based vouchers to Thrifty Production Vouchers. PHAs making this choice could increase the total number of families served and the number receiving project-based assistance, without increasing costs or reducing the number of families receiving tenant-based vouchers. For example, a PHA that administers 1,000 vouchers is permitted to project-base up to 200 of these vouchers. (Section 8(o)(13(B) of the U.S. Housing Act, 42 U.S.C. § 1437f(o)(13)(B) limits to 20 percent the amount of a PHA's voucher funding that may be attached to particular structures.) For the equivalent cost of 200 regular project-based vouchers, a PHA could serve about 266 households using Thrifty Production Vouchers (or more, if the payment standard is below the 75 percent cap due to lower operating costs). The number of families receiving tenant-based vouchers would be unchanged. (There would be a small increase in administrative fees, as PHA fees in the voucher program are based on the number of units under lease.)

A question has been raised about whether legislation is necessary for PHAs to administer existing vouchers in the manner required by the Thrifty Production Voucher proposal. It may be possible for PHAs to impose a below-market ceiling on the amount a voucher would pay for a unit that has lower costs due to the absence of debt service as a result of a capital subsidy. But PHAs could not take advantage of the lower costs of Thrifty Production Vouchers to increase the number of families served without the alteration in the formula for renewing Section 8 voucher contracts contained in Section 401.

Some have questioned how tenants in units subsidized with Thrifty Production Vouchers could make use of the option to move with a turnover voucher without increasing the PHA's costs and hurting other families. There is no net financial effect when a family in a TPV unit shifts to a regular voucher. The PHA does not come up with new funding when a family wants to move; it merely allocates the next available voucher to the moving family. To fill the vacant TPV-subsidized unit, it selects a new family from its waiting list. (Or, if the PHA has permitted the owner to maintain a development-specific waiting list, the owner selects a new family off its list.) It is as if the PHA's total voucher funding from HUD is divided in two parts: one part provides "full-price" subsidies to families with regular tenant-based or project-based vouchers (or homeownership vouchers); the other part provides reduced subsidies through Thrifty Production Vouchers. If a TPV-assisted family switches to a regular voucher, it switches funding streams. At the same time, another family moves into the unit subsidized through the Thrifty Production Voucher funding stream. The amount of funds in each "stream" remains essentially unchanged. As a result, families can continue to be assured the right to move when they need to, without increasing total voucher costs.

What is the incentive for housing providers to accept Thrifty Production Vouchers?

Housing providers may want to accept Thrifty Production Vouchers for a number of reasons, depending on the requirements of the capital funding they are seeking, their mission, and the competitive criteria used by local and state agencies that distribute capital funds. In addition, the Thrifty Production Voucher model differs from regular tenant-based and project-based vouchers in some important ways that may be more attractive to some housing providers.

If a recipient of housing production funds is required to use some or all of the funds to house extremely low-income families, the developer will be better able to meet this obligation without undue financial risk if the requirement is accompanied by additional funding. No federal capital subsidies currently require targeting extremely low-income families (except public housing, which has a separate operating subsidy). Such a requirement would, however, be created by the new Production and Preservation component of the HOME program that would be established by Section 101 of H.R. 3995. This proposal would require that half of the new funds appropriated through this program component be used for units occupied by extremely low-income families. If a family or unit does not have a rental subsidy, the rent for a Production and Preservation-funded unit could not exceed 40 percent of a family's gross monthly income. (It is not clear if this cap includes the family's payments for utilities.) While this provision is an important effort to ensure that these units are somewhat affordable, 40 percent of the *gross* income of an extremely low-income household is very unlikely to be sufficient to cover an owner's costs. (Nonetheless, it would be more than a third higher than the payments for rent and utilities that a household with a Thrifty Production Voucher would be required to make based on 30 percent of *adjusted* income.) For example, a single elderly or disabled individual receiving SSI benefits would be required to pay, on average, about $200 per month, which is well below average operating and utility costs. With a Thrifty Production Voucher, the provider would be assured of rent payments sufficient to meet the unit's operating costs (assuming these costs do not exceed the cap), and the tenant could better afford other necessities due to paying only 30 percent of adjusted income for rent and utilities.

Some housing providers will want to serve extremely low-income families even if they are not required to do so by restrictions imposed on capital funds. It may further a provider's mission to serve families and individuals with the most severe housing needs, who generally are extremely low-income. Alternatively, it may be advantageous to a developer to commit a portion of units to extremely low-income households in order to score better in a competition for Low Income Housing Tax Credits or other funds. Unless the housing provider is able to obtain a commitment of vouchers or equivalent rental assistance funds, however, it is difficult financially to serve extremely low-income households at a rent they can afford. Just to cover operating costs and utilities, even without debt service, without paying more than 30 percent of income is likely to require an income of about $18,000 per year.[8] Except in the highest income areas of the country and for households at or near the 30 percent of area median income level, extremely low-income households do not have this much income. As a result, to avoid a net loss on units rented to extremely low-income families, a housing provider must charge higher rents to other tenants or require the families to pay more for rent than they can afford while meeting other basic needs.

The Thrifty Production Voucher program has a number of advantages for housing developers compared with other methods of paying operating subsidies. In earlier federal programs, operating subsidies either were distributed on the basis of a formula that did not consider actual costs, or a federal agency had the final say on setting the operating budget. With a Thrifty Production Voucher, the owner's actual operating costs should be covered (if reasonable). The owner's relative freedom to continue to set the operating budget for the property over time should enable owners to make a long-term commitment to participate in the Thrifty Production Voucher program. Owners would not have to worry that another entity would arbitrarily set the operating budget at an unworkably low level that would not allow for necessary maintenance or unpredictable variations in costs. (The proposed definition of "operating expenses" builds in flexibility to meet sudden changes in costs through a cash flow allowance.) Furthermore, Section 401 requires PHAs to increase on an annual basis the allowable rent that owners may charge if operating costs increase. (Such annual increases would be subject to the cap of 75 percent of the PHA's payment standard or the FMR, whichever is higher. HUD adjusts FMRs annually.)[9]

[8] This calculation is based on the average per-unit operating cost of $242 for FHA-insured multifamily housing discussed above, plus $200.

[9] Some housing groups have expressed concern that Section 401 does not give owners sufficient assurance that a rent adjustment will be made when needed. Suggested amendment # 4 in Appendix A may address this concern.

The Thrifty Production Voucher proposal would give owners the security of receiving a subsidy over the term of a long-term contract. The initial contract term may be up to 15 years, and extensions are permitted. This is five years more than is permitted with a regular project-based voucher contract. In contrast, if an owner rents to a family with a tenant-based voucher and the family decides to move, the owner has no guarantee of continuing subsidy. Under the Thrifty Production Voucher proposal, an owner would have such a guarantee. Indeed, another potentially attractive feature of the Thrifty Production Voucher to owners is the potential to receive vacancy payments from the PHA for up to 60 days, as in the regular project-based program. In contrast, an owner depending on filling extremely low-income units by advertising to families with tenant-based vouchers would not be able to receive any subsidy while a unit is vacant. In addition, Section 401 creates new flexibility for owners to maintain their own waiting lists for units subsidized with Thrifty Production Vouchers, which may make it easier for owners to fill units quickly.

Unlike the current project-based voucher program, the Thrifty Production Voucher program is designed to make it easier for housing developers to combine capital subsidies with a commitment of rental assistance. To accomplish this goal, the Thrifty Production Voucher proposal uses a different formula to distribute vouchers earmarked for use under this program than for regular vouchers, and establishes additional qualifications for PHAs to be eligible to receive new allocations of Thrifty Production Vouchers. To allocate new funding for Thrifty Production Vouchers, HUD would divide the total number of vouchers appropriated for this purpose among states, cities and urban counties based on the ratio now used to allocate HOME block grant funds. (Issues concerning the distribution formula are discussed at the end of this testimony.)

Funds reserved for use as Thrifty Production Vouchers would still have to be awarded, however, to public housing agencies that currently administer Section 8 voucher programs. PHAs could apply to HUD for some or all of the new vouchers allocated to an area they serve. If a PHA does not also administer capital subsidies such as HOME, Low Income Housing Tax Credits, or state or local housing production funds, it would be required to demonstrate to HUD that it has a working partnership with an agency that distributes capital subsidies in the same area. This partnership is required in order to allow housing developers to make a single application for capital subsidies and rental assistance.

Despite these advantages, some housing providers may prefer to use regular project-based vouchers because of their higher subsidy level. If a housing agency has not reached the ceiling on its authority to project-base voucher assistance and has regular vouchers available to commit to a project, it could meet this demand. Thrifty Production Vouchers, however, provide an additional tool that also can be used to expand the number of families assisted. Congress may wish to combine new funding for housing production with new allocations of Thrifty Production Vouchers due to their lower cost, using an allocation formula that parallels HOME program funding and a distribution mechanism that is coordinated with the award of capital subsidies.

Removal of Fair Market Rent as Ceiling on HOME Rents

It is important to note that another provision of H.R. 3995 may undermine the incentive for housing providers to accept regular tenant-based or project-based vouchers or Thrifty Production Vouchers. Section 102(c) of the bill would remove the Fair Market Rent as a ceiling on rents for HOME-funded units. Indeed, as drafted, this provision would appear to prohibit an owner from setting rents below the new cap of 30 percent of the income of a household at 65 percent of area median income. If this change is enacted, rents on HOME units in most areas of the country, metropolitan as well as rural, could be increased above the level covered by regular vouchers. Families with tenant-based vouchers may not be able to access these units if their share of the rent would then exceed 40 percent of income. If, as a result of this change, HOME rents exceed 110 percent of FMR, as would frequently be the case, owners also may no longer be willing to accept the lower rent that project-based vouchers could pay.

How can local government and a public housing agency ensure that new unit production can occur?

A local government that receives HOME funding (or another federal, state or local capital subsidy), will be able to partner with a PHA to distribute the capital subsidies and Thrifty Production Vouchers in a unified process. This streamlined funding process should speed up development and make it more likely that developers will agree to serve extremely low-income families. By establishing requirements or preferences in the competition for capital funds for developers' proposals that commit to set aside units for extremely low-income families, a local (or state) government agency would also enhance the likelihood of capital subsidies serving families with the greatest housing need. It is important to remember, however, that the Thrifty Production Voucher cannot support debt service on assisted units. This means that a full capital subsidy from one or more sources will be needed for the portion of a property that is expected to house extremely low-income families. Local governments also may need to review zoning and other regulatory barriers that inhibit the production of affordable rental housing.

Are Thrifty Production Vouchers needed in localities where there already exists an abundant but unaffordable housing stock?

If the available units are of decent quality, then new production tools are not needed. Regular tenant-based vouchers are perfectly suited to remedy problems of housing affordability. (This is a major reason why *only a portion* of incremental voucher funding should be set aside for use under the Thrifty Production Voucher program.) Of course, owners must be willing to accept the vouchers, and local agencies may need to do a better job of recruiting landlords to join the voucher program and of making families aware of existing housing opportunities. (The flexibility afforded to housing agencies by Section 403 of the H.R. 3995 to convert unused voucher funds to provide housing counseling assistance, rental security deposits, or other activities to assist families with vouchers to obtain suitable housing could help PHAs overcome these barriers to voucher use.) On the other hand, if units are vacant but in need of substantial rehabilitation, the cost of rehabilitation may increase the rents beyond the reach of extremely low-income families. Thrifty Production Vouchers may be a useful tool to guarantee that a share of newly-rehabilitated units continue to serve extremely low-income families.

Other areas of potential concern and improvement in the Thrifty Production Voucher proposal

This section of my testimony addresses four issues: the role of PHAs in determining operating costs, location of units that house families with children, the workability of Thrifty Production Vouchers in areas with low FMRs, and the distribution of new funding earmarked for use under the Thrifty Production Voucher program.

Concerns have been raised about the willingness and ability of PHAs under the proposed Thrifty Production Voucher program to ensure that owners do not inflate operating costs to obtain a higher subsidy. The cap on the voucher subsidy (and gross rents) of 75 percent of the PHA's payment standard or the FMR, whichever is higher, provides some financial security to the federal government. But some of the cost-saving potential of the Thrifty Production Voucher model will not be realized unless housing providers are held to their real operating costs. The statutory language gives PHAs the power they should need to require owners to demonstrate actual and reasonable operating costs. (See page 69: 22-25 and page 70:1-11.) The work burden per unit should not be greater than the verification of rent reasonableness that PHAs perform in the regular voucher program. The primary question a PHA must determine is whether the operating costs claimed for the subsidized units exceed the per unit share of the development's actual operating costs (minus debt service). PHAs that also administer capital subsidies should have staff with the necessary expertise to review operating budgets. For others, HUD could require that PHAs demonstrate that their partner agencies that distribute capital subsidies will assist them to do this new task effectively.[11]

[11] When most or all of the units in a project are subsidized, market discipline cannot be relied on to hold down operating costs, and the task of verifying "real" operating costs will be more difficult. As drafted, section 401 responds to this potential problem by delegating to the Secretary the duty to develop a formula to determine the rent for such projects. (See page 71:3-8.) It is not clear whether it is feasible for the

A second area of potential concern is the location of projects with Thrifty Production Voucher assistance, particularly projects that house families with children. Under Section 401, PHAs would have more flexibility to approve the project-basing of Thrifty Production Vouchers in relatively poor neighborhoods than has been the case under HUD's implementation of the current project-based voucher program. Section 401 permits the use of Thrifty Production Voucher assistance for the additional purposes of revitalizing a low-income community or to prevent displacement of extremely low-income families. In contrast, to date HUD has largely restricted project-based vouchers to areas that are less than 20 percent poor.[12] To balance this greater flexibility, Section 401 prohibits projects that house families with children and are located in relatively poor neighborhoods from having more than a quarter of the units subsidized with Thrifty Production Vouchers. (Projects housing families with children would still be permitted to have all the units receive Thrifty Production Voucher assistance if families receive supportive services and the project is located outside of a poor neighborhood. In contrast, the current project-based voucher program allows an exception to the 25 percent limitation on project-based assistance if families receive supportive services, regardless of the location of the project.) Section 401 should be clarified to ensure that this restriction, which is designed to promote the deconcentration of poverty and expand economic opportunity, cannot be circumvented by using Thrifty Production Vouchers in combination with other project-based rental assistance.[13]

There are two important components of Section 401 that need further analysis. The first concerns whether a different rent cap should apply to areas with relatively low FMRs that nonetheless need additional capital funding. Most likely, these are rural areas that may have vacant units that are in such poor condition that substantial rehabilitation is needed. Distributors of HOME funds in Vermont and New Hampshire have compared the rent cap under Section 401 to available data on operating costs. They found that outside of the higher FMR areas (Burlington and Southern New Hampshire), the reduced subsidy available under a Thrifty Production Voucher would not be sufficient. Section 401 currently grants general waiver authority to the Secretary "if the permitted maximum rent could not otherwise support the reasonable operating cost of rental housing." (Pages 70:24 – 71:2.) Rather than rely on individual waivers, it would probably be preferable either to establish a higher limit in the statute for low FMR areas with certain objective indicators of need for housing production funds or to require the Secretary to develop

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Secretary to develop such a formula. One possibility would be to dispense with the requirement that the Secretary develop a formula and entrust PHAs with the responsibility of verifying reasonable operating costs for these units as well. PHAs that did not want to undertake this task, which could be more labor-intensive than for projects in which no more than a quarter of the units have project-based subsidies, could refuse to approve projects with a higher proportion of subsidies. Alternatively, PHAs could be given the option of verifying operating costs or of simply applying the subsidy cap as the gross rent.

[12] This policy may change when HUD publishes rules to implement the project-based voucher program. Neither proposed nor final regulations have been issued.

[13] See suggested amendment 3 in Appendix A.

such an alternative cap. Another possibility would be to permit the use of 75 percent of the average state FMR as the cap in low FMR areas.

The second area that could benefit from further analysis is the distribution formula to be used if Congress were to allocate some incremental funding specifically for Thrifty Production Vouchers. As written, allocations would follow the HOME formula. This means that 40 percent of earmarked new vouchers would be allocated to states, based on their relative share of "need" under the indicia used for the HOME program, and 60 percent would be divided among the cities, urban counties and consortia of governments that are large enough to qualify for an individual HOME allocation. PHAs that administer a Section 8 voucher program could apply to administer all or a portion of the Thrifty Production Vouchers allocated to an area they serve.

There are three problems with use of this formula. First, it is unlikely that there would be sufficient new vouchers funded to allocate a reasonable number of Thrifty Production Vouchers to each participating jurisdiction. Even if there were sufficient funds, there would probably be only one possible administrator of the vouchers in most areas as only a single PHA usually serves a city or county, and that agency may not meet the qualifications in the statute or others that HUD would reasonably establish. Second, following the current HOME allocation formula may inhibit the development of new housing where it is most needed: in suburban areas with the greatest job growth. Third, there are currently a number of proposals for new housing production programs before Congress. If any of these is enacted, it may have a different formula, and it may then make sense to track that program's allocation formula. In the absence of a new production program with a different formula, a better allocation method for Thrifty Production Vouchers should be developed. An allocation system that is based on the HOME formula, but divides new funding only into the shares allocable to the 50 states, may be preferable. PHAs within each state that qualify to administer Thrifty Production Vouchers could then compete for a portion of the incremental funds allocated as the state's share of the Thrifty Production Voucher appropriation, similar to the competition currently used for "fair share" vouchers.[14]

Thank you very much for the opportunity to testify on the Thrifty Production Voucher section of H.R. 3995. A list of proposed modifications to Section 401 is attached as Appendix A.

[14] See suggested amendment 8 in Appendix A.

Appendix A – Suggested Modifications to Section 401

1. Page 65, line 20: The new paragraph adding the Thrifty Production Voucher component to the voucher statute should be paragraph (20).

2. On page 67, lines 21-25: To ensure that the power of the Secretary or a court to determine whether an agency actually has complied with the Secretary's regulations in determining that a site location meet applicable civil rights and fair housing requirements would not be unduly restricted, delete the clause beginning with "the" on lines 21 – 25, and in its place insert: "no additional determination by the Secretary shall be required in order for a public housing agency to attach assistance to such units under this subparagraph."

3. Page 68, line 9, to ensure that no more than 25 percent of the units that serve families with children in a poor neighborhood may receive any type of project-based assistance, after the word "paragraph" insert the phrase "or paragraph (13)".

4. Page 69, line 12: To allow an owner whose operating costs as defined in the statute, including the 15 percent cash flow allowance, exceed 75 percent of the payment standard or FMR, to agree voluntarily to accept the maximum rent allowed, insert at the end: "If the gross rent would exceed the limitations in subparagraph (iv), an owner may accept a lesser gross rent."

5. Page 70:12-16: Revise subparagraph (H)(iii) to read: "A public housing agency shall on request [of an owner] adjust the rent annually based on updated unit operating costs and any revision in the applicable Fair Market Rent or payment standard."

6. Page 76, line 16: To make it clear that if a PHA has received new voucher assistance designated for use under the Thrifty Production Voucher program, no adjustment would be required to renew these funds, insert at the end of subparagraph (K) the following sentence: "This subparagraph shall not apply to incremental assistance initially issued under this paragraph."

7. Page 76, line 17, after subparagraph (K) concerning renewal funding, insert the following new provision should be added so that PHAs using the flexibility afforded by Thrifty Production Vouchers do not run up against the 20 percent limitation on project-based assistance: "The additional units assisted as a result of the reduced payments permitted under this paragraph shall not be considered in determining an agency's compliance with the percentage limitation in paragraph (13)(B) of this subsection." This addition is consistent with the provision in Section 401 that allows Section 8 administrators that already project-base 20 percent of their existing voucher portfolios to exceed the cap if they receive new vouchers earmarked for use as Thrifty Production Voucher assistance.

8. Page 76, line 20: To revise the allocation formula for new vouchers earmarked for use under the Thrifty Production Voucher program, strike subparagraph (L)(i) and substitute: "ALLOCATION OF INCREMENTAL ASSISTANCE FOR USE UNDER THIS PARAGRAPH-- After reserving appropriate amounts for insular areas, incremental assistance appropriated for use under this paragraph shall be allocated to each state in accordance with the formula established by the Secretary under section 217(b) of the Cranston-Gonzalez National Affordable Housing Act, reflecting the total need of each eligible consortia and unit of government in the state. The Secretary shall reserve and obligate such assistance to qualified public housing agencies within the state pursuant to a competition conducted pursuant to specific criteria for the selection of recipients of assistance contained in a notice published in the Federal Register. Section 213(d)(1)(D) of the Housing and Community Development Act of 1974 shall apply to the allocation of incremental assistance under this subparagraph."

LISC

Testimony of

Benson F. Roberts
Vice President for Policy
Local Initiatives Support Corporation

H.R. 3995
The Housing Affordability for America Act of 2002

Before the

U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity

April 10, 2002

Testimony of Benson F. Roberts

Good morning, Madam Chairwoman and members of the Subcommittee. My name is Benson Roberts. I am Vice President for Policy at the Local Initiatives Support Corporation. I appreciate the opportunity to comment on H.R. 3995, the Housing Affordability for America Act.

About LISC

LISC helps neighbors build whole communities. In 21 years, LISC and its affiliates have raised from the private sector and provided $4 billion to help over 2,000 nonprofit low-income Community Development Corporations (CDCs) across the country to produce over 110,000 affordable homes and over 14 million square feet of commercial and industrial space. We also invest major resources in jobs and income programs, childcare facilities, youth programs, crime and security initiatives and many other programs that directly benefit low-income neighborhoods and their residents. CDCs have used LISC's funding to raise over $7 billion in investment. We are deeply involved in and deeply committed to meeting the needs of low-income families and communities.

The Need for New Housing Production

LISC appreciates the Subcommittee's attention to increasing the production of affordable housing, especially for very low- and low-income families. LISC strongly supports additional federal resources for this purpose.

According to a new report from the National Housing Conference, entitled *Housing America's Working Families: A Further Exploration*, one out of every seven American households (13 million) has a critical housing need. That is, these families spend more than 50 percent of their income for housing and/or live in severely substandard conditions. This includes 3.9 million households who work the equivalent of a full time job. Rising housing costs is the primary culprit, affecting homeowners and renters in nearly equal numbers. And, critical housing needs are not just a "city problem." While four out of ten working families with critical needs live in urban areas, another four out of ten live in suburban areas (with the remainder living in non-metropolitan areas).

HUD reports that the loss of affordable rental housing is accelerating, reaching 1.14 million in just two years (1997 -1999, the most recent period for which data are available). The rental housing market continues to tighten, with rents rising faster than inflation for four consecutive years, and decreasing vacancy rates.

Only substantially more affordable housing production can reverse these trends.

How Should Capital Subsidy Funds Be Provided?

H.R. 3995 would create a new component of the HOME program to produce and preserve rental housing for very low-income families with incomes below 50% of median and extremely low-income families with incomes below 30% of median. Like the broader HOME program, Low Income Housing Tax Credits, and the proposed National Housing Trust Fund, this proposal would provide "capital subsidies" to cover some or all of the development cost. While we do not oppose either this proposal in H.R. 3995 or the Trust Fund proposal, we do not believe that a new capital subsidy program is necessary to serve very low- and extremely low-income households. What is truly needed to expand production of affordable housing substantially is to increase federal funding for this purpose substantially.

HOME already addresses the needs of very low- and extremely low-income families well. Better than two of every five HOME renters (42%) have extremely low incomes, and four of every five (82%) have very low incomes. The deep income targeting that HOME achieves is the result of local choice, not federal requirements. The HOME law requires only 20% of the rental housing to serve very low-income tenants, and there is no requirement that any of the housing reach extremely low-income tenants. The data for Housing Credits are similar, according to the General Accounting Office.

We agree with the implication of H.R. 3995 that the HOME program offers the right structure for expanding affordable housing production. Along with the Housing Credit, HOME has been an exceptionally effective housing production program. HOME is understood and supported by a broad delivery system that includes the public, for-profit, and nonprofit sectors alike. This delivery system is ready and eager to utilize additional funds quickly and well.

HOME is flexible and responsive to a wide range of local housing priorities – mostly to produce and preserve rental housing (56%), but also to assist homebuyers (26%) and to rehabilitate owner-occupied homes (19%). It is used for rehabilitation (47%), new construction (36%), acquisition (14%), and even tenant based rental assistance (3%).

Moreover, HOME operates both efficiently and effectively. HOME funds contribute an average of $15,445 per home assisted. Every HOME dollar attracts $3.95 in other funds. And, although housing development typically takes several years to plan and develop, 84% of HOME funds has been committed to specific housing activities and 72% has been disbursed. While some changes to HOME along the lines proposed in H.R. 3995 would be helpful, they are relatively minor.

The principal limitation of the HOME program is insufficient funding. HOME was originally authorized in 1990 for $2 billion in funding, equivalent to $2.9 billion in today's purchasing power. This year's appropriation of $1.85 billion is the program's highest ever, but it falls 36% short of the $2.9 billion level equivalent to what Congress authorized a dozen years ago when housing needs were not as great as they are today.

At the local level, the shortage of HOME funds means that many excellent projects cannot go forward. Not only are families not getting the housing they need, but also numerous low-income community revitalization efforts fueled by HOME cannot consolidate the hard-won but still fragile momentum they have painstakingly nurtured for years. If Congress increases HOME funding substantially, the result will be more housing production for very low- and extremely low-income families, as well as stronger and more stable communities.

The proposed provision in H.R. 3995 could add welcome new funding for housing production if the proposed funding source – recaptured Section 8 funds – proves significant. We strongly support the principle that any Section 8 funds that are recaptured should be used for affordable housing production, and not for purposes unrelated to housing, although we understand it is unclear whether these recaptures are likely to be substantial in the future. In any case, these recaptured funds could be directed to the HOME program even without a new and restricted component. More broadly, however, we urge the Subcommittee to increase the authorization level for HOME to at least $2.9 billion. Anything less would represent a retreat, at least in purchasing power, from the goal Congress set in 1990.

Adding a newly targeted component would also diminish HOME's hallmark flexibility even though states and localities have amply demonstrated their commitment to serve very low- and extremely low-income families. For example, the new component would not be available to address the needs of very low- and extremely low-income homeowners. Almost one-third (31%) of the homeowners receiving housing rehabilitation assistance though HOME have extremely low incomes, and more than two-thirds of them (69%) have very low incomes. States and localities achieve this targeting without any federal requirement to do so.

Moreover, the proposed new provision also presents several technical but nevertheless important problems.

- Funding under a new authority could not be easily combined with Low Income Housing Tax Credits. Under Section 42 (i)(2)(D) of the Internal Revenue Code, the Housing Credits available to a property are reduced to the extent they are combined with federal grants or "below-market federal loans". Section 42 (i)(2)(E) provides an exception for such loans provided under the HOME program *as in effect on August 10, 1993.* That means that funding under a newly enacted authority, even within HOME, would not qualify for the exception, and so would reduce the amount of Housing Credits available to a property.

- The maximum rent on housing receiving the new targeted funds would be based on each tenant's actual income. This formulation would generally not be acceptable to private financing sources or prudent housing sponsors, because they cannot predict in advance exactly how much revenue the housing will generate. If the tenants' incomes are lower than expected, there will not be sufficient funds to support the housing. Sponsors will be obliged to assume little or no rental income from these units, substantially driving up the amount of subsidy funds required. We believe Thrifty Production Vouchers offer a sounder way to ensure affordability to extremely low-income families.

- Under the proposal federal Housing Credits and Community Development Block Grants could be used to meet state and local matching requirements. As a result, fewer state and local funds would be made available for affordable housing than would be the case if federal funds were provided through the regular HOME program with its current matching requirements.

Most of these same comments would apply to the National Housing Trust Fund legislation introduced in the House. We would welcome some new source of funding for affordable housing production, but our preference would be to administer it through a proven program with which all participants in the affordable housing development process are already familiar and comfortable.

The Need for Thrifty Production Vouchers

LISC strongly supports the Thrifty Production Vouchers proposed in H.R. 3995.

There is a limit to what any capital subsidy program can go to serve extremely low-income families with incomes below 30% of median. Most ELI families cannot afford to pay rent high enough to carry the operating expenses of housing, even if the development cost is fully subsidized and there is no mortgage to be repaid from rents. As a result, it is not surprising that a recent HUD study found that while nearly half of all HOME-funded rental housing serves extremely low-income households, those households in this category who lack rental assistance paid an average of 69 percent of income for rent. This finding should not be read as a criticism of HOME, but a simple and unavoidable math problem. The same issue would arise for any capital subsidy program.

The solution would be to provide some form of project-based rental assistance in conjunction with capital subsidies so that housing that is produced could serve extremely low-income tenants at rents they can afford over the long term. However, Congress has been reluctant to support project-based rental subsidies.

- Unless restricted to a modest portion of a property – e.g., 25% -- these subsidies could insulate properties from the healthy discipline of having to compete for tenants in the private market. Moreover, extremely low-income tenants could be excessively concentrated within certain properties, instead of participating in more mixed-income housing. These concerns can be easily addressed by limiting the share of a property that can receive subsidies. The project-based Section 8 amendments that Congress approved in 2000 followed this approach.

- The more difficult problem is the cost of renewing rental subsidies. Appropriators understand that they will be expected to renew rental subsidies each year for an indefinite period. Even tenant-based Section 8 vouchers are expensive to renew – about $6,000 per voucher every year. As a result, appropriators are reluctant to fund incremental vouchers to begin with.

The Cost-Effectiveness of Thrifty Production Vouchers

Thrifty Production Vouchers are designed to address this cost problem. What makes a Thrifty Production Voucher different is that the "payment standard" would be the property's operating cost, instead of the housing authority's payment standard based on the Fair Market Rent (FMR) that is used for regular vouchers. Tenants would still contribute 30% of their income as rent, but since a property's operating expenses (not including mortgage payments) are generally substantially below the FMR, a Thrifty Production Voucher would cost *at least about one-third less* than a regular voucher. To the extent that the operating cost is below the maximum, which is particularly likely in areas with high FMRs, the savings will be greater. A *cap* would be set on the amount of operating expenses that could be covered, to ensure that these vouchers are less expensive than regular vouchers. H.R. 3995 proposes a cap of 75 percent of the PHA's payment standard. Units with higher costs may be assisted with regular project-based vouchers.

Based on data from properties insured by the Federal Housing Administration, HUD consultants estimated that the average per unit operating cost in 1998-2000 was $242 (in 2000 dollars). Larger units will have somewhat higher costs, but newly produced units and units in partially assisted developments will have lower costs. These data do not include taxes, utility costs, a replacement reserve, or a cash flow allowance. Even if these additional expenses were to increase the average operating cost by $200, however, this average would still be substantially less than 75 percent of the average national FY 2002 FMR for a 2-bedroom unit, which is $522.

For example, if the housing authority's payment standard, set at 100 percent of the FMR, is $700 monthly and the tenant's share of the rent and utilities is $200, a regular voucher costs $500. If the operating cost for the same property plus tenant-paid utilities is the maximum allowable, or $525, then a Thrifty Production

Voucher would cost $325, or 35 percent less than a voucher. To the extent that the operating cost is below the maximum, the savings will be greater.

Eligible operating expenses would include owner-paid utilities, contributions to reserves, an asset management fee, and a modest cash flow allowance. However, mortgage debt service costs would not be included. This means that the portion of a property with Thrifty Production Vouchers would not be able to help carry a mortgage. In some cases this means that additional capital subsidies would be needed to make projects financially feasible. But in many cases today, the nonprofit sponsors with which we work are already arranging for deep capital subsidies in order to serve extremely low-income tenants at below-market rents. In such cases, the Thrifty Production Voucher would increase the stability of the housing for tenants and sponsors alike, without necessarily adding to the capital subsidies they need. In any case, LISC strongly supports additional capital subsidies for affordable housing production.

Since subsidies would generally be limited to 25% of the units in a property, the owner could set the property's overall operating budget, limited only by the cost cap noted above. Owners would be strongly motivated to minimize operating expenses, since they would have to bear at least 75% of any unnecessary expenses.

Expenses for services (e.g., property management) performed by entities related to the property's owner, would have to be reasonable and consistent with prevailing costs in the community. Unusual operating expenses (e.g., security costs in supportive housing) would be permitted, subject to the cap.

The Attraction of Thrifty Production Vouchers

We believe that Thrifty Production Vouchers should be attractive to the various participants in the affordable housing production system.

- Housing sponsors could use Thrifty Production Vouchers to serve at least some extremely low-income families at affordable rents that will contribute to project stability. Serving these tenants will help sponsors to compete more effectively for allocations of Low Income Housing Tax Credits, a scarce resource rationed in part based on serving especially low-income tenants. The ability to set the operating budget should enable owners to make a long-term commitment to participate in the Thrifty Production Voucher program. Owners would not have to worry that another entity would arbitrarily set the operating budget at an unworkably low level. In the unlikely event that Congress does not renew Thrifty Production Vouchers, owners would have to meet only the income targeting requirements of other housing subsidies they receive.

- Public housing agencies could use Thrifty Production Vouchers to grow their Section 8 programs. Once allocated to properties, PHAs should find it convenient that Thrifty Production Vouchers would follow virtually all the same rules as other vouchers, except that PHAs would have to follow relatively simple steps annually to consider increases in the payment standard. Thrifty Production Vouchers also offer PHAs an opportunity to participate more fully in housing production efforts.

- State and local agencies that administer HOME, Housing Credits or other capital subsidies should welcome the availability of Thrifty Production Vouchers as a valuable tool to serve extremely low-income tenants in new and rehabilitated housing.

- Investors and lenders should be comfortable with Thrifty Production Vouchers. Although Thrifty Production Vouchers would not add to the cash flow available to pay debt service, they should add financial stability to properties that serve extremely low-income tenants, thereby reducing risks.

Other Issues with Thrifty Production Vouchers

Thrifty Production Vouchers should work especially well in tight housing markets, but they would also be valuable wherever affordable housing production is appropriate. For example, housing production plays a key role in stimulating the revitalization of low-income communities. CDCs and other housing sponsors will want to ensure that at least some of the housing produced in low-income communities can be available and affordable to extremely low-income residents of those communities, and Thrifty Production Vouchers would make this possible. Likewise, the rehabilitation of deteriorated housing or the production of housing for large families, the elderly, the disabled, or other special populations can be important even in markets where there is not a general housing shortage. In these cases too, Thrifty Production Vouchers can ensure that subsidized housing developments can accommodate at least some extremely low-income tenants.

Thrifty Production Vouchers have been designed to harness private market incentives to work efficiently, but it will be necessary to prevent possible abuse in some cases.

- One concern relates to the exceptional cases eligible for assistance on more than 25% of the units in a property (housing for the elderly, disabled, or provided with supportive services). In these cases, the strong motivation for sponsors to manage operating expenses carefully will not apply, and greater scrutiny of operating budgets will be necessary.

- A second concern relates to operating expenses, such as property management fees, paid to the property's owner or a related party. Here, again, the normal incentive to manage costs carefully may not apply.

However, this is a common issue in affordable housing, and close cooperation between PHAs and state and local administrators of capital subsidies can ensure that such payments are in line with local norms.

On the whole, however, Thrifty Production Vouchers are conceptually sound and would add an important policy tool that no other program currently provides.

Conclusion

This concludes my testimony. I would be pleased to answer any questions you may have.

STATEMENT BY

ROBERT LAWSON

ON BEHALF OF

THE NATIONAL ASSOCIATION OF HOME BUILDERS

ON

H.R. 3995
Housing Affordability for America Act of 2002

April 10, 2002

Introduction

On behalf of the 205,000 members of the National Association of Home Builders, I want to thank you for inviting us to speak on some of the important provisions of the Housing Affordability for America Act of 2002. My name is Robert Lawson, and I am a builder from Virginia Beach, Virginia, and President of The Lawson Companies. For almost thirty years, our company has been active in the financing, development, and management of affordable and market-rate single- and multifamily housing. We have a portfolio of 4,000 apartments, 30 limited partnerships, and undertake about $10 million of construction and development activity annually.

Let me begin by saying that NAHB applauds Chairwoman Roukema and Chairman Oxley for introducing the first major housing bill in many years. We appreciate your willingness to address so many important housing issues in this bill, which will benefit low- and moderate-income households and make the process of providing affordable housing more effective and more efficient.

We have been asked to comment on Title I of the bill, the HOME Investment Partnerships program, specifically the Affordable Housing Production and Preservation Program provision, as well as on the Thrifty Production Vouchers in Title IV.

The HOME Affordable Housing Production and Preservation Program

NAHB is very supportive of the HOME program. It is an important and flexible block grant that state and local governments use to address their locally identified affordable housing needs. HOME funds are an important source of gap financing for developers using tax-exempt bonds, low income housing tax credits and other affordable housing financing. According to an August 2001 report prepared by Abt Associates for the U.S. Department of Housing and Urban Development (HUD), since its inception and as of April 2001, the HOME program has assisted over 586,750 units, of which 252,983 are rental units. The report states that the HOME program goal of serving very-low income households is being met -- 80 percent of all households in HOME units had incomes at or below 50 percent of the area median, with 47 percent of those households having incomes at or below 30 percent of area median income. We believe that this excellent track record is due, in large part, to the fact that participating jurisdictions have the flexibility to use HOME funds to meet their specific housing needs, which can vary considerably.

Under Title 1, Section 101, a new affordable housing production and preservation program would be created under HOME. The program would provide loans and grants for the production or preservation of existing affordable housing for very-low and extremely low-income households. Funds would be allocated to localities and states by formula, and matching funds would be required (with waivers for poor and rural areas). The program would be funded with unobligated balances of recaptured Section 8 funds.

The proposed program is not substantially different from the existing HOME program, and in fact, participating jurisdictions can already target their funds to low- and extremely low-income households as needed in their community. The HOME production program would likely be used primarily as gap financing, as it is currently, because of the considerable capital cost related to serving very-low and extremely low-income households.

While we appreciate that a source of funding outside the annual HOME appropriation is identified, that is, recaptured unobligated section 8 funds, we question whether that source of money will provide an adequate and stable level of funding to meet the program's goal of dramatically increasing production for very-low and extremely low-income households, particularly as HUD improves the utilization rate of vouchers and reduces the amount of unobligated funds. If funding for the new program became problematic, there could be a temptation to require participating jurisdictions to set aside regular HOME funds for these purposes. NAHB opposes the establishment of set-asides that would restrict the flexibility now enjoyed by participating jurisdictions in how they use their funds.

In addition, the new program does not attempt to address a number of significant issues that have been recognized as important to the success of sustainable affordable housing, that is: addressing long-term affordability for residents; ensuring the physical and financial health of the property by providing incentives to owners to stay in the program; providing adequate capital for future rehabilitation needs; and ensuring the preservation of the housing over the long-term.

We believe it is worthwhile to consider a different approach, because despite the nation's general prosperity, there continues to be a critical shortage of affordable rental housing for both low- and moderate-income households. Two recent reports, one by the Center for Housing Policy, "Paycheck to Paycheck: Working Families and the Cost of Housing in America," and the second, the Joint Center for Housing Studies of Harvard University's The State of the Nation's Housing Annual Report 2001, have extensively documented the growing problem of meeting the housing needs of 3.7 million households who are the "working poor." The Center is focusing on this group because there are signs of persistent and worsening housing affordability for them in all parts of the country, including cities, suburbs and rural areas, despite the recent economic prosperity.

NAHB believes that the establishment of a new rental housing production program that produces 60,000 to 70,000 units annually should be a top housing priority for the Administration and Congress in the coming year. As described in the reports, there is a need for a new multifamily rental housing production program that would meet the affordable housing needs of households with incomes between 60 and 100 percent of area median income (AMI), America's "working poor." These households are not eligible for housing assistance through most current federal housing programs.

NAHB has developed a different approach. Our program is designed to produce mixed-income housing, which has proven to provide greater financial stability and community acceptance than developments that concentrate very-low and low-income households. The program focuses primarily on the working poor, with a portion of each property (up to 25 percent) reserved for very-low and extremely low-income households.

Although there are several ways in which this program could work, our proposal relies primarily on the low interest rates available through Ginnie Mae-guaranteed lower floater securities, which carry very low rates of interest (currently less than 4 percent). The securities could be issued by a variety of entities, including developers, private lenders, housing finance agencies, and local governments. Ginnie Mae would guarantee the timely payment of principal and interest to investors, which would further lower financing costs. Underlying loans could be backed by the Federal Housing Administration (FHA) or the Rural Housing Service (RHS), or could be conventional loans (use of the latter would require a change in Ginnie Mae's charter).

Interest rate subsidies or buy-downs could be employed to achieve additional affordability. To further reduce debt coverage requirements, developers may also use sources of equity and soft-second debt such as tax credits, HOME, the Federal Home Loan Bank System's Affordable Housing Program and state housing trust funds.

The only federal budget dollars required would be for any credit subsidy needed for Ginnie Mae's participation, interest rate subsidies or buy-downs, and a marginal increase in the cost of rental assistance vouchers. The program would require only a small amount of federal government subsidy per development and would provide for ongoing maintenance and future capital improvements by building in adequate reserves from monthly cash flow at a level sufficient to rehabilitate the development in year 20. A minor modification to the existing voucher program rent payment standard would ensure that very-low and extremely low-income households could be served. The program would work in all areas of the country, including urban and rural areas.

The program also provides incentives to owners through deferral of profits and by making the recognition of any gains contingent on property performance (both financial and physical) throughout the 40-year period that the units must be held in the affordable housing stock. There should be no exit tax on non-cash appreciation of the property when an owner sells the property. However, if the property is sold after 40 years, 50 percent of the equity appreciation should be returned to the federal government to produce additional affordable housing.

The program could be administered by state housing finance agencies, which already administer the tax credit program, HOME, CDBG and other housing loan and grant programs. Centralized administrative elements could be handled by HUD, which already performs similar functions for many of the programs listed above.

In looking at how a new production program might work, NAHB believes we need to tackle affordability problems at all income levels. We urge you to take a closer look at our proposal as you consider how a new program should be structured.

Title 1, Section 102

As for other provisions in Title 1, NAHB supports Section 102, which removes the fair market rents from rent level determinations under the HOME program. Under current law, HOME rents are established by the section 8 Fair Market Rent (FMR) formula. In certain counties, the FMR is too low to support the debt service, which impacts the financial feasibility of a development.

<u>Title 1, Section 103</u>

We also support Section 103, which would allow participating jurisdictions to base the HOME rent on the greater of the state or area median income. Our members, especially in rural areas, report that this has been a difficult problem because rents often are too low to cover the costs of developing and operating the affordable housing.

<u>Title IV, Section 401, Thrifty Production Vouchers</u>

Finally, we would like to comment on Section 401 of Title IV, the Thrifty Production Vouchers. These vouchers would be project-based with rents set at an amount equal to the sum of the per unit operating cost for the property, plus applicable utility allowances for tenant-paid utilities. However, rents may not exceed 75 percent of a public housing agency's payment standard or fair market rent for a similar unit. Projects in qualified census tracts (as defined in section 42(d) of the Interval Revenue Code) are limited to having 25 percent of the units using thrifty vouchers. The thrifty vouchers must serve extremely low-income households, that is, below 30 percent of AMI. Owners must commit to the program for a total of 40 years; after an initial 15-year term, they must accept offers of renewal for up to 40 years.

We believe an important objective in the design of new programs should be to simply the process of developing, financing and managing affordable housing. The thrifty voucher program would add yet another layer of rules and regulations to an already complex voucher program. Local housing authorities would need to take on additional administrative responsibilities for which they have little experience, such as reviewing operating expense budgets and determining appropriate rent increases.

In addition, although we understand the desire to find less expensive ways of providing rental assistance, the effect of the thrifty voucher program could be to increase the rental burden on residents. In an effort to make the thrifty vouchers work, housing authorities could set rents higher than operating costs but keep the payment standard at operating costs, thus burdening the residents with higher contributions towards rent.

If the rent burden to residents were not increased, developers may be forced to find additional sources of capital to compensate for the financial gap. Currently, there are few sources of gap financing, HOME and the Federal Home Loan Banks' Affordable Housing Program (AHP) being the principal sources, both of which are significantly oversubscribed. In rural areas, the thrifty voucher is not likely to work because at 30 percent of area median income, rents cannot cover operating expenses and capital costs

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NAHB would like to see a greater portion of the existing vouchers project-based, but we believe the existing program is already being used to serve extremely low-income families without substantially increasing the rent burden on residents or forcing developers to add yet more layers of financing to already complex deals.

Conclusion

We would like to thank you again for giving us the opportunity to speak at the hearing today. The Housing Affordability for America Act is a significant bill that contains many needed improvements to existing programs, as well as new ideas and approaches to solving the country's affordable housing crisis. We look forward to working with you as the bill progresses and to testifying on other important provisions it contains.

Statement of Rodrigo Lopez

President

AmeriSphere Multifamily Finance, L.L.C

on behalf of the

Mortgage Bankers Association of America

before the

House Financial Services Committee

Subcommittee on Housing and Community Opportunity

hearing on

"HOUSING AFFORDABILITY FOR AMERICA ACT OF 2002"

April 10, 2002

The Mortgage Bankers Association of America* is grateful for the opportunity to present its views on the "Housing Affordability for America Act of 2002" (H.R. 3995). We applaud the Chair and Vice-Chair of the Subcommittee on Housing and Community Opportunity for sponsoring this legislation. MBA believes that this bill will play an important role in efforts to increase Americans' access to affordable housing, both for those families buying their first home and those who are living in rental housing. MBA has endorsed H.R. 3995, and we look forward to working with you and other members of the Subcommittee as the bill moves through the House.

***MBA is the national association representing the real estate finance industry. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand home ownership prospects through increased affordability; and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters excellence and technical know-how among real estate finance professionals through a wide range of educational programs and technical publications. Its membership of approximately 2,800 companies includes all elements of real estate finance; mortgage companies, mortgage brokers, commercial banks, thrifts, life insurance companies and others in the mortgage-lending field. For additional information visit MBA's web site: www.mbaa.org.**

The Need for a New Rental Housing Production Program

Last year, the Subcommittee on Housing and Community Opportunity held a series of hearings on housing affordability and availability in America. The conclusion of those hearings was crystal clear: *a significant shortage of affordable housing, especially rental housing, exists in virtually every jurisdiction in America.*

Three recent reports published by the National Housing Conference's Center for Housing Policy[1] found that in 1997 and 1999, one out of every seven American households (13 million) had a critical housing need. More than 3.9 million of these households included one or more family members who had a full-time job.

Rather than diminishing over the last several years, this crisis in affordable housing is deepening. According to the studies cited above, in 1997 more than 3.7 million low- to moderate-income working families had critical housing needs. Working families with critical housing needs increased to 3.9 million in 1999—a 28 percent increase.

For those families in the median income groups, the number of families earning 50 to 80 percent of median income with critical housing needs increased by 31 percent. For families earning 80 to 120 percent of median income, those with critical housing needs rose a dramatic 77 percent. The NHC/CHP studies also note that vital municipal workers like teachers and police officers are increasingly unable to find affordable housing in the communities they serve.

The most recent NHC/CHP study, entitled *Housing America's Working Families: A Further Exploration*[2], states that this crisis is not a regional problem or an urban problem. The study points out that 40 percent of the families facing critical housing needs reside in urban areas, 40 percent live in suburban areas, and 20 percent live in non-metropolitan or rural areas.

The causes of the crisis differ in different regions of the country. In lower price areas, the problem is generally one of income. The housing exists; the rents are simply too high for lower-income families to afford. In these areas, income support programs, such as Vouchers are the most cost-effective means to assist

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[1] *Housing America's Working Families,* by Michael A. Stegman, Roberto G. Quercia & George McCarthy (Center for Housing Policy; June 2000); *Paycheck to Paycheck: Working Families and the Cost of Housing in America* , by Barbara J. Lippman, Sandra J. Newman & Joseph M. Harkness (Center for Housing Policy; June 2001); *Housing America's Working Families: A Further Exploration*, by Joseph M. Harkness, Sandra J. Newman & Barbara J. Lippman; (Center for Housing Policy; March 2002).

[2] *Housing America's Working Families: A Further Exploration*

families. In other areas, such as New Jersey and Massachusetts, the lack of rental housing has driven up rents to the point where even moderate income families cannot afford to live in the communities where they work. The fact that there has been little new production has made cities like Newark and Boston virtually unaffordable for many families – even for some with two full-time wage earners.

The need for a new rental housing production program to address these shortages is indisputable, and it is essential that Congress devote more federal resources toward new production of affordable rental housing.

Rental Housing Production and Preservation Provisions in H.R. 3995

Last May, the Mortgage Bankers Association testified before this Subcommittee during its oversight hearings on the crisis in affordable housing. At that time, MBA addressed a number of factors that we feel contribute to this crisis, and offered some potential solutions. We are extremely gratified that the members of the Subcommittee took our recommendations, and those of other witnesses, and crafted legislation that truly reflects the opinions of industry, community activists, government officials and other housing experts.

The production program outlined in H.R. 3995 utilizes the highly successful Home Investment Partnership Program (HOME) for production and preservation. We believe that the HOME program provides a very good distribution system and has been successful in providing the gap financing necessary to lower rents in housing produced through other programs. We applaud the bill's provision dividing the allocation of HOME funds 60 percent to localities and 40 percent to states. We also endorse a number of other concepts outlined in the new rental housing production program portion of the bill, including using state median income (SMI) rather than area median income (AMI), if the SMI is higher.

While we endorse many of the concepts behind H.R. 3995's new rental housing production program, however, we do have some concerns about targeting the production program to very-low and extremely-low income constituencies. The need for assistance for families making between 60 percent and 100 percent of median income is very real, and in some areas of the country is hindering economic development.

There are no federal programs to help renters in these income brackets, people who are often the teachers, firefighters and police officers who serve our communities well. To limit new rental housing production so that only very low- and extremely low-income families are assisted is unfair to the many hard-working families who are above these limitations and yet unable to afford decent rental housing in the communities where they work.

As currently drafted, the provisions of H.R. 3995 would be useful in assisting developers to lower the rents on housing that is being constructed or rehabilitated. Used in conjunction with Low Income Housing Tax Credits as a grant or loan to cover part of the construction costs, more very low- and extremely low-income families could be housed at affordable rents. We do not believe, however, that this program would produce additional housing on its own. It would simply be a mechanism for lowering rents on some units that would be produced without the HOME program. This is a laudable goal and will assist an important segment of the population. However, MBA does not believe that this program would, on its own, generate new construction or substantial rehabilitation of affordable rental housing. Therefore, it would not address many of the needs in the least affordable areas of the country where significant new rental housing production is needed.

In order to effectively address the types of shortages that exist in various geographic areas, a mixed income production program is essential. As currently drafted, MBA believes that the provisions of H.R. 3995 would not produce mixed income developments. The Low Income Housing Tax Credit program currently produces few rental developments that house families having in excess of 60 percent of median income. It appears that this program is structured to deliver the same results. It is our opinion that families would be better served, and federal housing dollars would be better spent, in properties with tenants whose incomes range from less than 30 percent of median to 100 percent of median income.

MBA Recommendations for a New Rental Housing Production Program

The federal government has tried a number of different approaches to provide affordable housing over the last fifty years. The most successful of these rely heavily on a public/private partnership that encourages the private sector to produce housing with support provided by the federal government. In particular, the FHA mortgage insurance programs have been extremely successful in producing new and rehabilitated housing at little or no cost to the federal government. Partnering FHA mortgage insurance with an interest rate subsidy will, in most markets, encourage private production of rental housing at rents that would be within the reach of families at 60 percent to 100 percent of median income, a group that is not currently being served by federal housing programs. Such a program could be used in conjunction with the tax credit program or vouchers, where appropriate, to meet the needs of lower income families in a percentage of the units.

Ideally, any new production program would reduce the cost of financing by providing an interest rate subsidy that would bring the market interest rate down to a fixed interest rate that is significantly below market (i.e. 4%) to allow for lower rents. Such a program needs to work with other federal programs, including HOME, tax credits, and project-based vouchers to achieve a mix of incomes. The reduced interest rate should produce rents affordable to families with 60 percent to 100 percent of median income. To address the needs of lower-income families, 15 percent to 25 percent of units in each property would be available for voucher recipients or otherwise restricted in accordance with the requirements of the other programs used.

The program should provide a "level playing field" for property ownership with no preference given to non-profit entities or tax-paying companies. Rather, consideration should be given to the most efficient producer of the housing to assure that the program is implemented quickly at the lowest possible cost.

Such a program would address the needs in areas of high housing costs by producing additional rental housing. Not only would it provide assistance to those who live in these developments, but also the additional supply of housing should increase vacancies in other properties and would therefore have the effect of moderating rent increases in the market area. MBA believes that assisting low- and moderate-income families is not only equitable but also less expensive than focusing exclusively on very low- and extremely-low income families. In addition, vouchers, either project-based or tenant-based, could be used to assure an income mix in the properties and provide assistance for those with the greatest need.

Conclusions

It is clear that a significant and worsening crisis in affordable housing exists in the United States. This deepening crisis affects every state in the country, and affects families in many income brackets. The crisis is increasing among America's working families, who find themselves paying a larger and larger portion of their income for shelter that is often inadequate. In some cases, affordable housing is simply not available. MBA commends Chairwoman Roukema and Vice-Chairman Green for their leadership in introducing the "Housing Affordability for America Act of 2002". We believe that this bill lays the groundwork for developing legislation that will enable the public and private sectors to solve the crisis in affordable housing, particularly rental housing.

While MBA endorses many of the new rental housing production provisions contained in H.R. 3995, we do not feel that targeting the production program to very-low and extremely-low income constituencies is the most cost-effective or efficient way to address the problems that currently exist. Addressing the need that exists for the lower income families solves part of the problem, but not all of the problem. The need for assistance for families making between 60 and 100 percent of median income is great. As currently drafted, we do not feel that the rental housing production program in H.R. 3995 would necessarily generate new construction or substantial rehabilitation of affordable rental housing, particularly mixed income developments.

MBA believes that in order to effectively address the scope and range of housing shortages that exist across the country, a mixed income rental housing production program is essential. MBA looks forward to working with the members of the Subcommittee and their staff to craft a rental housing production program that works in conjunction with other federal programs, including HOME, tax credits, and project-based vouchers to produce housing that serves a mix of incomes. Through such a program, government and private industry can work together to address the crisis in affordable housing.

We very much appreciate having the opportunity to present our views to you today.

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

2,101 Endorsements of a National Housing Trust Fund

National Housing Trust Fund

2,039 local, state and national organizational endorsements; 12 editorial endorsements; 50 local government/elected official endorsements as of April 5, 2002.

30 National Organizations Sponsoring the National Housing Trust Fund Campaign*
**Providing staff time to the campaign*

ACORN (Association of Community Organizations for Reform Now)
American Association of Homes and Services for the Aging
American Planning Association
Catholic Charities USA
Center for Community Change
Children's Defense Fund
Child Welfare League of America
Community Action Partnership (formerly National Association of Community Action Agencies)
Corporation for Supportive Housing
The Enterprise Foundation
Housing America
Housing Assistance Council
Local Initiatives Support Corporation (LISC)
Lutheran Office for Governmental Affairs, ELCA
Lutheran Services in America
McAuley Institute
National Alliance for the Mentally Ill
National Alliance to End Homelessness
National Coalition for the Homeless
National Council of La Raza
National Housing Law Project
National Housing Trust
National Low Income Housing Coalition
National Student Campaign Against Hunger and Homelessness
NETWORK: National Catholic Social Justice Lobby
Smart Growth America
United Jewish Communities
United States Conference of Catholic Bishops
United Way of America
Volunteers of America

52 National Organizations Supporting the National Housing Trust Fund Campaign
AFL-CIO Housing Investment Trust
Alliance for Children and Families
Alliance to End Childhood Lead Poisoning
American Friends Service Committee
Americans for Democratic Action
The Arc of the United States
Bazelon Center for Mental Health Law
Call to Renewal
Center for Neighborhood Technology
Center for Women Policy Studies
Central Conference of American Rabbis
Coalition on Human Needs
Consortium for Citizens with Disabilities Housing Task Force
Council for Affordable and Rural Housing
Development Training Institute
Friends Committee on National Legislation

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

Habitat for Humanity International
HELP USA
Jewish Women International
Latino Economic Development Corporation
Mennonite Central Committee
Mercy Housing, Inc.
National Affordable Housing Management Association
National Affordable Housing Preservation Associates, Inc.
National AIDS Housing Coalition
National Apartment Association
National Coalition for Asian Pacific American Community Development
National Network to End Domestic Violence
National Black Catholic Evangelization Forum
National Coalition Against Domestic Violence
National Committee for Responsive Philanthropy
National Community Action Foundation
National Community Land Trust Network
National Congress for Community and Economic Development
National Credit Union Foundation
National Foundation For Affordable Housing Solutions
National Health Care For the Homeless Council
National Law Center on Homelessness and Poverty
National Leased Housing Association
National Multi Housing Council
National Neighborhood Coalition
National Network for Youth
National Priorities Project
National Puerto Rican Coalition
National Trust for Historic Preservation
Presbyterian Church (USA)
Public Housing Residents National Organizing Campaign
Rainbow/Push Coalition
ReseArch Institute for Housing America
Sierra Club (Challenge to Sprawl Campaign)
Union of American Hebrew Congregations
United Methodist Church

12 Editorials Supporting the National Housing Trust Fund Act

State	Publication
California	Bayview Newspaper (Nov. 22, 2001)
	Poor Magazine (Nov.15, 2001)
Colorado	Denver Post (June 29, 2001)
Maine	Portland Press Herald (July 30, 2001)
Massachusetts	Boston Globe (Oct.15, 2001)
Missouri	St. Louis Post-Dispatch (Oct. 4, 2000)
	St. Louis Post-Dispatch (Jan. 2, 2001)
	St. Louis Post-Dispatch (Feb. 9, 2001)
	St. Louis Post-Dispatch (July 9, 2001)
Ohio	Lorain Morning Journal (Oct. 8, 2001)
Washington	Seattle Post-Intelligencer (Aug. 2, 2000)
	Seattle Post-Intelligencer (Nov. 12, 2000)

22 Local Governments Supporting the National Housing Trust Fund Act

State	Municipality
Arizona	Town of Guadalupe
California	Board of Supervisors, City of San Francisco
	Board of Supervisors, County of San Francisco
	Board of Supervisors, County of Santa Clara
Florida	Board of County Commissioners, Broward County
	School Board of Manatee County
Louisiana	Terrebone Parish Council
Maine	City Council, City of Auburn
	City Council, City of Portland
Minnesota	Hennepin County
New York	Village of Hempstead
North Dakota	City Commission, City of Fargo
Oregon	City of Hillsboro
	Portland City Council

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

Rhode Island	New Shoreham Town Council
	Town Council, Town of Bristol
South Carolina	City Council, City of Myrtle Beach
Texas	Alamo Area Council of Governments
Vermont	City of Burlington
Wisconsin	City of Madison
	City of Milwaukee
	Dane County

28 Elected Officials Supporting the National Housing Trust Fund Act

State	**Elected Official**
California	Mayor Willie Brown, San Francisco
Massachusetts	Mayor Thomas M. Menino, Boston
Maine	Councilman Tom Kane, Portland
North Dakota	Mayor Bruce W. Furness, Fargo
Ohio	Councilwoman Charleta B. Tavares, Columbus
Oregon	Mayor Rob Drake, Beaverton
	Mayor Vera Katz, Portland
	Commissioner Jim Francesconi, Portland
	Commissioner Charlie Hales, Portland
	Commissioner Dan Saltzman, Portland
	Commissioner Erik Sten, Portland
Rhode Island	Mayor John O'Leary, Cranston
	Mayor Scott Avedisian, Warwick
Wisconsin	Alderwoman Brenda Konkel, Madison
	Alderman Gary Paulson, Madison
	Alderwoman Kathy Great, Appelton
	Alderman Kent Palmer, Madison
	Alderman Marvin Pratt, Milwaukee
	Alderman Matt Sloan, Madison
	Alderman Mike Verveer, Madison
	Alderman Paul Henningson, Milwaukee
	Alderman Robert Donavan, Milwaukee
	Alderman Steve Holtzman, Madison
	Alderman Tim Bruer, Madison
	Alderman Todd Jarrell, Madison
	Supervisor Bill Sklba, Racine County
	Supervisor Echnaton Vedder, Dane County
	Supervisor Kathy Arciszewski, Milwaukee County

1,957 State and Local Organizations Supporting the National Housing Trust Fund Campaign from 50 states, The District of Columbia, and Puerto Rico

State	**Organization**
Alabama	Alabama Council on Human Relations
	Altheia House
	Arise Citizens' Policy Project
	Birmingham Health Care
	Christian Mission Centers, Inc.
	Church of the Reconciler
	Community Action Agency of BECCM Counties
	The Community Free Clinic
	Faith Foundation, Inc.
	Franklin Memorial Primary Health Center
	Homeless Coalition of Mobile, Inc.
	Housing Authority of the City of Opelika
	Huntsville/Madison County Mental Health Center
	Indian Rivers Mental Health Center
	Legal Services of North-Central Alabama, Inc.
	Metropolitan Birmingham Services for the Homeless
	Neighborhood Services, Inc.
	New Futures, Inc.
	The Pathfinder, Inc.
	The Service Center of Catholic Social Services
	Volunteers of America Southeast, Inc.
	YWCA Bread & Roses
Alaska	Alaska Mental Health Board
	Alaska Mental Health Consumer Web and Clubhouse
	Alaska Psychiatric Institute

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

Rural Alaska Community Action Program
Southcentral Counseling Center

Arizona

City of Casa Grande, Department of Housing and Revitalization
Arizona Community Action Association
Comite de Bien Estar, Inc.
Dineh Cooperatives, Inc.
Economic Development for Apache County (EDAC)
Forgach House Domestic Crisis Shelter
Grand Vista, Inc.
Housing America Corporation
Housing for Mesa, Inc.
Interfaith Coalition for the Homeless, Inc.
Northern Arizona Council of Governments
Phoenix ACORN
Pima County Community Action Agency
PPEP Micro-business and Housing Development
The Primavera Foundation
Tucson Planning Council for the Homeless

Arkansas

ABC Consultants
Arkansas Coalition Against Domestic Violence
The Arc of Arkansas
Community Action Program for Central Arkansas
Crowley's Ridge Development Council, Inc.
Delta Community Development Corporation
ECS Planning and Management Services, Inc.
Good Faith Fund
Lee County Community Development Corporation
Lighthouse Outreach, Inc.
Little Rock ACORN
Walnut Street Works, Inc.

California

A Community of Friends
Affordable Housing Network of Santa Clara County
African Community Resource Center
Air Transport Employees Union 1781
Alameda County Children & Families Commission
Alexander Tenants Association
Alliance for a Better District 6
Almond Court, Inc.
Amalgamated Transit Union 1225
Amalgamated Transit Union 1555
Amalgamated Transit Union 1575
Amassi, Inc.
American Federation of Government Employees 1923
American Federation of Government Employees 2391
American Federation of Musicians 6
American Federation of State and County Municipal Employees 829
American Federation of State and County Municipal Employees 3299
American Federation of Television and Radio Artists
American Guild of Musical Artists
American Postal Workers Union, SF Local
A. Philip Randolph Institute, San Francisco Chapter
The Arc of California
Asian American Federation of Union Members
Asian & Pacific Islander Institute on Domestic Violence
Asian Pacific American Labor Alliance
Association of Flight Attendants, Council 11
Bakers Union 24
Bay Area S.E.I.U. Joint Council 2
Bay Cities Metal Trades Council
Bay Counties District Council of Painters
Benicia Community Action Coalition
Bernal Heights Neighborhood Center
Beyond Shelter
Bridge, Structural, Ornamental and Reinforced Iron Workers 377
Building Opportunities for Self-Sufficiency
Burbank Housing Development Corporation
California Affordable Housing Law Project
California Coalition for Rural Housing
California Faculty Association, SF State Chapter

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

California Housing Integration Set Aside
California Housing Law Project
California Housing Partnership Corporation
California Reinvestment Committee
California State Employees Association 1000
California State Employees Association DLC 745
Campesinos Unidos, Inc.
Carpenters 22
Carpenters 2236
Carpet Layers 12
CASA Familiar, Inc.
CHAM First Christian Church
City of Oakland Community & Economic Development
Coach Valley Housing
The Coalition Against Homelessness
Coalition for Ethical Welfare Reform
Coalition of Labor Union Women, SF Chapter
Coalition of Neighborhood Councils
Coalition on Homelessness
Coalition on Homelessness, Stanislaus County
Communications Workers of America 9410
Communications Workers of America 9415
Community Build, Inc.
Community Economics, Inc.
Community Homeless Alliance Ministry
Community Housing Improvement Program
Community Housing Opportunities Corporation
Community Resource Associates, Inc.
Compass Services Staff
Conference of Newspaper Unions
Congress of California Seniors
Contra Lostra County Community
Council of Community Housing Organizations
Day Laborers Program
District 1, PCD, MEBA
District 6 Sentinel
DrawBridge: An Arts Program for Homeless Children
East Bay Asian Local Development Corporation
East Bay Housing Corporation
East Oakland Community Development Corporation
EASY ACCESS
Ecumenical Association for Housing (EAH, Inc.)
Ecumenical Council of San Diego County
Elevator Constructors 8
Emergency Services Network
Engineers and Scientists of California 21
Engineers and Scientists of California 20
Evelyn & Walter Haas, Jr. Fund
Fair Housing Council of San Diego
Federation of Retired Union Members
Gardner Family Health Network, Inc.
Glass, Molders, Pottery and Plastics and Allied Workers 164-B
Glaziers and Glass Workers 718
Graphic Communications Int'l Union 388
Graphic Communications Int'l Union 583
Gubb & Barshay Law Offices
Harvest for the Hungry
Heat and Frost Insulators & Asbestos Workers 16
Heschong Mahone Group
Home and Community, Inc.
Home Buyer Assistance Center
Homeless Prenatal Program
Homeless Writers Coalition
Homes Not Jails
Hotel Employees & Restaurant Employees 2
Housing and Community Development
Housing Authority of the City of Santa Barbara
Housing Authority of the County of San Joaquin
Housing California 2000

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

Housing Rights Committee
Independent Living Center of San Gabriel/Pomona Valley
Inlandboatmen's Union of the Pacific
International Association of Machinists 1213
International Brotherhood of Electrical Workers 6
International Brotherhood of Electrical Workers 45
International Brotherhood of Electrical Workers 1245
International Brotherhood of Electrical Workers 1269
International Brotherhood of Metal Polishers 128
International Federation of Professional and Technical Engineers 49
International Longshore & Warehouse Union 5
International Longshore & Warehouse Union 10
International Longshore & Warehouse Union 34
International Organization of Masters, Mates & Pilots, Pacific Maritime Region
International Photographers Guild 600
INNvision
Kenneth Arms Tenant Association
Labor Council for Latin American Advancement
Laborers International Union 261
La Raza Centro Legal
Leather, Plastics & Novelty Workers 31
Legal Aid San Diego
Los Angeles ACORN
Los Angeles Coalition to End Hunger and Homelessness
Los Angeles Community Design Center
Los Angeles Housing Law Project
Machinists Automotive Trades District Lodge 190
Marin Housing Council
Marine Firemen & Oilers Union
Maritime Trades Port Council
Mercy Housing California- San Francisco
Mercy Housing California - West Sacramento
Mission Anti-Displacement Coaltion
Mortuary Employees Union
Moving Picture Machine Operators 166
National Alliance for the Mentally Ill- South Santa Barbara County
National Association of Broadcast Employees and Technicians 51
National Association of Letter Carriers, Golden Gate Branch 214
National Community Building Network
National Lawyers Guild
National Writers Union Bay Area 3
Nehemiah Corporation of California
Neighborhood Housing Services Silicon Valley
Newspaper & Periodical Drivers and Helpers 921
Newspaper & Periodical Venders and Distributors 465
Non-Profit Housing Association of Northern California
Northern California Allied Printing Trades Council
Northern California Carpenters Regional Council
Northern California District Council ILWU
Northern California Mailers Union IBT 15
Northern California Media Workers 39521
O.N.E. Company
Oakland ACORN
Office of Hispanic Ministry
Office and Professional Employees 3
Office and Professional Employees 29
Operating Engineers 3
Orange County Community Housing Corporation
Painters 4
Palo Alto Housing Corporation
Peninsula Auto Machinists 1414
People's Budget Collaborative
People's Self Help Housing Corporation
Petaluna Ecumenical Properties
Placer County Housing Authority
Plasterers & Shophands 66
Plumbers & Steamfitters 38
PODER (People Organizing to Demand Environmental & Economic Rights)
POWER

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

Pride at Work
Project New Hope
Religious Leaders National Call for Action on Housing
Religious Witness with the Homeless People
Resources for Independent Living
Resources for Rural Community Development
Roofers, Waterproofers, and Allied Workers, Local 40
Rural California Housing Corporation
Rural Community Assistance Corporation
Sacramento ACORN
Sacramento Homeless Organizing Committee
Sacramento Housing Alliance
Sacramento Housing & Redevelopment
Sacramento Mutual Housing Association
Sailors' Union of the Pacific
San Diego ACORN
San Diego Housing Coalition
San Diego Housing Federation
San Diego County Alliance of Tenants
San Francisco Archdiocese Federation of Teachers 2240
San Francisco Bar Pilots
San Francisco Community College Teachers 2121
San Francisco Fire Fighters 798
San Francisco Foundation
San Francisco Independent Media
San Francisco Labor Council
San Francisco Paper Handlers 24-H
San Francisco Tenants Union
Sanitary Truck Drivers 350
San Jose ACORN
Santa Barbara Community Housing Corporation
Santa Clara County Collaborative on Affordable Housing
Santa Clara County Social Services Agency
Screen Actors Guild
Seafarers International Union
Section 8 Program
SEIU Health Care Workers 250
Self-Help Enterprises
Service Employees Union 1877
Service Employees Union 535
Service Employees Union 750
Service Employees Union 790
Service Employees Union 87
San Francisco Building and Construction Trades Council
Sheet Metal Workers 104
Shelter Partnership, Inc.
Shelter, Inc.
Shipyard & Marine Shop Laborers 856
Sign, Display and Allied Crafts 510
Silicon Valley Manufacturing Group
Sisters of Mercy
Skid Row Housing Trust
Sober Housing
South County Housing
Southern California Association of Non-Profit Housing
SRO Housing Corporation
State Employees Trades Council 1268
Statewide California Coalition for Battered Women
Stationary Engineers 39
St. Joseph Health System
St. Vincent de Paul Village, Inc.
Teamsters & Auto Truck Drivers, IBT 35
Teamsters Automotive Employees, IBT 665
Teamsters Joint Council #7
Teamsters 856
Tenants Association of Rancho Cordova
Tenant Associations Coalition of San Francisco
Tenant Associations of Rancho Arms
Tenderloin Neighborhood Development Corporation

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

	Theatrical Employees Union B-12
	Theatrical Federation of San Francisco
	Theatrical Wardrobe Union 784
	Transitional Living & Community Services
	Transport Workers 200
	Transport Workers 250-A
	Transport Workers Union of America California State Conference
	Tri-City Homeless Coalition
	United Auto Workers 2103
	United Auto Workers 2350
	Union Label Section
	Union of American Physicians and Dentists
	UNITE 1089
	UNITE Pacific Northwest District Council
	UNITE Western Regional Joint Board
	United Administrators of San Francisco, AF9A 3
	United Educators of San Francisco, AFT Council
	United Farm Workers of America, SF
	United Food and Commercial Workers 101
	United Food and Commercial Workers 428
	United Food and Commercial Workers 648
	United Steelworkers Local 1304
	University of San Francisco Faculty Association 4269
	University Professional and Technical Employees 9119
	Vallejo Neighborhood Housing Services
	Vivienda y Salud/Oldtimers Foundation
	Watts/Century Latino Organization
	Web Pressmen/Pre-Press Workers Union 4N
	West Hollywood Community Housing Corporation
	William W. Pettus Architecture
	Window Cleaners 44
Colorado	Catholic Charities-Western Slope
	City of Colorado Springs Community Development Unit
	Colorado Affordable Housing Partnership
	Colorado Coalition for the Homeless
	Colorado Rural Housing
	Denver ACORN
	The Energy Office
	Greccio Housing Opportunity Center
	Hope Communities, Inc.
	Lutheran Office of Government Ministry - Colorado
	Mercy Housing Southwest
	Metro CareRing
	NEWSED Community Development Corporation
	Northern Colorado Social Legislation Network of Catholic Charities
	Pikes Peak Community Action Agency
	Revitalizing & Empowering Through Architecture
	Rocky Mountain Mutual Housing Associaton, Inc.
	Sacred Heart House of Denver
	SOS & Core Coalition
	Southwest Colorado Cross Disability Coalition
	Southwest Neighborhood Housing
	St. Francis Center, Denver
	St. Francis Center, Littleton
	Thistle Community Housing
	The Uptown Partnership, Inc.
	Warren Village
	West Central Housing Development Organization
Connecticut	Alderhouse Residential Communities
	Bethsaida Community, Inc.
	Bridgeport ACORN
	Bridgeport Neighborhood Fund
	Broad Park Development Corporation
	Bristol Community Organization
	Christian Activities Council
	Chrysalis Center, Inc.
	Columbus House, Inc.
	The Community Builders
	Community Renewal Team

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

Connecticut AIDS Residence Coalition, Inc.
Connecticut Coalition to End Homelessness
Connecticut Housing Coalition
Connecticut Housing Investment Fund, Inc.
Co-op Initiatives, Inc.
Corporation for Independent Living
Employment Success Program
Fair Haven Development Corporation
Fair Haven Housing Initiative
Greater Dwight Development Corporation
Greater Hartford Legal Assistance
The Greater New Haven Community Loan Fund
Habitat for Humanity of Greater Bridgeport
Hill Housing
The Hollow Community Development Corporation
HOME, Inc.
Housing Education Resources Center, Inc.
Legal Assistance Resource Center of Connecticut
Martin House, Inc.
Mercy Housing and Shelter Corporation
Mutual Housing Association Of Greater Hartford
Mutual Housing Association Of South Central Connecticut
Mutual Housing Association Of South West Connecticut
Nehemiah Housing
Neighborhood Housing Services of Waterbury
NEON, Inc.
New Neighborhoods, Inc.
New Samaritan Corporation
ONE/CHANE, Inc. (Organized North Easterners/Clay Hill and North End)
Operation Hope of Fairfield, Inc.
Partnership for Strong Communities
Real Estate Solutions
Regional Housing Rehabilitation Institute of Connecticut
Sand Corporation
Sheldon Oak Central
Shore Area Community Development Corporation
Sisters of St. Chretienne
South Hartford Initiative
St. Luke's Life Works
Thames River Community Service, Inc.
Washington Park Assoc.
West Hartford Interfaith Housing Coalition

Delaware

Alliance for the Mentally Ill, Delaware (AMID)
The Arc of Delaware
Delaware Housing Coalition
Delaware State Wide Association of Tenants
Delmarva Rural Ministries, Inc.
First State Community Action Agency
Latin American Community Center Development Corporation, Inc.
Ncall Research, Inc.
Newark Housing Authority
Peoples Settlement Association
Saint Helena's Journey to Justice
YWCA, Wilmington
Whatcoat Social Services Agency

District of Columbia

Access Housing, Inc.
Bread for the City
Building Futures, Inc.
Christ House
City on a Hill Family Development Initiative
Coalition for the Homeless
Coalition for Nonprofit Housing & Economic Development
Coates and Lane Enterprises, Inc.
Community Council for the Homeless at Friendship Place
Community Family Life Services
The Community Partnership for the Prevention of Homelessness
Deputy Mayor's Office for Planning and Economic Development
Families Forward
Friends Committee on National Legislation

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

Gospel Rescue Ministries
Jobs Have Priority (JHP, Inc.)
Jubilee Enterprise of Greater Washington
Manna, Inc.
Miriam's House, Inc.
Mount Carmel House
My Sister's Place
Neighbors Consejo
New Endeavors by Women
Project Hope
Rachael's Women's Center
Sasha Bruce Youthwork, Inc.
So Others Might Eat
South Washington Collaborative
St. Mary's Court
Terrific, Inc.
United Church of Christ
Washington Legal Clinic for the Homeless
Washington Regional Network for Livable Communities
Women Empowered Against Violence, Inc.

Florida

1000 Friends of Florida
Adopt-A-Family of the Palm Beaches, Inc.
All Faiths Food Bank
Another Way, Inc.
Ascension Catholic Church-Social Concerns
Assisted Home Concepts
Benedict Haven, Inc.
Broward Coalition for the Homeless
Cape Coral Housing Rehabilitation & Development Corporation
Capital Area Community Action Agency
Carrfour Corporation
The Center for Affordable Housing, Inc.
Charlotte County Homeless Coalition
Circles of Care, Inc.
City Rescue Mission
Coalition for the Homeless of Central Florida, Inc.
Coalition for the Hungry and Homeless of Brevard County, Inc.
Community Equity Investment, Inc.
Consumer Credit Counseling Service
Crosswinds Youth Services
Cypress Housing, Inc.
Emergency Services & Homeless Coalition of St. Johns County, Inc.
Florida ACORN
Florida Association of Homes for the Aging
The Florida Black AIDS Network
Florida Coalition for the Homeless
Florida Housing Coalition
Florida Housing Finance Corporation
Florida Keys Outreach Coalition, Inc.
Florida Legal Service, Inc.
Florida Network of Youth &Family Services
Florida Non-Profit Housing, Inc.
Grand Avenue Economic Community Development Corporation
Grants and Affordable Housing Advisory Committee
HELP Ministry
His Place Ministries
The Homeless Coalition of Palm Beach County, Inc.
Homeless Services Network of Central Florida
Housing & Community Development Corporation, Inc.
Housing Partnership, Inc.
Interfaith Emergency Services, Inc.
Job Development Corporation
Keystone Challenge Fund
Lake Community Actions Agency, Inc.
Liberty Center Housing Association
Making WAGES Work
Mending Hearts Charities, Inc.
Miami Coalition for the Homeless

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

M.I.S.S., Inc.
Mortgage and Credit Center
Neighborhood Lending Partners, Inc.
Office of Justice and Peace, Diocese of Augustine
Polk County Opportunity Council, Inc.
Pregnancy Crisis Careline, Inc.
Project HEART
The Salvation Army Citrus County
Sarasota YMCA
Society of St. Vincent de Paul
South Florida Community Development Coalition
Southern Most Homeless Assistance League, Inc.
Southwest Florida Addiction Services
Southwest Florida Coalition for the Homeless
Space Coast Habitat For Humanity, Inc.
St. Johns Housing Partnership
St. Petersburg Employment & Economic Development Corporation
Tampa Bay Community Development Corporation
Treasure Coast Regional Planning Council
The Venice Foundation
United Community Development, Inc.
United Way of Charlotte County
YMCA Children's Services

Georgia

Aid Atlanta, Inc.
Albany-Dougherty Coalition to End Homelessness
Atlanta Neighborhood Development Partnership
Augusta Task Force for the Homeless, Inc.
Baitul Salaam Network, Inc.
Chatham-Savannah Authority for the Homeless
Cobb Human Services Coalition, Inc.
Community Action for Improvement, Inc.
Domestic Violence Intervention Center
Fayette County Council on Domestic Violence
Flint Circuit Council on Family Violence
Fulton County Office of Children & Youth
Gateway House, Inc.
Georgia Coalition to End Homelessness, Inc.
Georgia Community Development Association
Georgia Coalition Against Domestic Violence
Harvest Outreach Centers, Inc.
The Haven, Valdosta
Haven, Inc., Albany.
Interfaith, Inc.
Interfaith/Troy Street Community Development Corporation
J. D. Lewis and Associates
Macon Coalition to End Homelessness, Inc.
Mercy Housing Southeast
Metropolitan Columbus Task Force for the Homeless
Northwest Georgia Family Crisis Center
Northeast Georgia Homeless Coalition, Inc.
Northwest Georgia Homeless Coalition
Partnership Housing Affordable to Society Everywhere, Inc.
Peace Place, Inc.
Progressive Redevelopment, Inc.
The Redistribution Alternative
South Central Georgia Task Force for the Homeless, Inc.
Task Force for the Homeless- Atlanta Metro
Union for the Homeless

Hawaii

Affordable Housing Alliance
Self-Help Housing Corporation of Hawaii
Waimaha / Sunflower Residents Association, Inc.

Idaho

Boise City / Ada County Housing Authority
Campaign for Housing Justice
Community Action Agency
Eastern Idaho Special Service Agency
El-Ada Community Action
Helping Hand, Inc.
Idaho Campaign for Housing Justice
Idaho Community Action Association

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

	Idaho Migrant Council
	Mercy Housing- Idaho
	Southeastern Idaho Community Action Agency
	St. Vincent de Paul
	Washington Group Foundation, Inc.
	Woodbury County Community Action Agency
	United Manufactured/Mobile Home Owners & Residents Association., Inc.
Illinois	BCMW Community Services
	Benedict Haven, Inc.
	Bethel New Life
	Business & Professional People in the Public Interest
	Center for Neighborhood Technology
	The Chicago Coalition for the Homeless
	Chicago Community Development Corporation
	Chicago Mutual Housing Network
	Chicago Rehab Network
	Citizens for the Future Inc.
	C.E.F.S. Economic Opportunity Corporation
	Deborah's Place
	Embarras River Basin Agency, Inc.
	Evanston Neighborhood Conference
	Franciscan Ministries, Inc.
	Gamaliel Senior Staff
	Good Will Senior
	Groworks, Inc.
	Homeless on the Move for Equality
	HomeSight
	Hope Fair Housing Center
	Housing Helpers
	Illinois Coalition to End Homelessness
	Illinois Community Action Association
	Illinois/Iowa Center for Independent Living
	Interfaith Housing Center of the Northern
	Jane Addams Resource Corporation
	Jane Addams Senior Caucus
	Jewish Council on Urban Affairs
	Jewish Federation of Metropolitan Chicago
	Kane County Chapter of the Coalition of Citizens w
	Lakefront Single Room Occupants Corporation
	Lakeview Action Coalition
	Lawrence Hall Youth Services
	League of Women Voters of Chicago
	League of Women Voters of Illinois
	Lutheran Advocacy Network/Illinois
	Mastroianni Consulting
	Metropolitan Housing Development Corporation
	Metropolitan Tenants Organization
	NAMI of Greater Chicago
	Northwest Tower Residents Association
	PArc (Peoria Association of Retarded Citizens)
	Project Now, Inc.
	Protect Public Housing
	Protestants for the Common Good
	Resurrection Project
	Shelter Care Ministries
	Sisters of St. Joseph of La Grange, Peace & Justice
	Swanee Development Council, Inc.
	Shore Bank
	Southern Illinois Coalition for the Homeless
	Statewide Housing Action Coalition
	St. James Lutheran Church Luther League
	Supportive Housing Providers Association of Illinois
	Volunteers of America of Illinois
	Voorhees Neighborhood Center
	Woodlawn Development Associates
	YMCA Women's Shelter
	Wheaton Franciscan Sisters
Indiana	Blackburn Terrace Resident Management Corporation, Inc.

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

	BOS Community Development Corporation
	Community Action Program, Inc. of Western Indiana
	Community Alliance of the Far-Eastside
	Community Action of Northeast Indiana, Inc.
	Concord Community Development Corporation
	Eastside Community Investment, Inc.
	Ekhart Housing Partnership, Inc.
	Green Acres, Inc.
	Hammond Housing Authority
	Haven House Services, Inc.
	Indianapolis Coalition for Neighborhood Development
	Indiana Coalition on Housing and Homeless Issues
	King Park Area Development Center
	LaCasa of Goshen, Inc.
	Mapleton Fall Creek Community Development Corporation
	Martindale Brightwood Community Development Corporation
	Martin Luther King Community Development Corporation
	Monroe County Green Party
	Near North Development Corporation
	Options for Better Living
	Ozanam Family Shelter
	Project Renew
	Redevelopment/Revitalization of the Southside
	Riley Area Revitalization Program
	Scott County Partnership, Inc.
	South Bend Heritage Foundation
	Southeast Neighborhood Development, Inc.
	Southern Indiana Housing Initiative
	Switzerland County CHDO
	United Northwest Area Development Corporation
	United Northeast Community Development Corporation
	Wabash Valley Human Services
	West Indianapolis Development Corporation
	Westside Community Development Corporation
Iowa	Anawim Housing
	Family Crisis Center of North Iowa
	Home, Inc.
	Humility of Mary Housing, Inc.
	Iowa Coalition Against Domestic Violence
	Iowa Coalition for Housing and the Homeless
	Iowa Coalition to End Homelessness
	Iowa Falls Area Development Corporation
	Marion County Habitat for Humanity
	Northeast Iowa Community Action Corporation
	Rural Housing Institute
	Sisters of the Presentation
	Woodbury County Community Action Agency
	Youth and Shelter Services, Inc.
Kansas	Adorers of the Blood of Christ
	Catholic Housing of Wyandotte County
	City Vision Ministries
	El Centro, Inc.
	Homestead Affordable Housing, Inc.
	Housing & Credit Counseling, Inc.
	Kansas Coalition Against Sexual and Domestic Violence
	Kaw Valley Habitat for Humanity
	Mio-Kansas Community Action Program, Inc.
	Neighborhood Housing Services of Kansas City, Kansas
	Nek-amp, Inc.
	The Lawrence Alliance
Kentucky	Appalboac/ Federation of Appalachian Housing Enterprise
	Beattyville Housing and Community Development Corp, Inc.
	Bell-Whitley Communtiy Action Agency, Inc.
	Boone County CAC
	Boone County Human Services
	Chrysalis House, Inc.
	The Coalition for the Homeless
	Community Housing, Inc.
	Faith Community Housing Advocacy Program

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

	Federation of Appalachian Housing Enterprises, Inc. (FAHE)
	First Unitarian Church
	Frontier Housing, Inc.
	Gateway Community Services Organization, Inc.
	Grant County CAC
	Homeless and Housing Coalition of Kentucky
	Housing Auhority of Covington
	Kentucky Alliance Against Racist & Political Repression
	Kentucky Mountain Housing Development Corp., Inc.
	Lexington Fair Housing Council
	Louisville Tenants Association
	Low Income Housing Coalition of East Kentucky
	Metropolitan Housing Coalition
	National Council of Jewish Women-Louisville Branch
	Northeast Kentucky Area Development Council, Inc.
	North Key Community Care
	Northern Kentucky Housing Homeless Coalition
	The Partnership Center
	People's Self-Help Housing, Inc.
	Phoenix Hill Association
	Sisters of Charity of Nazareth, Kentucky
	Society of St. Vincent de Paul, Council of Lewisville
	United Methodist Women
	Volunteers of America Kentucky, Inc.
Louisiana	Advocacy Committee Of Unity For the Homeless
	Agenda for Children
	Bacatown Community Development Corporation
	Brookstown Community Development Corporation
	Caleb Community Development Corporation
	Capitol Park Community Development Corporation
	Covenant House New Orleans
	Creole Cottage Coalition
	Faubourg St. Roch Community Development Corporation
	The Good Work Network
	H.O.P.E. Community Development Corporation
	Humanities, Inc. Community Development Corporation
	I Can! America
	Louisiana ACORN
	Melrose East Community Development Corporation
	Metropolitan Affordable Housing Council
	Mid-City Community Development Corporation
	Neighborhood Housing Services
	New Life Intracoastal Community Development Corporation
	New Vision Community Development Corporation
	Northlake Community Development Corporation
	Old South Baton Rouge Community Development Corporation
	Scotlandville Community Development Corporation
	SMILE Community Action Agency, Inc.
	Volunteers of America/Baton Rouge
	Volunteers of America/New Orleans
	Volunteers of America/Shreveport
Maine	Bath Housing Authority
	Bangor Housing Authority
	Caribou Housing Authority
	Coastal Enterprises, Inc.
	Community Action Agency of Sommerville, Inc.
	Community Concepts
	Dixiefield Development Corpporation
	Fort Fairfield Maine Housing Authority
	Freeport Housing Trust
	Genesis Community Loan Fund
	The Housing Foundation
	Maine Affordable Housing Network
	Maine AIDS Alliance
	Maine & New Hampshire Housing Investment Fund
	Maine Association of Interdependent Neighborhoods
	Northern New England Chapter of the American Planning Association
	Penquis Community Action Program, Inc.
	People's Regional Opportunity Program (PROP)

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

	Planning Decisions Inc.
	Portland Maine Housing Authority
	Portland Organization to Win Economic Rights (POWER)
	Portland West
	Preble St. Resource Center
	R. C. Management
	Sanford Housing Authority
	Southern Maine Agency on Aging
	South Portland Housing Authority
	Sunbury Housing of Maine
	Waldo County Committee for Social Action (WCCSA)
	York Cumberland Housing
Maryland	AIDS Interfaith Residential Services
	Am Kolel (Judaic Renewal and Resource Center)
	Association for the Study and Development of Community
	Baltimore ACORN
	Baltimore City League of Women Voters
	Baltimore County League of Women Voters
	Baltimore Jewish Council
	Baltimore Sisters of Mercy
	The Center for Poverty Solutions
	Church on the Hill
	Coalition to End Childhood Lead Poisoning
	Community Action Council of Howard County, Inc.
	Community Assistance Newtork, Inc.
	Community Housing Associates
	Garrett County Community Action Committee, Inc.
	Health Care for the Homeless, Inc.
	Homes For America, Inc.
	Housing Authority of Washington County, Board of Commisioners
	Housing Opportunities Commission of Montgomery County
	Interfaith Housing of Northern Maryland
	League of Women Voters of Maryland
	Maryland Center for Community Development
	Maryland Developmental Disabillities Council
	Maryland Public Interest ReseArch Group
	Montgomery County Coalition for the Homeless
	Montgomery Housing Partnership
	Public Justice Center
	Southern Maryland Tri-Couonty Community Action Council, Inc.
	Tri-Churches Housing, Inc.
	United Ministries, Inc.
Massachusetts	Action for Boston Community Development
	AIDS Housing Corporation
	Allston Brighton Community Development Corporation
	Association of Haitian Women in Boston
	Bedford Housing Trust
	Boston Housing Authority
	Cambridge Economic Opportunity Committee, Inc.
	Cambridge Expiring Use Tenants Committee
	CAN-DO
	Catholic Social Services
	Central Massachusetts Housing Alliance, Inc.
	Circle Graphics
	Citizens for Adequate Housing, Inc.
	Citizens Housing and Planning Association
	City Life / Vida Urbana
	Coalition for Social Justice
	Community Service Network, Inc.
	Community Teamwork, Inc.
	Department of Mental Retardation, North Shore Area
	The Development Corporation of Northwest Baltimore
	Franklin County Regional Housing and Redevelopment Authority
	Friends of Orleans Affordable Homes
	Greater Lawrence Community Action Council, Inc.
	Hampden Hampshire Housing Partnership
	Haverhill Housing Partnership
	Homes for Families
	The Housing Partnership Network

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

Jamaica Plain Neighborhood Development Corporation
Jewish Community Housing for the Elderly
Lower Cape Cod Community Development Corporation
Lynn Housing Authority and Neighborhood Development
Massachusetts ACORN
Massachusetts Association of Community Development Corporations
Massachusetts Coalition for the Homeless
Massachusetts Housing and Shelter Alliance
Massachusetts Law Reform Institute
Massachusetts Nonprofit Housing Association
Neighborhood of Affordable Housing
Oak Hill Communtiy Development Corporation
Pine Street Inn
Project Hope
Roofless Women
Rural Development, Inc.
Samaritan Inn Shelter
Shelburne Housing Authority
Social Action Ministries
St. Joseph the Worker Shrine, Oblate Social Justice Office
Technical Assistance Collaborative
Town of Falmouth, Human Services
Valley Opportunity Counsel, Inc.
Washington / Beech Tenant Association, Inc.
Women's Institute for Housing and Economic Development

Michigan

Alger Marquette Community Action Board
All Saints Housing, Inc.
Altrusa Teen SHARE
The Arc of Michigan
Bagley Housing Association
Cass Corridor Neighborhood Development Corporation
Catholic Social Services of Lansing St. Vincent Home, Inc.
Center for Civil Justice
Central Detroit Christian Community Development Corporation
Chippewa-Luce-Mackinac Community Action Human Resource Authority, Inc.
Church of the Messiah Housing Corporation
City of Lansing, Human Relations and Community Services Department
Community Capital Development Corporation
Community Development Advocates of Detroit
Community and Economic Development Association of Michigan (CEDAM)
Community Services Community Development Corporation
Community Urban Transition, Ltd.
Cooperative Services, Inc.
Core City Neighborhoods
Corktown Consumer Housing Cooperative, Inc.
Detroit Catholic Pastoral Alliance
Eastside Emergency Operational Center
Economic Opportunity Committee of St. Clair County, Inc.
Edison Neighborhood Association
Emmanuel Community House
Freedom Builders Missions
Friends of Welfare Rights
Gogebic-Ontonagon Community Action Agency
Grandmont Rosedale Development Corporation
Grand Rapids Area Housing Continuum of Care
Great Lakes Church of Christ
HOPE Consumer Group
Housing Resources, Inc. of Kalamazoo County
Hubbard Richard Citizens District Council
Islandview Village Development Corporation
Jackson Affordable Housing
Jefferson Avenue Housing Development Corporation
Kalamazoo Northside Non-Profit Housing Corporation
Listening Ear Crisis Center
Living Ways, Inc.
Macomb County Community Services Agency
Mexicantown Commercial Development Agency
Michigan Coalition Against Homelessness
Michigan Housing Trust Fund

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

Michigan Legal Services
Michigan Neighborhood Partnership
Monroe County Opportunity Program
New Hope Non-Profit Housing Corporation
New Visions for Detroit, Inc.
NorthStar Community Development Corporation
Northwest Detroit Neighborhood Development, Inc.
Oakland Livingston Human Service Agency
Portage Community Outreach Center
Prevailing Community Development Corporation
Residential Opportunities, Inc.
Scared Heart/St. Elizabeth Community Development Corporation
Social Work Institute for Community Life
Southwest Alliance for Neighborhood
Southwest Detroit Business Association
St. Ignatius Nonprofit Housing Corporation
Underground Railroad, Inc.
U-SNAP-BAC
Vanguard Community Development Corporation
V.I.S.I.O.N.
Washtenaw Housing Alliance
Wayne-Metropolitan Community Action Agency
We Care Non-Profit Housing Corporation
West Detroit Inter-Faith Community Organization

Minnesota

Anoka County Affordable Housing Coalition
Arc Minnesota
Battered Women's Legal Advocacy Project
Benedictine Sisters of Duluth, MN
CASH (Community Action for Suburban Hennepin)
Churches United in Ministry
Community Action Duluth
Community Action for Suburban Hennipin
Community Apartment Program
Community Home Ownership, Inc.
Community Neighborhood Housing Services
Dayton's Bluff NHS
East Metro Women's Council
Elim Transitional Housing, Inc.
Family Housing Fund
First Lutheran Church
Greater Minneapolis Day Care Association
HOME Line
Housing Access Center
Housing and Redevelopment Authority of Virginia, MN
Housing Link
Housing Preservation Project
Human Services Incorporated
Intercongregation Communities Association
International Self-reliance Agency for Women, Inc.
Jewish Community Action
Jobs and Affordable Housing Campaign
Lakes & Pines Community Action Council, Inc.
Lutheran Social Service of Minnesota
Lyndale Neighborhood Development Corporation
Metrowide Engagement on Shelter & Housing
Midwest Minnesota Community Development Corporation
Minneapolis Consortium of Community Developers
Minneapolis Day Care Association
Minnesota AIDS Project
Minnesota ACORN
Minnesota Coalition for the Homeless
Minnesota Housing Partnership
Minnesota Housing Resources, Inc.
Northeast Entrepreneur Fund
Northeast Metropolitan Coalition for Affordable Housing
North End Area Revitalization, Inc. (NEAR)
Office of Christian Service
Our Saviors Housing

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

	Partners for Affordable Housing
	Peace United Church of Christ
	Person to Person
	Project for Pride in Living, Inc.
	Ramsey County Community Human Services
	Residents for Affordable Housing
	Rise, Inc.
	Salvation Army/Harbor Light
	Selby Area Community Development Corporation
	Semcac Community Action Agency
	Simpson Housing Services
	Southside Services
	Spectrum Community Mental Health
	St. Paul Tenants Union
	Theresa Living Center
	The Urban Coalition
	Three Rivers Community Action, Inc.
	Tri-Valley Opportunity Council, Inc.
	Urban Ventures Leadership Foundation
	Victim Services
	Viking Real Estate
	YWCA of St. Paul
	West Bank Community Development Corporation, Inc.
Mississippi	AJFC Community Action Agency, Inc.
	Biloxi Housing Authority
	Central Mississippi, Inc.
	Greater Greenville Development Foundation
	Mississippi Equity Coalition
	Mississippi Housing Coalition
	Tunica County Community Development Corporation
	We Care Community Services
	Yazoo Community Action, Inc.
	Yazoo County Fair & Civic League
Missouri	Action Protecting Tenant Safety
	Adequate Housing for Missourians
	Almost Home
	American Friends Service Committee (St. Louis Program)
	Beyond Housing
	BJC Behavioral Health
	Black Economic Union
	Blue Hills Homes Corporation
	Boulevard Tenants Association
	Catholic Charities- Archdiocese of St. Louis
	Citizens for Missouri's Children
	Community Alternatives
	Community Assistance Council
	Community Builders of Kansas City
	Community Development Corp. of Kansas City
	Council Tower Council
	David H. Jones Ministries
	Doorways, An Interfaith AIDS Residence Program
	East Missouri Action Agency, Inc.
	Equal Housing Opportunity
	Ethical Action Committee
	Fathers' Support Center, St. Louis
	Feed My People Help Center
	Greater Kansas City Housing Information Center
	Hager-Mace & Associates Consulting Services
	Healthy Families, Healthy Homes, Prop. H.
	Homeless Network
	Housing Law Clinic
	Kansas City Rescue Mission
	Lutheran Family & Children's Services of Missouri
	McCormack Baron Associates
	Metropolitan Churches United Pershing
	Missouri ACORN
	Missouri Association For Social Welfare
	Missouri Ozarks Community Action, Inc.
	National Association of Social Workers, Missouri Chapter

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

	Neighborhood Enterprises
	Northland Neighborhoods
	Old Northeast, Inc.
	Paraquad, Inc.
	Peace & Justice Office of Kansas City/St. Joseph
	People's Health Center, Inc.
	Personal Services Consulting
	Professional Housing Resources, Inc.
	Public Housing Residents Council
	Ripley County Caring Community Partnership
	Rose Brooks Center
	Sanctuary in the Ordinary
	Second Presbyterian Church
	Service Employee International Union- Local 880
	Service Employee International Union- Local 1001
	Service Employee International Union - Local 2000
	Shell Knob Senior Center Corporation
	Sisters of Loretto
	Sisters of St. Joseph of Carondelet, St. Louis Program
	South Central Missouri Community Action Agency
	Step, Inc.
	St. Louis Campaign for Housing and Jobs
	St. Louis Empowerment Center
	St. Patrick Center
	Twelfth Street Heritage
	Unity Lutheran Church
	Westside Housing Organization
Montana	Coalition of Montanans Concerned with Disabilities
	HomeWORD
	Montana People's Action
	Northwest Montana Human Resources, Inc.
	Opportunties Incorporated
Nebraska	Blue Valley Communtiy Action
	Community Development Coalition, Inc.
	Franciscan Ministries, Inc.
	Grand Island Area Housing Corporation
	High Plains Community Development Corporation and Chadron Youthbuild
	Holy Name Housing Corporation
	Mercy Housing Midwest
	Mercy Services Corporation, Mid-West Region
	Mid-Nebraska Community Action
	Nebraska Association of CHDO's
	Nebraska Domestic Violence Sexual Assault Coalition
	Notre Dame Sisters, Omaha Province
	NuStyle Development
	Southeast Nebraska Community Action Council, Inc.
Nevada	Affordable Housing Resource Council
	Citizens for Affordable Homes, Inc.
	Community Development Programs Center of Nevada
	HELP Las Vegas
	ReStart
New Hampshire	Affordable, Housing, Education and Development, Inc.
	American Friends Service Committee - New Hampshire Program
	The Cheshire Housing Trust
	The Concord Area Trust for Community Housing
	The Contoocook Housing Trust
	Fellowship Housing Opportunities
	Greater Nashua Interfaith Hospitality Network
	The Housing Partnership
	The Laconia Area Community Land Trust
	Manchester Emergency Housing, Inc.
	Manchester Neighborhood Housing Services
	Maple Manor Residents Association
	Marguerite's Place, Inc.
	Nashua Soup Kitchen & Shelter Inc
	Neighborhood Housing Services of Greater Nashua
	New Hampshire Coalition to End Homelessness
	New Hampshire Homeless
	The New Hampshire Nonprofit Housing Network

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

	New Hampshire Women's Lobby
	Rogers House Residents Association
	Southern New Hampshire Services, Inc.
	Southwestern Community Services, Inc.
	Twin Rivers Community
	Twin Pines Housing Trust
New Jersey	The Apostles' House
	Camden City Division of Planning
	Community Action Services
	Corinthian Housing Development Corporation
	CREST Community Development Corporation
	The Crisis Ministry
	East Trenton Community Council
	Episcopal Community Development
	Fair Housing Council of Northern New Jersey
	Fairmount Housing/Management Corporation
	Friends of Lifers Youth Corporation
	Habitat for Humanity Newark, Inc.
	Housing and Community Development Network of New Jersey
	Housing and Neighborhood Development Services
	Hudson County Housing Resource Center
	Inter-religious Fellowship for the Homeless of Bergen County, Inc.
	Jersey City Affordable Housing Coalition
	La Casa De Don Pedro, Inc.
	Middle Earth
	Middlesex County Economic Opportunities Corporation
	New Jersey Alliance for the Homeless
	New Jersey Division of Developmental Disabilities
	Office of State Monitor Advocate, NJ Dept of Labor
	Puertorriquenos Asociados for Community Organization
	St. James Community Development Corporation
	St. Matthews Neighborhood Improvement Development
	Trenton Education Development
	Tri-City Peoples Corporation
	Unified Vailsburg Services Organization
	United Community Corporation
	Urban League Affordable Housing & Community Development Corporation
New Mexico	Abo Healthcare for the Homeless
	Albuquerque Mental Health Housing Coalition, Inc.
	Bernalillo County Housing Department
	Guadalup County Health Council
	Home Education Livelihood program, Inc.
	Homeless Advocacy Network
	Las Cruces Affordable Housing Inc
	New Mexico ACORN
	Sandoval County Economic Opportunity
	Southwest Organizing Project
	Siete del Norte Community Development Corporation
	Taos County YouthBuild Program
	Tierra del Sol Housing Corporation
New York	A-Home
	Abyssinian Development Corporation
	Action for a Better Community, Inc.
	ARISE, Inc.
	Asian Americans for Equality
	Association of Theatrical Press Agents and Managers
	Bedford Stuyvesant Community Legal Services Corporation
	Bethel Community Development Corporation
	Bishop Sheen Ecumenical Housing Foundation, Inc.
	Black Rock-Riverside NHS, Inc.
	Broadway-Fillmore NHS, Inc.
	Care for the Homeless
	Carmelite Sisters of Charity
	Catholic Charities of the Diocese of Albany
	Catholic Charities of the Southern Tier
	Chemung County Housing Coalition
	Children & Family Mental Health Services, Inc.
	Citizen's Committee for Children
	Clubhouse of Suffolk, Inc.

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

Coalition for the Homeless
Coalition of N.E. Association, Inc.
Community Action Organization
Community Action Project
Community Advocates, Inc.
Community Resource Exchange
Community Service Society of New York
Common Ground Community
Concern For Independent Living
Conifer Realty, LLC
Consumer Credit Counseling Service of Central New York
Consumer Information & Dispute Resolution, Inc.
Cortland County Community Action Program
Disabled in Action of Metro. New York
Eastside Neighbors in Partnership, Inc.
Elmira First Time Homebuyer Probram
Erasmus Neighborhood Federation Inc
Fannie Lou Hamer PAC
Federation of Organizations for the NY State Mentally Disabled, Inc.
Fifth Avenue Committee, Inc.
Fillmore Leroy Area Residents
Fire Lotus Film Group
Flatbush Development Corporation
Greater Rochester Housing Partnership
Greater Syracuse Tenants Network
Group 14621
Harlem Tenants Council, Inc.
Heart of the City Neighborhoods, Inc.
HELP Bronx Crotona Park North
HELP Bronx Morris Avenue
HELP Harbor
HELP Haven
HELP Suffolk
HELP Supportive Employment Center
Heritage Housing
Hispanos Unidos De Buffalo, Inc.
Housing and Services, Inc.
Housing Opportunities, Inc.
Human Development Service of Westchester
Interfaith Council for Action Inc.
Johnstown Public Housing Agency and Housing Rehabilitation Office
Kensington-Bailey NHS Inc.
Keuka Housing Council
Kingston Cares
Long Island Advocacy Center, Inc.
Long Island Center for Independent Living
Long Island Housing Services, Inc.
Long Island Progressive Coalition
Lovejoy District Neighborhood Services
MBD Community Housing Corp
Nassau- Suffolk Coalition For the Homeless
National Coalition for the Homeless -New York
Neighborhood Coalition for Shelter
Neighborhood Housing Services of South Buffalo
Neighborhood Preservation Coalition of New York State, Inc.
Neighbors Helping Neighbors, Inc.
New Berlin Housing & Preservation Corp., Inc.
New Destiny Housing Corporation
Nontraditional Employment for Women
Northeast Block Club Alliance, Inc.
Northwest Community Services
Northwest Queens Housing
NYS Developmental Disabilities Planning Council
NYS Rural Advocates
NYS Rural Housing Coalition, Inc.
NYS Tenants and Neighbors
Office of Mental Retardation and Developmental Disabilities, Office of Housing Initiatives
Opportunities for Chenango, Inc.
Outreach Project

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

Parkside Community Association
Patchogue-Medford Youth and Community Services
Pratt Institute Center for Community & Enviromental Development
Rensselaer County Housing Resources
Rolling Green Unified Neighbors
Rowland Housing Action Coalition, Inc.
Rural Opportunities, Inc.
Saratoga County Arc
S.H.A.R.P.(Shandaken Area Revitalization Plan) Committee, Inc.
Southern Hills Preservation Corporation
Southside Community Mission
St. Christopher Ottilie
Steuben County Rural Ministry
St. James Mercy Health
St. Lawerence County Housing Council, Inc.
Stryker's Bay Neighborhood Council
Suffolk Community Council, Inc.
Supportive Housing Network of New York
Telesis Corporation
Thorpe Family Residence, Inc.
Two Plus Four Construction Co.
UJA Federation of New York
United Mineworkers of America
United Tenants of Albany
University Heights Community Development Assocation, Inc.
University Neighborhood Housing Program
Unique Peoples Services
Universal Community Development Corporation
Utica Citizens in Action
Westchester Community Opportunity Program, Inc.
Westchester Housing Fund
WestHELP Greenburgh
WestHELP Mt. Vernon
Westside Neighborhood Housing Services, Inc.
WIN Program
Women's Housing and Economic Development Corporation
Wyandanch Community Development Corporation
Wyandanch Homes and Property Development Corporation

North Carolina

Alamance County Interagency Council on Homeless Assistance
Asheville-Buncombe Homeless Coalition
Arc of North Carolina
Blue Springs Community Development Corporation
Black Creek United Methodist Women
Brick Capital Community Development Corporation
Davidson Housing Coalition
Downtown Housing Improvement Corporation
Durham Affordable Housing Coalition
East Tarboro-Pineville Community Development Corporation
Goler-Depot Street Renaissance Corporation
Greensboro Housing Coalition
Habitat for Humanity of Forsyth County
Hertford County Quality of Life Association
The Homeless Coalition
Hospitality House of Asheville
Housing Partnership of Winston-Salem/Forsyth County
Johnston Co. Planning & Zoning
Lexington Housing Community Development Corporation
McAuley Institute, North Carolina
Mecklenburg County Department of Social Services
Mending Hearts
Mercy Housing Southeast
Mountain Projects, Inc.
Nehemiah Community Development Corporation of North Carolina
New Directions For Downtown, Inc.
North Carolina Coalition to End Homelessness
North Carolina Coalition Against Domestic Violence
North Carolina Justice and Community Development
North Carolina Low Income Housing Coalition
North Carolina Smart Growth Alliance

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

	Northwestern Regional Housing Authority
	River City Community Development Corporation
	Self-Help Durham
	Self-Help Greenville
	Sisters of Mercy of North Carolina
	Southern Rural Development Initiative
	Surry Women's Shelters, Inc.
	TRO, Inc.
	UJAMMA, Inc.
	United Parents Against Lead of North Carolina, Inc.
	Wake County HCR
North Dakota	Affordable Housing Developers, Inc.
	The Arc of Bismarck
	Catholic Family Service
	Community Action and Development Program, Inc.
	Community Action Opportunities Inc.
	Community Action Program Region VII, Inc.
	Dakota Prairie Community Action Agency
	Domestic Violence Crisis Center, Inc.
	Eastern Dakota Housing Alliance
	Easter Seals Goodwill ND, Inc.
	Fargo Planning and Development Department
	Grand Forks Housing Authority
	Homeless Health Services
	Lutheran Social Services of North Dakota
	North Park Homes
	North Dakota Rural Development Council
	Ruth Meiers Hospitality House
	Tri County Regional Development Council
	Wesley Shelter
	Youthworks - Mountain Plains
	YWCA of Fargo-Moorhead
Ohio	ABCD, Inc.
	ACCESS, Inc.
	Adams-Brown Counties Economic Opportunities, Inc.
	Akron Area Association of Churches
	Akron Area Board of Realtors
	Akron Community Health Resources
	Akron Health Department
	Akron Metro. Housing Authority
	Akron Planning Department
	Akron/Summit Community Action Agency, Inc.
	Alpha Phi Alpha Homes
	American Home Buyers
	Amethyst
	Area Agency on Aging
	Astabula County Community Housing Development Organization
	Avondale/Walnut Hills Redevelopment Foundation, Inc.
	Bank One
	Barberton Area Community Ministries
	Battered Women's Shelter
	Bethany House Services
	Carver Park Local Advisory Council
	Catholic Charities Health & Human Services
	Catholic Commission
	Catholic Social Services
	Charter One Bank
	Christmas In April
	Cleveland/Cuyahoga County Office of Homeless Services
	Cleveland Neighborhood Development Corporation
	Cleveland Tenants Organization
	Clemont County Community Services
	Clinton County Community Action Program, Inc.
	Coalition on Homelessness and Housing in Ohio
	Community Action Harmony House
	Community Health Center
	Community Legal Aid
	Community Shelter Board
	Community Support Services

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

The Contact Center
Corporation for Ohio Appalachian Development
Council for Economic Opportunities in Greater Cleveland
Crossroads
Daybreak
Diocesan Social Action Office of Cleveland
The Drop-In Center
East Akron Neighborhood Development Corporation
Emergency Assistance Services, Catholic Charities
Emmanuel Community Care Center
Fair Housing Advocates
Fair Housing Contact Services
Famicos Foundation
Family and Community Services of Portage, Inc.
Fifth Third Bank
First Grace Hunger Program
Firstar Bank
FirstMerit Bank
Forest City Residential Group
Founders Path, Inc.
Friends of the Homeless, Inc.
Greater Akron Committee for Better Housing
Greater Cincinnati Coalition for the Homeless
Habitat for Humanity
Harvard Community Services Center
Homebuilders Association of Greater Akron
Housing Network
HOME (Housing Opportunities Made Equal)
Humility of Mary Life Opportunity Services
Interfaith Hospitality Network of Greater Cleveland
International Institute
Jefferson County Community Action Council, Inc.
Jireh Development Corporation
Key Bank
League of Women Voters
Legacy III, Inc.
Licking County Coalition for Housing
Lifeline for the Empowerment & Development of Consumers, Inc.
Local Initiatives Support Corporation
Lorain County Community Action Agency, Inc.
Lorain County Task Force for the Homeless
Metropolitan Strategy Group
Mosyjowski & Associates Engineers
National City Bank
Nazareth Housing Development Corporation
NCS of Barberton
Neighborhood Development Corporations Association of Cincinnati
Neighborhood Properties
New Home Development 6
North Coast Community Homes
North River Development Corporation
Northeast Ohio Coalition for the Homeless
Northwest Pilot Project, Inc.
Oberlin Community Services
Ohio Savings Bank
Onyx Community Development Corporation
The Other Place
Over the Rhine Housing Network
Partnership for Lincoln Area Neighborhoods
Portage Area Development Corporation
Portage Area Transitional Housing
Race Street Tenant Organization Cooperative (ReSTOC)
SAFE Landing
S&L Properties
Salvation Army PASS Program
Second National Bank
Sisters of Mercy Regional Community of Cincinnati
Snyder & Snyder Realty
STEPS (Substance Abuse, Treatment, Education and Prevention Services)

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

Summit Co. Children's Services Board
Summit Co. Department of Community and Economic Development
Summit County Housing Trust Fund
Summit Housing Development Corporation
Summit Twin Oaks Realty
Third Federal Savings
Tri-County Independent Living Center, Inc.
University Park Neighborhood Association / UPDC
Veterans Services Outreach Referral Program
Volunteers of America Crossroads
Volunteers of America Ohio River Valley
Westside Council of Block Clubs
Westside Neighborhood Development Corporation
Wings Enrichment Center
W.O.M.E.N.
YWCA of Columbus
Zanesville Metropolitan Housing Authority

Oklahoma

Broken Bow Housing Authority
Cookson Hills Community Action Foundation, Inc.
Debruler, Inc.
Little Dixie Community Action Agency
Opportunities, Inc.

Oregon

Central City Concern
Community Alliance of Tenants
Community Partners for Affordable Housing
Dignity Village, Inc.
Elders in Action
Goose Hollow Family Shelter
Housing Development Center
Northwest Housing Alternatives
Oregon Center for Public Policy
Oregon Coalition on Housing & Homelessness
Oregon Food Bank
Portland Housing Center
Southern Oregon Economic Development Corporation
Tulatin Valley Housing Partners
Vintage Housing, Inc.
Womenspace

Pennsylvania

Action-Housing, Inc.
Allegheny County Housing Authority
Alliance For Better Housing
Alliance For Building Communities
Alliance for Building Communities of Monroe County
A New Life Consumer Center
Bloomfield/Garfield Corporation
Blueprint to End Homelessness
Bucks County Housing Group
Bucks County Opportunity Council, Inc.
Catherine McAuley Center
Citizens Budget Campaign of Western PA
Columbia County Redevelopment Authority
Columbus Property Management
Community Action Association of PA
Community Action Commission
Community Action Committee of the Lehigh Valley
Community Housing Resource Board
Crispus Attucks Association, Inc.
Department of Human Services
Family Links
Fayette County Community Action Agency
HELP Philadelphia
Homeless Advocacy Project
Horizon House, Inc.
Housing Consortium for Disabled Individuals
Housing Development Corporation
1260 Housing Development Corporation
J & K Siding
Lehigh Valley Coalition on Affordable Housing
McKeesport Collabrative

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

Mental Health Association of Southeastern PA
Mental Health Association of Allegheny County
Mistick Construction
Monroe County Affordable Housing Coalition
National Resource Center on Domestic Violence
Network for Fairness
New Kensington Community Development Corporation
North Side Coalition for Fair Housing
Northern Tier Community Action Corporation
PANPHA, an Association of Non-profit Senior Services
Pennsylvania Low Income Housing Coalition
Peoples Emergency Center
Philadelphia ACORN
Philadelphia Association of Community Development
Philadelphia Committee to End Homelessness
Philadelphia Health Management Corporation
Project Home
Ridge Center
Rural Opportunites
Schuylkill Community Action
Self Determination Housing Project of PA
Sisters of Mercy, Merion Regional Community
Sisters of Mercy of the Americas in Erie, PA
Sisters of St. Joseph of NW Province
Snyderville Community Development Corporation
Southwestern Pennsylvania Alliance of HUD Tenants
Tableland Services, Inc.
Thomas Merton Center
The Trehab Center, Inc.
United Independent Union Local 19
United Independent Union Local 238
Urban League of Pittsburgh, Inc./Minority Elderly Outreach Program
Warren-Forest Counties Economic Opportuntiy Council, Inc.
We Help, Inc.
Welfare Rights-Housing
W.H.O., Inc. (Westmoreland Human Opportunities)

Puerto Rico Foudita de Jesus
San Juan Neighborhood Housing Services

Rhode Island Childhood Lead Action Project
Comprehensive Community Action (CCA)
Comprehensive CAP
Creating Safe Havens
East Bay Community Development Corporation
East Greenwich Academy Foundation
Elmwood Foundation
Homeless Action for Necessary Development
Housing Network-Rhode Island Association of CDS
McAuley House
Mount Hope Neighbor Land Trust
Opportunities Unlimited
Peoples Redevelopment Corporation
Project Basic
REACH
Rhode Island ACORN
Rhode Island Association of Facilities and Services for the Aging
Rhode Island Coalition for the Homeless
Rhode Island Parents for Progress
Rhode Island Public Housing Tenants Association, Inc.
Sisters of Mercy Regional Community of Providence
Smith Hill Community Development Corporation
Star of the Sea
Statewide Housing Action Coalition of Rhode Island
SWAP, Inc.
Travelers Aid Rhode Island
UNS of Newport & Bristol Counties
United Way of Southeastern New England
Welcome House of South County
West Elmwood HDC
Westbay Community Action, Inc.

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

South Carolina	Community Housing, Inc.
	Community Development Department, City of Spartanburg
	Douglas Company
	Fairfax Community Outreach, Inc.
	Five Rivers Community Development Corporation
	Grand Strand Housing, Inc.
	Home Alliance, Inc.
	Housing Authority of Fort Mill
	Nehemiah Corporation
	Regency Development Associates, Inc.
	Santee-Lynches Community Development Corporation
	South Carolina Low Income Housing Coalition
	Spartanburg County
	Sumter County Community Development Corporation
	Trinity Housing
	Upstate Homeless Coalition of South Carolina
South Dakota	Cangleska, Inc.
	Crow Creek Housing Authority
	Development for the Disabled
	Neighborhood Housing Services of the Black Hills
	Northeast South Dakota Community Action Program
	Northeast South Dakota Economic Corporation
	Rapid City Housing Coalition
	Sioux Empire Homeless Coalition
	Teton Coalition
Tennessee	Aid to Distressed Families of Appalachian Counties
	The Arc of Tennessee
	Blount County Community Action Agency, Inc.
	Clarksville/Montgomery County CAA
	Cumberland Region Tomorrow
	DCEA Technical Assistance
	Douglas-Cherokee Economic Authority
	Dubois-Pike Warrick Economic Opportunity Committee Inc.
	Eastern Eight Community Development Corporation
	Kingsport Housing & Redevelopment Authority
	LeMoyne-Owen College Community Development Corporation
	Mideast Community Action Agency of Roane and Loud
	School of Urban Affairs and Public Policy, University of Memphis
	Tennessee Association of Community Action
	Transitional Living Program
	Upper East Tennessee Human Development Agency, Inc.
	Urban Housing Solutions
	Westside Community Development Corporation
Texas	AAMA Community Development Corporation
	ABC Behavioral Health, L.L.C.
	Almeda Community Development Corporation
	Annam Community Development Corporation
	Avenue Community Development Corporation
	Aztecg Economic Development
	Capital Area Homeless Alliance
	Catholic Family Service
	Central Texas Oportunities, Inc.
	Colonies Unidas
	Community Council of Bowie, Camp, Cass, Marion & Morris Counties (CAA)
	Dallas ACORN
	Dallas City Homes, Inc.
	Day Resource Center for the Homeless
	Eastwood/Broadmoor Area Community Development Corporation
	El Paso Collaborative for Community & Economic Development
	El Paso Communtiy Action Agency, Project Bravo
	The Enterprise Foundation-Austin
	Extra Touch Health Care, Inc.
	Farrant County ACCESS for the Homeless
	Fifth Ward Community Redevelopment Corporation
	Frisco Housng Authority
	Galveston Community Development Corporation
	Greater Park Place Community Development Corporation
	Guadalupe Economic Services Corporation
	Guadalupe Neighborhood Development Corporation

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

	Heights Community Development Corporation
	House for Homeless
	Housing Authority of the City of Brownsville
	Houston ACORN
	Houston HELP, Inc.
	Jean Brooks Community Development Corporation
	Local Initiatives Support Corporation - Houston (LISC)
	Lower Valley Housing Corporation
	Megillah Avenue Community Development Corporation
	Miracle of Hope, Inc.
	Motivation, Education & Training, Inc.
	Muslim Community Center for Human Services
	Neighborhood Housing Services of Dimmit County
	Nueces County Community Action Agency
	Office and Professional Employees 277
	Organization Progressiva de San Elizario
	Project Bravo, Inc.
	Re-ward Third Ward, Inc.
	Sisters of Charity of the Incarnate Word
	Southeast Texas Community Development Corporation, Inc.
	Sunnyside-Up, Inc.
	Tejano Center for Community Concerns
	Telecare Mental Health Services of Texas
	Texas Alliance for Human Needs
	Texas Associations of Community Development Corporations
	Texas Development Institute
	Texas Homeless Network
	Texas Low Income Housing Information Service
	Trinity Bethel Community Development Corporation
	University of Texas Pan American Community Outreach Partnership Center
	Upward Bound Community Development Corporation
	Vencinos Unidos, Inc.
Utah	Coalition of Religious Communities
	Justice, Economic Dignity & Independence for Women (JEDI)
	Mount Benedict Monastery
	National Tongan American Society
	Salt Lake Community Action Program
	Share the Future CLT
	Utah HUD Tenants Association
	Utah Issues
	Utah Nonprofit Housing Corporation
	Wasatch Homeless Health Care, Inc.
Vermont	Abuse and Rape Crisis Program/CVOEO
	Addison County Community Action Group, Inc.
	Battered Women's Services and Shelter
	Bennington/Rutland Opportunity Council of Southwestern Vermont
	Brattleboro Area Affordable Housing Corporation
	Brattleboro Area Community Land Trust
	Brattleboro Area Drop-In Center
	Brattleboro Housing and Human Resources Council
	Burlington Community Land Trust
	Central Vermont Community Action Council
	Central Vermont Community Land Trust
	Champlain Valley Office of Economic Opportunity
	Committee on Temporary Shelter
	Community Action Brattleboro Area, Inc.
	Gilman Housing Trust, Inc.
	Healthcare and Rehab Services
	Housing Vermont
	Lake Champlain Housing Development Corporation
	Lamoille Housing Partnership
	Morningside Shelter
	New Beginnings, Inc.
	Our Place Drop-In Center
	Randolph Area Community Development Corporation
	Rutland County Housing Coalition
	Rutland Housing Authority
	Rutland Mental Health Services
	Rutland West Neighborhood Housing

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

	Sisters of Mercy of Vermont
	United Counseling Services of Bennington County
	Upper Valley Haven
	Vermont Affordable Housing
	Vermont Center for Independent Living
	Vermont Community Loan Fund
	Vermont Department of Housing and Community Affairs
	Vermont Housing and Conservation Board
	Vermont Tenants, Inc.
	WomenSafe, Inc.
Virginia	Americans Helping Americans
	Amherst County Commission Against Domestic Violence
	Better Housing Coalition (BHC)
	Buckingham Housing Development Corporation
	Catholics for Housing, Inc.
	City of Richmond Human Services Commission
	Coalition for Housing in Arlington
	Consortium of Developmental Disabilities Councils
	Council for Affordable and Rural Housing
	Elderhomes Corporation
	Family and Children Services
	Federation of Appalachian Housing Enterprises, Inc.
	Habitat for Humanity of Northern Virginia
	Henrico Community Housing Corp. of Richmond
	Highland Park Restoration & Preservation Program
	H.O.M.E., Inc.
	Homestretch, Inc.
	Housing Association of Non-Profit Developers
	Interfaith Housing Corporation (IHC)
	Jackson Center
	Jackson Ward Association
	Local Initiatives Support Corporation-Richmond (LISC)
	Miriam's House
	Mountain Shelter, Inc.
	National Alliance for the Mentally Ill, Virginia
	Neighborhood Housing Services
	North River Community Action
	Northern Virginia Interfaith Coalition for Justice
	Northern Virginia Mental Health Consumers Association
	The NOVA Community
	Oregon Hill Home Improvement Council (OHHIC)
	People, Inc.orporated of Southwest Virginia
	Piedmont Housing Alliance
	Reston Interfaith
	Richmond Metropolitan Habitat for Humanity
	Richmond Redevelopment & Housing Authority
	Robert Pierre Johnson Housing Development Corporation
	Sisters of Mercy of Virginia
	Social Action Linking Together
	Southampton County Assembly, Inc.
	Southside Community Development & Housing. Corporation
	The Stop Organization
	Tahirih Justice Center
	Virginia Coalition for the Homeless
	Virginia Interfaith Center for Public Policy
	Virginia Supportive Housing (VSH)
Washington	1000 Friends of Washington
	Affordable Housing Management Association of Washington State
	Agape Unlimited/ Sisyphus II Project
	AIDS Housing of Washington
	Aloha Inn
	Archdiocesan Housing Authority
	Blue Mountain Action Council
	Bremerton Housing Authority
	Capitol Hill Housing Improvement Program
	The Compass Center
	Diocese of Yakima Housing Services (DYHS)
	Eastside Domestic Violence Program
	First Things First

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

Helping Hand House
The Homelessness Project
Housing Authority of Grant County
Housing Authority of Skagit County
Housing Development Consortium of Seattle-King County
Housing Hope
Housing Resources Group
Inland Empire Residential Resources
Intercommunity Housing
King County Coalition Against Domestic Violence
King County Department of Community and Human Services, Housing Finance Program
Kitsap County Consolidated Housing Authority
Kulshan Community Land Trust
Longview Housing Authority
Lower Columbia Community Action Council
Low Income Housing Institute
Lutheran Alliance to Create Housing (LATCH)
National Alliance for the Mentally Ill, WA (NAMI)
National Alliance for the Mentally Ill, South King County (NAMI)
Northwest Federation of Community Organizations
Northwest Regional Facilitators
Office of Rural and Farmworker Housing
Okanogan County Community Action Council
OPAL (Of People and Land) Community Land Trust
Parkview Services
Plymouth Housing Group
Poverty Action
Real Change Homeless Empowerment Project
Sisters of St. Francis of Philadelphia, Kent
Sisters of St. Joseph of Peace, Western Province
Skagit Affordable Housing Consortium
South King County Multi-Service Center
Southwest Washington Agency on Aging
Spokane Housing Authority
Spokane Neighborhood Action Programs
Tacoma Area Coalition for Individuals with Disabilities (TACID)
Tenants Union
Transitions
United Communities AIDS Network
Washington Coalition to Preserve Low Income Housing
Washington State Coalition for the Homeless
Washington State Council for Affordable and Rural Housing
Washington Low Income Housing Network

West Virginia

The Arc of Harrison County
Cabell/Huntington Coalition for the Homeless
Clay Mountain Housing, Inc.
Community Works in West Virginia, Inc.
DreamHome Community Development Corporation
Fairmont Community Development Partnership
Greenbrier Housing Authority
Harts Community Development, Inc.
The Housing Development Corporation, Inc.
Huntington City Mission
Huntington Housing Authority
Kanawha Institute for Social ReseArch & Action
Multi-Cap, Inc.
Randolph County Affordable Housing & Development Corporation
Randolph County Housing Authority
Realizing Economic Development through Education, Enterprise and Morals (REDEEM)
Religious Coalition for Community Renewal
Stop Abusive Family Environments (SAFE, Inc.)
Tiskelwatt Neighborhood Development & Advisory Council
The Upper Kanawha Valley Enterprise Community

Wisconsin

Access to Independence
Advent Lutheran ELCA
Affordable Housing Action Alliance
Allied Churches Teaching Self Empowerment
Avenues West Association

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

BASICS in Milwaukee, Inc.
Beloit Community Development Authority
Brown County Housing Authority
Brown County Task Force on Homelessness
C-CAP, Inc.
Christine Ann Domestic Abuse Services, Inc.
Community Advocates
Community Housing Initiative, Inc.
Community of Hope/United Church of Christ
Fair Housing Center of Greater Madison
Family Services
Fox Cities Housing Coalition
Franciscan Sisters of Perpetual Adoration
Freedom House Ministries, Inc.
Friends of Housing Corporation
Greater Fox Cities Area Habitat for Humanity
Heartland Properties Inc
HOMES Coalition
Housing Initiatives, Inc.
Housing Partnership of Fox Cities
Housing Resources, Inc.
Hunger Task Force of Milwaukee
Integrated Community Services- Green Bay
Interfaith Hospitality Network-Eau Claire
Interfaith Hospitality Network-Madison
Juniper Court, Inc.
Layton Boulevard West Neighbors
League of Women Voters of Dane County
League of Women Voters of Greater Green Bay
Lisbon Avenue Neighborhood Development Corporation
Lisbon Avenue Neighborhood Redevelopment
Local Initiatives Support Corporation
Lutheran Office for Public Policy
Madison Area Community Land Trust
Madison Area Urban Ministry
Menomonee Valley Partners, Inc.
Metcalfe Park Residents Association
Metro Milwaukee Fair Housing Council
Milwaukee Christian Center
Milwaukee Women's Center
Mortgage Guaranty Insurance Corporation
Moving Out, Inc.
Mutual Housing Association of Brown County, Inc.
Neighborhood Housing Services- Green Bay
New Community Shelter
New Concepts
New Covenant Housing Corporation
NEWCAP, Inc.
Northeast Milwaukee Industrial Dev. Corp.
Northeast Wisconsin Fair Housing Council
Opportunities Industrialization Center of Greater Milwaukee
Project Home
Sacred Heart Center
Select Milwaukee, Inc.
Shawano County Housing Authority
Southerwestern Wisconsin Community Action Program, Inc.
Southeastern Wisconsin Housing Corporation of Racine County
St. Francis Bank
Toward Community Unity in Diversity
United Way of Fox Cities
University of Wisconsin Greens
University of Wisconsin Multicultural Student Coalition
Wisconsin Association of Housing Authorities
Wisconsin Council on Children and Families
Wisconsin Manufacturers Homeowners Association, Inc.
Wisconsin Partnership for Housing Development
Wisconsin Preservation Fund, Inc.
Wisconsin Public Interest Research Group (PIRG)
Women and Poverty Public Education Initiative

NATIONAL HOUSING TRUST FUND CAMPAIGN
LIST OF ENDORSING ORGANIZATIONS

Wyoming	Community Action
	Diversified Services, Inc.
	Human Services Commission
	Wyoming Coalition for the Homeless

54 Individuals Supporting the National Housing Trust Fund Campaign

State	**Individual**
Alaska	John Galfione
	Sarah Ramsey
California	Lisa Feldstein, Affordable Housing Consultant
	Kristie Kesel
	Clement Lau
	Jennifer Bigelow McGovern
	Sheryl Spencer
District of Columbia	Cushing Dolbeare, Founder and Chair Emeritus, NLIHC
Florida	Bill Clift
	Susan Lang
Illinois	Heather D. Parish, Economic Development Consultant
	Cynthia Ralls
	Herbert Rubin, Professor of Sociology, Northern Illinois University
	Janet Smith, Professor, University of Illinois at Chicago
Kansas	Robert Rutkowski
Louisana	C. Duplantis
	D. Henry
	H. Lapeyre
	P. Rhodes
	A. Tilman
	C. Voisin
Maine	Tammy Voisine
Kentucky	Miles Puckett
Maryland	David Crystal
	Ruth Crystal
	Joseph Harkness
	Travis Woodruff
Massachusettes	Roseline Reynolds
	P. Sweeney
Minnesota	Anne Billier
	Norah E. Bringer
	Eloise Buckingham
	Justin Cummmings
	Kari Denissen
	Rarinder Flesh, MFHC
	Nick Jamez
	Eddie L. Johnson, YMCA St. Paul
	Jane Lawrenz, Dakota County
	Sara Leedom
	Kim Lieberman
	Sara Nelson-Pallmeyer
	Monica Nisson
	Michelle Poeschel
	Paula Schumacher
	Scott Zemke, Community Action for Surburban Hennepin
Missouri	Adam Rustige, Univrersity of Missouri - St. Louis
	George Niewrzel
New Jersey	Martha Lamar, Housing &Planning Consultlant
New York	Julia Koschinksky
North Dakota	Howard C. Barlow, CFRE
Pennsylvania	Jenn M. Bromwell
	Colleen Unroe
Ohio	Tricia Gillespie
	Richard Heil
	Hattie Jackson
	Barbara Snyder
	Cathy Tilden
Texas	Ellie Collier
Vermont	Morgan Brown, Independent and Literally Homeless Activist
Washington	Donald Harden
	Tina Ilvonen
Wisconsin	Jay Austinson

A P P E N D I X

April 23, 2002

Opening Statement of the Honorable Marge Roukema
Chair
Subcommittee on Housing and Community Opportunity

"HR 3995, the Housing Affordability for America Act of 2002"

Tuesday, April 23, 2002

This is the second in a series of hearings on H.R. 3995, the Housing Affordability for America Act of 2002, which is designed to increase the availability of affordable housing and expand homeownership and rental opportunities across the country.

Our first hearing on HR 3995 focused specifically on the HOME program, housing production, the National Housing Trust Fund as proposed in H.R. 2349, and the thrifty production voucher as proposed in HR 3995. As I have stated before, new production of affordable single and multifamily housing is essential to the goal of expanding home ownership and affordable rental opportunities.

That first hearing was most informative. Clearly there are different ways to address the shared goal of increasing production. I trust that as we move forward on HR 3995 that we can all stay focused on the goal and keep an open mind on how best to achieve that goal.

There are many problems that need our attention relative to housing in this country. Certainly we need to look at ways to increase production; and we need to search for new ways to address the increasing cost of section 8 contract renewals. If we don't, it will soon consume the lion's share of HUD's budget. In light of the country's growing elderly population, seniors are finding it harder and harder to find affordable housing or to simply stay in their home.

There are over 34 million Americans 65 years and older. By the year 2025, that number will increase to 62 million, or one in every six Americans. Growing numbers of seniors are suffering from worst case housing needs. From 1991 to 1997, the number of senior low-income renters paying more than 50 percent of income toward rent rose 8 percent, at the same time, the number of senior low-income households receiving public rental assistance dropped 13 percent. These factors could combine to create a crisis-level lack of affordable housing for senior citizens within the next decade. We need to establish comprehensive aging-in-place strategies that link affordable shelter with compassionate services through public-private partnerships. The reality is that solutions to these problems will not be easy. That is precisely why Congress thought it necessary to establish both the Millennium and Senior's Housing Commissions. We have asked them to "think outside the box" and to come up with solutions to address these growing and pressing problems.

HR 3995 is a first step to addressing the problems that we can address right now in anticipation of the Millennium Housing and Senior's Housing Commission's reports that are due later this year.

This hearing today will focus on programs that provide direct federal housing assistance to low income Americans. We have asked our witnesses to comment on the section 8 program, public housing, elderly, disabled, homelessness and HOPE IV.

The section 8 program is the primary type of direct federal housing assistance to low income Americans. At last year's hearing, we heard how in certain communities, voucher under-utilization is a significant problem. Under-utilization of vouchers has been attributed to various causes including the tight rental market, poor performance by PHAs, targeting of a large percentage of vouchers to very low-income individuals, low fair market rents and rent caps of 40 percent of adjusted monthly income.

H.R. 3995 includes provisions that provide flexibility to public housing authorities and tenants alike within the section 8 program. Some of the provisions included would establish a Thrifty Voucher Production Voucher to be used in conjunction with new construction or substantial rehabilitation; permit the 40 percent cap to be based on gross income versus adjusted income; and allow Public Housing Authorities to use up to 5 percent of the funds allocated for counseling, down payment assistance, rental security deposits and other activities that assist families in finding suitable housing to directly assist hard-to-house families.

Through the Public Housing program, HUD gives grants to public housing agencies (PHAs) to finance the capital cost of the construction, rehabilitation, or acquisition of public housing developed by PHAs. Title V of HR 3995 includes provisions that would relieve some of the administrative burdens for Public Housing Authorities, such as giving the Secretary of HUD the ability to waive the resident commissioner requirement; suspending the report filing requirement for small PHAs of 100 or fewer and granting HUD the authority to investigate the feasibility of an alternative evaluation system to assess the overall performance of a public housing agency.

HR 3995 reauthorizes HUD's homeless programs through FY 2004 and funds renewals of contracts through the Housing Certificate Fund, for one year at a time, through 2004. In addition, it reauthorizes the Indian Housing Block Grant Programs, Housing Opportunities with Aids, and HOPE VI. In addition, HR 3995 includes reforms to the HOPE VI program that will allow eligibility for small PHAs.

We are looking forward to all of the witness's testimony today. I want to thank you for being here today.

Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Housing and Community Opportunity

H.R. 3995 Housing Affordability for America Act
April 23, 2002

I commend Chairwoman Roukema and Vice Chairman Green for their hard work on the bill we're here to discuss today -- the Housing Affordability for America Act.

Under their leadership this Subcommittee conducted a series of hearings last year examining the affordable housing crunch occurring in many of our nation's areas and the obstacles that keep too many families out of homes.

The hearings outlined many of the complex issues involved in addressing various affordable housing problems across the nation. This bill takes a strong first step to address those issues.

Today we will hear from many experts on public housing, federal rental subsidies, homelessness, and elderly and disabled housing initiatives. As we face what some depict as a housing problem in high-cost areas, it is incumbent that we not only address the home ownership side, but the other housing support systems that assist families in pursuing the American Dream. In that light, reinvigorated private-public partnership initiatives provide the best opportunity for new affordable housing.

Although we can be proud that American home ownership is at a record high of nearly 70 percent, we know there are segments of our population that continue to face challenges to owning a home.

As well as being a community anchor, housing is a point of strength in today's economy.

- Low interest rates have made home ownership more feasible, allowing many first time buyers to enter the housing market.
- Rates have also created a boost in refinancing which frees up cash to go to other sectors of the economy.
- The shaky state of the stock market has made real estate investments increasingly attractive.
- And on the rental front, affordable rates for working families provide a foundation for future home ownership opportunities that ultimately strengthen families and communities.

But not only is home ownership a good equity investment and good for the economy; it's an investment in our local neighborhoods. It's critical to communities that affordable housing is within reach for all income levels and that home ownership is an attainable goal for any working family.

Housing affordability is an opportunity that everyone deserves and this bill will help to ensure that it is an option for more American families.

Today I welcome Mr. Thomas Slemmer of Columbus, Ohio who represents the National Church Residences. Approximately six months ago, I attended a ribbon-cutting in Mansfield, Ohio for 50 homes brought to our community by Mr. Slemmer's organization. We are proud of your work in Ohio and look forward to your testimony today.

I also welcome another Ohioan, Ms. Terry Hamilton-Brown, who is the Executive Director of the Cuyahoga Metropolitan Housing Authority, which includes Cleveland. I understand that you have made significant strides in your short tenure. We welcome your comments today.

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OPENING STATEMENT

HR 3995
Housing Affordability for America Act of 2002

Housing and Community Opportunity Subcommittee
Rep. Stephanie Tubbs Jones
Ohio, 11th District
4/23/02

Part II

Rep. Stephanie Tubbs Jones

Good Morning Chairwoman Roukema, Vice Chairman Green, Ranking Member Frank and Members of this Subcommittee. Madame Chairwoman, I ask unanimous consent that my full statement be included in the Record.

Owning a home is the most rudimentary element of financial independence and the beginning of the wealth creation process. Furthermore, purchasing a house means more than just a place to live and a good investment; home ownership is an opportunity for a better life. For many Americans owning a house can also mean collateral for a small business loan or be the first step towards building a strong credit history. It is of vital importance that we ensure the ability of all Americans to have access to the resources that are required to realize this basic piece of the American dream.

We are here today to discuss the merits of the Housing Affordability for America Act of 2002. The intention of the Act is to increase the availability of affordable housing and expand homeownership and rental opportunities across the country. Although I support the spirit of this legislation we must make sure that we address all of the issues in full; an inadequate or flawed response to the problem will not suffice. We must go further than the mere creation of programs that can help facilitate increased home ownership in America by making sure that consistent and adequate funding exists to maintain and support these programs as well.

I am also concerned that HR 3995 as it stands now will create increased selectivity from owners of eligible properties who will only want to take the highest income earners from the pool of eligible applicants leaving many previously eligible participants in the cold.

The creation of thrifty vouchers is also of concern. Although the proposed thrifty vouchers are in theory less expensive than regular vouchers, they limit choice for consumers because of their inability to support any debt service. Prospective homebuyers will have no choice but to reside in those projects that have full capital subsidies.

Finally, I fear that the complexity of the proposed legislation creates additional burdens on the already overextended administrators. It can cost up to a quarter million dollars a year just to apply for some housing grants. We need to streamline this system to make the creation of low and moderate income housing a more attractive investment.

Each one of us owes it to our constituents and to ourselves to continue to work on the issue of affordable housing. Although HR 3995 is a step in the right direction, we must continue to develop, augment, enhance and innovate in order provide housing for all Americans.

Thank you, Madame Chairwomen, for the opportunity to present my remarks. I look forward to working on these issues in the days and weeks to come.

Congresswoman Jan Schakowsky

Hearing Statement, HR 3995,"The Housing Affordability for America Act of 2002"
April 23, 2002

MS.Chairwoman and ranking member Frank, thank you for convening this important hearing today. I am pleased that this subcommittee is confronting our national affordable housing crisis. Over 16 million families have critical housing needs, yet federal support for affordable housing has declined steadily since 1978. Might I add that increased homelessness is directly attributable to the federal government's neglect.

The lack of affordable housing has a great impact on families in my home state of Illinois. One out of five renters in Illinois spends more than 50% of their income on rent. In the Chicago are we are in need of over 150,000 units of affordable housing for extremely low-income households. Furthermore, 30,000 units of project-based housing will expire within 5 years. The problem will grow much worse if we do not act now.

Some might argue that we do not have the resources to provide affordable housing. I disagree. The Bush budget calls for more tax breaks for the wealthiest Americans and for large corporations. This is a matter of priorities. We need to make the housing needs of the American people a top priority. Hopefully this committee's work will put housing on Washington's radar screen. We need to enact a comprehensive and productive plan now. Low- and moderate-income families regularly have to choose between paying their rent and paying for other critical needs. We must do better. I think this legislation is a positive start. It makes several sensible reforms that will provide more affordable housing to working families.

It improves targeting in the HOME program and it creates a stable stream of funding for HUD's homeless assistance programs by allowing renewal grants to be funded through the section 8-certificate fund. This will allow formerly homeless people to have stable housing for the future. I wish to commend the Chairwoman for including this critical provision.

I am also hopeful that we will able to strengthen this legislation by allowing people who are forced to move to use their section 8 vouchers to move into properties in their neighborhood. I also hope we can provide transitional housing for victims of domestic violence. Currently HUD does not have any housing programs that helps victims of domestic violence escape the cycle of abuse and obtain independence.

COMMITTEE ON
FINANCIAL SERVICES
SUBCOMMITTEES:
CAPITAL MARKETS, INSURANCE, AND
GOVERNMENT-SPONSORED
ENTERPRISES
HOUSING AND
COMMUNITY OPPORTUNITY

COMMITTEE ON
SCIENCE
SUBCOMMITTEE:
RESEARCH

Congress of the United States
House of Representatives
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April 23, 2002
Opening Statement
Subcommittee on Housing
Committee on Financial Services
Day 2 of Hearings on HR 3995,
The Housing Affordability for America Act of 2002

Madame Chair, thank you once again for calling this hearing and for all of your hard work and leadership on housing issues in general.

In particular, I want to thank you for calling this particular hearing, which features tenant representatives from around the country. In particular, I am happy to see that we will be dealing with the issues of disabled housing today. I have a particular concern in this area, as our housing must account for those in society who need our help most.

The disabled are certainly part of the population that needs our help most. According to the Consortium for Citizens with Disabilities, a group represented on our second panel today, in 2000, SSI beneficiaries needed to pay - on a national average - 98 percent of their SSI benefits in order to be able to rent a modest one-bedroom unit at Fair Market Rents.

According to HUD, at least 1.3 million disabled adults receiving SSI had worst case housing needs in 1999. HUD itself warns that this number undercounts people with disabilities.

I believe that HUD should be doing more to serve people with disabilities. Right now, HUD lacks a central designated office that serves people with disabilities. There is no place to which a disabled woman from [redacted] New York can call with specific questions about how HUD programs can address her needs as a disabled person. I understand that the Deputy Assistant Secretary for Special Needs' portfolio includes families with children, homeless, and a host of other populations — but apparently NOT the specific needs of the specific population of people with disabilities.

I would suggest that an appropriate addition to this legislation would be to designate an office at HUD for people with disabilities. I hope to work with you on such an amendment Madame Chair. I will also be sure to discuss this at tomorrow's hearing with HUD representatives.

I would also be interested to hear from the witnesses about their experiences with fair housing accessibility guidelines. In particular, I would like to hear their thoughts on whether the tax credit, Section 8 or HOME programs are encouraging the production of accessible housing and if guidelines are generally being followed.

Madame Chair, we have a responsibility to listen to the people who use our nation's housing programs. Too often, these people are simply not heard. Whether they are public housing tenants, the disabled, the old or frail, they are our customers, and we must do better.

Thank you again Madame Chair and I yield back the balance of my time.

RECORD

OPENING STATEMENT
VICE CHAIRMAN MARK GREEN
SUBCOMMITTEE ON HOUSING
HEARING ON H.R. 3995
APRIL 23, 2002

Thank you Chairwoman Roukema for holding this second hearing on H.R. 3995, the Housing Affordability for American Act of 2002.

This is very important legislation, and I'm pleased we're holding a series of hearings so that we can closely examine all the issues in this comprehensive bill, and move forward with a product that will not only increase homeownership opportunities for more Americans, but make rental housing more affordable to those who need it.

Today's hearing focuses on Section 8, public housing, elderly and disabled. I have a particular interest in these areas, as I authored the Section 8 disabled homeownership pilot program that passed through Congress two years ago.

I would also like to thank Chairwoman Roukema for her willingness to work with members to include our important priorities in this bill. There are several provisions contained in H.R. 3995 that I authored.

- First, is a pilot program to help law enforcement officers purchase homes in locally designated “at risk” areas. This program will help officers that may not have enough money for a big downpayment get into homes. Additionally, placing police officers in these “at risk” neighborhoods will serve to make our streets safer.

- I’ve also worked to include provisions that expand participation of faith-based charities in the delivery and production of affordable housing.

- Finally, I am pleased that the bill contains a provision for a Housing Impact Analysis, that requires federal agencies to study the impact that their proposed rules would have on the cost of housing to consumers.

These are all important provisions. In addition to the many other innovative ideas put forth in this bill, I think we have a good starting point to move forward on housing legislation this year.

Again, I think the Chair, and welcome the witnesses. I look forward to hearing your testimony and yield back the balance of my time.

Congressman Felix J. Grucci, Jr.
Subcommittee on Housing and Community Opportunity
Hearing on HR 3995
April 23, 2002

Thank you Madame Chairwoman.

I would like to thank you for holding this hearing today, which is the second hearing on a bill I proudly cosponsored -- The Housing Affordability for America Act of 2002. As I have mentioned on many occasions, I believe it is our duty to help more Americans become homeowners. One way of doing this is to provide direct assistance to those interested in purchasing their first home. Another way is to ensure that current government programs are properly used, well managed and able to fully serve the people that need them most. HR 3995 is based on both of these principles.

We must continue to open the door for Americans to achieve the American Dream by finding work, raising a family in a healthy environment and owning a home. While homeownership is at record levels, we must never be satisfied until every family in every region of the country has affordable housing available and has a pathway to homeownership.

We, too, must ensure that Americans have more affordable rental options throughout the nation. It is my hope that providing greater access to affordable rental options will allow people to save money, create a foundation and eventually become homeowners. In my district on Long Island, rental housing is extremely expensive. Low and moderate-income families are forced to drive long commutes or even share apartments with multiple families because of a true lack of affordable rental options. HR 3995 makes great strides towards helping all communities better their rental assistance programs to ensure those low and moderate-income families are given more access to affordable rental opportunities.

For example, HR 3995 provides greater flexibility in the Section 8 Rental Housing Assistance Program. This will allow local public housing authorities to have more control over Section 8 programs in order to better serve their local communities. It will ensure that Section 8 properties are kept in good condition and don't fall victim to absentee landlords that avoid their responsibilities. Too often good facilities are closed down because they were not cared for and eventually became eye soars. It is my belief that by empowering local Public Housing Authorities, local communities can avoid these problems.

Furthermore, Public Housing Authorities would be able to use up to 5% of allocated funds to directly support their housing choice voucher program for counseling, downpayment assistance and rental security deposits. This important program will greatly enhance the Section 8 program and the administration of it.

HR 3995 also helps our disabled, elderly and homeless populations that desperately need better housing options. For example, this bill would fund renewal of contracts of HUD's homeless programs through 2004, including the Shelter Plus Care Program that provides rental subsidies for permanent housing for homeless people with disabilities.

As we continue our dialogue on HR 3995 and the housing issues it addresses, let us all remember the housing crises America is facing. It is time that we focus our attention and efforts on those that need affordable housing the most. No community in America has a surplus of affordable housing. Every city in the nation has families worrying where they will in the near future. Those areas that provide ample affordable housing options are quickly disappearing.

Fortunately, many of the current programs are effective, but need some flexibility in order to better serve both the tenants and the Public Housing Authorities. I believe HR 3995 provides the flexibility needed and also makes appropriate changes to current stumbling blocks in the affordable housing market.

I look forward to your testimony and appreciate your willingness to come and discuss these important issues today.

washingtonpost.com

Urban Renewal Can Be Tough On the Tenants

By Courtland Milloy

Wednesday, May 1, 2002; Page B01

The Stanton Dwellings public housing complex in Southeast Washington was nearly vacant, and work crews were busily gutting apartments yesterday to make way for a soon to be built "mixed-income" community.

Elaine Carter, 63, stood on her front porch, surveying the desolation with a mixture of nostalgia and dread. She is the last resident remaining in the complex. Not a neighbor in sight. Where hundreds of families once lived and played, only boarded-up buildings and piles of ripped-out door frames and windowsills remain.

"It looks like a tornado came through here," she said.

Indeed, to hear Carter tell it, the storms of life that swept through Stanton Dwellings were often as lethal as a natural disaster. Chronic unemployment, overcrowding, disabling illnesses and injuries, lack of health insurance, drug abuse and crime claimed hundreds of lives over the years and combined to make the place a man-made disaster area.

"With all of the lead paint and the asbestos that they found in the walls, you had people coming down with lung cancer and all sorts of respiratory diseases," Carter said. "Then, when the crack cocaine showed up, we started having all the killings."

And no matter how refreshing the economic breeze of the 1990s was for the rest of the city, a dark cloud always seemed to hang over the heads of the poor.

Two years ago, Stanton Dwellings and the neighboring Frederick Douglass housing complex were awarded a $30 million Hope VI federal housing development grant -- with $4 million set aside for social service programs.

Residents were hopeful. Although they would have to vacate their apartments during the renovations, most of them thought they would be moving back into rebuilt homes.

Carter, a 30-year resident and president of the Stanton Dwellings Resident Council, vowed to keep residents informed about the progress of the improvement project. What she learned shocked her and other tenants: Everybody would not be coming back.

"We discovered that you had to 'qualify' to move back," Carter recalled. "That's the catch. If you've got messed-up credit, as many of us have, or someone in your family has a felony conviction, as many of us do, then you don't qualify."

Carter and other tenant leaders have tried to make sense of the tremendous changes in District public housing policy. Throughout the city, low-income apartment complexes are being demolished and rebuilt as mixed-income communities.

Thousands of poor residents are being shuffled about, often from one public housing complex to another, as the renovation process catches up with them.

When the dust settles, according to the plan, Washington's highly concentrated poor populations (for years a magnet for a variety of social ills) are expected to be dispersed and their proportions reduced in neighborhoods that will include people of all incomes.

Housing officials are quick to point to the Wheeler Creek and Ellen Wilson developments, both in Southeast Washington, as examples of how the new approach can turn around areas that were once shunned by retailers and middle-income residents.

But Carter knows that many of the poor people who once lived in those housing complexes never returned.

"A lot of times, as I was saying goodbye to my neighbors, I would be asked if I thought they'd be coming back," Carter said. "I'd have to tell them the truth: No. I've been around long enough to see that what starts out as 'urban renewal' usually ends up just being 'Negro removal.' "

Carter recalled how valiantly some residents had struggled over the years to make Stanton Dwellings a better place -- despite the odds.

"When I moved in here, there was no grass. The whole place was bald," Carter recalled. "A group of us got together, found some seeds and planted the grass."

Other residents painted discarded tires and turned them into flower pots. Elderly residents formed garden clubs, and children formed bands, cheerleading squads and a dance troupe.

Stanton Dwellings was also home to members of the 1-5 Mob, which federal prosecutors called one of the most ruthless groups of drug dealers in the city. To the credit of adults like Carter, more young people participated in legitimate organized activities than in gangs.

"Just as the city starts to make a comeback, it seems that those of us who hung in there through the bad times are not going to be a part of it," she said.

Although Stanton Dwellings is being torn down around her, Carter said she wanted to stay to make sure that adequate housing was found for all the displaced residents. But she acknowledged that she may have waited so long that there is no longer any public housing space available for her to move into.

When tenants don't move out, eviction crews show up and put their belongings on the street.

And if Carter can't find another place to live?

"I'll just have to go down with the ship," she replied.

HAWS

Housing Authority of the City of Winston-Salem

Commissioners

Ernest H. Pitt, *Chairman*
Barbara G. White, Vice Chairman
DeWayne H. Anderson
Doris Kimbrough
James Rousseau

J. Reid Lawrence - *Executive Director*
A. Fulton Meachem, Jr. - *Deputy Executive Director*

January 31, 2002

The Honorable Melvin Watt
Congress of the United States
12th Congressional District, North Carolina
2236 Rayburn HOB
Washington, DC 20515-3312

Dear Representative Watt:

Thank you for the opportunity to share with you our input regarding the reauthorization of the HOPE VI program scheduled to expire on September 30, 2002. The Housing Authority of the City of Winston-Salem (HAWS) received its HOPE VI program in 1997 to revitalize Kimberly Park Terrace (KPT). KPT public housing development consisted of 556 units built in 1953 and 1962. The design of the site isolated the public housing development from the surrounding communities and the buildings themselves were barrack style that were determined to be obsolete. The families that lived in KPT had a sense of hopelessness and the physical environment created a sense of isolation and despair.

The HOPE VI program is one of the most comprehensive efforts on the part of HUD to irradicate distressed public housing. The program allows broad flexibility for public housing agencies to leverage HOPE VI dollars with private sector funding and other public sector resources to create mixed-income communities. These new mixed-income communities provide a mixture of subsidized housing, affordable housing and market rate housing, and create neighborhoods of inclusion rather than isolation. Another key element of the HOPE VI program is the supportive and community services component. Through critical assessment and analysis, specific supportive service needs are identified and a supportive and community services plan is developed to address the socio-economic needs of the residents.

In Winston-Salem we have come up with a design for our community that is a combination of rental, homeownership and market rate housing. The proposed physical plan calls for the demolition of all buildings on site and introduces street connections between Kimberly Park and adjacent neighborhoods. Blocks in a grid configuration and a scale and pattern typical of other local turn-of-the century neighborhoods, will replace the existing superblocks. The development plan is to transform KPT into a stable and high quality mixed-income community that reduces the concentration of poverty, assists public housing residents in becoming self-sufficient and integrates the HOPE VI community into the adjoining neighborhoods. The goal is for participants to become independent of public assistance and leave public housing for either homeownership or the private rental market within three (3) to five (5) years. The community and supportive services programs for residents is designed around four areas: education, employment, childcare and transportation.

The KPT Family Self-Sufficiency Program (FSS) has many successful families participating. The program has had a significant impact on the quality of life for all the residents of Kimberly Park Terrace. The FSS program provides residents with the opportunity to become economically and socially independent through coordination and delivery of community services. To live in the new HOPE VI community, residents must participate in the FSS program where they will receive supportive services to overcome barriers to self-sufficiency. Services include job placement, job training, transportation, childcare, counseling, homeownership, and education assistance. An incentive of the FSS program is the Escrow Account. Escrow accounts have been established for families that have received an increase in household rent resulting from an increase in earned income. Families may withdraw funds from the escrow account when they have completed self-sufficiency goals. Escrow accounts may be used to purchase a home, transportation, educational goals and starting a business.

We have three Case Managers who are responsible for meeting with residents enrolled in the FSS and Homeownership Programs to help identify needs and barriers to self-sufficiency. Case Managers assist residents in obtaining assistance in areas such as childcare, transportation, job training, substance abuse counseling and credit repair. In addition they provide individualized counseling, budget sessions and family counseling. Case Managers also assist in coordinating services through other agencies such as the Department of Social Services, Urban League, JobLink, Goodwill Industries and Self-Help Credit Union. 130 residents have expressed an interest in participating in the program. Currently sixty-nine FSS contracts have been signed by Kimberly Park Terrace residents who are participating in the FSS program.

The Homeownership Program is another component of the HOPE VI program. Our first homeownership institute class kicked-off in October 2000 and since that time we have had four homeownership institute classes to date. Thirty-eight (38) residents have graduated from the program. Five (5) are currently enrolled, nineteen (19) graduates were Kimberly Park participants and other graduates were a combination of Section 8 and other city-wide housing programs. Of the thirty-eight (38) families who have completed the Institute twenty-seven (27) have been qualified by a Lender and one (1) has already purchased a home and one (1) is purchasing a home through Habitat for Humanity. We are now in the process of implementing a Homebuyers Club that began December 17, 2001. The institute, which takes twelve months to complete, provides detailed information about the home buying process. Classes are held at 11:00 a.m. and 6:00 p.m. to accommodate different work schedules. Each of the classes will be taught by real estate professionals such as attorneys, bankers and realtors. Classes explaining private mortgage insurance and other specific information is also provided. Graduates of the institute will be better prepared to purchase homes in the new HOPE VI community or a new or existing home located elsewhere in the city.

Seniors – The senior residents of Kimberly Park are now occupying Azalea Terrace. The building houses 100 senior residents from Kimberly Park Terrace and other communities. Amenities include a recreation room, library, and a computer lab. An on-site wellness facility will be staffed by a Nurse Practitioner and nursing students from Winston-Salem State University. A common dining area provides space for dining or meetings. We have one Case Manager who is responsible for providing and coordinating programs and activities for the elderly. The Kimberly Park community has a strong elderly component. In order to assist the residents in maintaining their independence a variety of programs are offered on-site.

Senior programming includes activities geared towards preventative healthcare; such as mammograms, eye exams, proper nutrition, exercise, etc. In addition, activities are planned to provide for social enhancement and interaction with a focus toward integrating the elderly into the greater community. To this end, cultural programs, arts and crafts and activities centered on holidays and special themes are planned. Case Managers work closely with the City Parks and Recreation Department as well as area churches and educational institutions and other area organizations to provide stimulating activities for elderly residents.

The City of Winston-Salem elected officials and senior staff have been true partners in the development of the KPT HOPE VI project. The City has committed to providing $2.5 million for public improvements and took the lead in the first phase of demolition consisting of 303 units. The City's return on investment will be realized in the following areas:

1. Vacant publicly owned land back on tax rolls with an increased real estate tax base
2. Increased incentives for housing development uptown
3. Opportunity to create mixed-income and racially diverse neighborhoods
4. Incentive for private sector development

The HOPE VI program at KPT has been a success for the Housing Authority and the City of Winston-Salem. We look forward to having another site funded in the near future. However, we do offer a suggested change in the implementation of the HOPE VI program. We strongly recommend for those Housing Authorities that have HOPE VI experiences and internal capacity (staff and/or consultants) participate more as a true Developer/Partner. In this way, Authorities can take advantage of the financial opportunities that primarily accrue to the Master Developer. We at HAWS feel that we are very capable of assuming the role of co-developer.

901 Cleveland Ave. ~ Winston-Salem, NC 27101 ~ Phone (336) 727-8500 ~ Fax (336) 777-8508
TDD (336) 727-8543

Again, we sincerely thank you for your continual assistance in Winston-Salem and particularly for your support of our KPT HOPE VI program.

Sincerely,

J. Reid Lawrence
Executive Director

Greensboro Housing Authority
450 North Church Street
Post Office Box 21287
Greensboro, North Carolina 27420-1287
Telephone 336-275-8501
Hearing Impaired
336-271-3319
Office
Executive Director

February 5, 2002

The Honorable Melvin L. Watt
United States House of Representatives – 12th District
2236 Rayburn House
Washington, DC 20515-3312

Dear Congressman Watt:

We appreciate your service to the House Financial Services Housing and Community Opportunity Subcommittee and welcome the opportunity to provide comments for your consideration regarding the HOPE VI program.

We support the reauthorization and continued funding of the HOPE VI program. We suggest appropriations for the program be increased to assure that grants will be awarded to previously submitted, approvable applications and the program continue to award grants to additional new applications.

We suggest the definition of "severely distressed public housing" be amended to enable local housing agencies to serve all public housing populations in addition to families and to give equal emphasis to physical, social or community distress.

We believe the program needs to be adapted to recent changes in the public housing program. The HOPE VI program has changed the face of public housing in Greensboro by demolishing 380 units in Morningside Homes and over 100,000 units of distressed public housing across the Country. Greensboro Housing Authority and many other local housing agencies are now more familiar with mixed finance housing production, and forming public-private partnerships to revitalize and restore our communities to their former position of quality working class neighborhoods.

Your consideration of the above and the attached suggested legislative changes we feel would improve the HOPE VI program and we sincerely request your support.

Congressman Melvin L. Watt
February 5, 2002
Page Two

We would be pleased to discuss our program and suggestions with you or your staff. Again, we thank you for your service to our district and the community we serve.

Sincerely,

Tina Akers

Tina Akers

TA:dh

Attachment

February 2002

RECOMMENDED LANGUAGE FOR RE-AUTHORIZATION OF HOPE VI

HOPE VI is authorized in the 1937 Housing Act, section 24 (42 U.S.C. 1437v). Greensboro Housing Authority offers the following legislative changes for consideration to improve the HOPE VI program:

Amend selection criteria to include small agencies and financial ratings.

Sec. 24 [42 U.S.C. 1437v] (e)(2) Selection Criteria—The Secretary shall establish selection criteria for the award of grants under this section and shall include such factors as—
(A)...
(B) The capability and record of the applicant public housing agency, or any alternative management entity for the agency, for managing large-scale redevelopment or modernization projects **relative to the agency's size,** meeting construction timetables, and obligating amounts in a timely manner**, especially as determined by a credible financial rating institution.**
(C)...(H)...
insert new **(I) the representativeness of the awards with regard to agency size and geographic location from year to year.**
renumber (J) Such other factors as the Secretary considers appropriate.

Suggested report language for small agencies
Of the $4 billion already invested through FY2000 in HOPE VI, nearly half (47 percent) has been awarded to 13 large housing authorities. But small public housing communities are experiencing deterioration as population and jobs shift, crime worsens, and the economic downturn squeezes local resources. The Secretary is directed to review the application process to ensure that small housing agencies have equal access to these funds, and to ensure that grant awards are representative of the geographic and size diversity among housing authorities.

Suggested report language for financial rating institutions
The HOPE VI program has been instrumental in opening the private housing development market to housing authorities. In turn, some housing authorities have gained experience in developing and closing the complex financial transactions necessary to develop a mixed-income, mixed-finance multifamily property. Some housing authorities may have already had this experience. Credible financial rating institutions are one constant, acceptable measure of an entity's record for handling complex redevelopment activities, meeting timetables and obligating amounts. The Secretary is encouraged to request housing agencies to report their ratings, where applicable, and to reduce administrative oversight for these agencies.

Production of incremental public housing eligible to receive operating and capital subsidies should be an eligible activity of HOPE VI.

Section 24(d) Eligible Activities (1) In General.—
insert after 24(d)(1)(L) a new subpart (M)—
(M) Section 9(g)(3)—Limitation on New Construction shall not apply to this section.

Suggested report language for incremental production of units
Over five million Americans live in substandard housing or pay more than fifty percent of their income for housing. Waiting lists for public housing and tenant-based assistance are years long, or closed at most housing agencies. The rate of replacement for public housing units in HOPE VI is only 53%. A severely distressed community in some areas is one that does not have sufficient affordable housing for the poorest of the poor. New public housing must be built, but the new communities must following the lessons learned from the failed public housing developments of the past. The development of incremental public housing units should follow the mixed income, mixed financed models illustrated by successful HOPE VI developments.

Amend the definition of severely distressed public housing to be more flexible, include small agencies, elderly and disabled facilities, and social distress.

Section 24(j)(2) Severely Distressed Public Housing. —The term "severely distressed public housing" means a public housing development, or building in a development—
(A) that—
(i) requires major redesign, reconstruction or redevelopment, or partial or total demolition, to correct serious deficiencies in the original design (including inappropriately high population density), deferred maintenance, physical deterioration or obsolescence of major systems and other deficiencies in the physical plant of the development; **or**
(ii) is a significant contributing factor to the physical decline of and disinvestment by public and private entities in the surrounding neighborhood; **and**
(iii) (I) is occupied predominantly by families who are very low-income families with children, **or very low-income elderly or non-elderly disabled persons,** who are dependent on various forms of public assistance; **or**
(iv) (II) has high rates of vandalism and criminal activity (including drug-related criminal activity) in comparison to other housing in the area; **or**
(v) (III) is lacking in sufficient affordable housing, transportation, supportive services, economic opportunity, schools, civic and religious institutions, and public services, resulting in severe social distress in the development; and
(vi) cannot be revitalized through assistance under other programs, such as the program for capital and operating assistance for public housing under this Act, or the programs under section 9 and 14 of the United States Housing Act of 1937 (as in effect before the effective date under section 503(a) of the Quality Housing and Work Responsibility Act of 1998), because of cost constraints and inadequacy of available amounts; and
(vi)in the case of individual buildings, is, in the Secretary's determination, sufficiently separable from the remainder of the development of which the building is a part t make use of the building feasible for purposes of this section; or
(B)...

Suggested report language for definition of severely distressed public housing
The definition of "severely distressed public housing" as it originally appeared in statute prevents elderly and disabled residents from receiving the benefits of the HOPE VI program, and placed an emphasis on large-scale projects. The HOPE VI program must be expanded to serve all public housing populations in addition to families. The program, now that it has accounted for demolition of over 100,000 severely distressed units, should now focus emphasis on social distress, the elderly and disabled populations, in addition to the original charge of eliminating physically distressed

housing. The Secretary's requirement for demolition of public housing units as a criteria for approving an application or redevelopment plan should be eliminated.

D. Reauthorization.

Sec. 24(m) Funding: (1) Authorization of appropriations. —There are authorized to be appropriated for grants under this section **$625,000,000 for fiscal year FY2003, and such sums as may be necessary for each of fiscal years 2004, 2005 and 2006.**

~~24(n) Sunset: No assistance may be provided under this section after September 30, 2002.~~

Suggested reauthorization report language:
The HOPE VI program should be re-authorized and be funded at a minimum level of $625 million per year.

We are concerned about the number of applications submitted, which are approvable, but do not receive funding because of insufficient funds. Some agencies, in order to obtain a grant, have submitted multiple applications at considerable public cost. Therefore, the Secretary is requested to review the pool of prior-year applications that are approvable under the prior year's requirements, and to include in the awards for each year a portion of those applications in addition to newly approvable applications. Prior year applicants can be asked to update their application with regard to financial commitments or other key factors, but should not substantially revise their applications.

E. Regulatory Issues.

*Suggested report languag*e to address regulatory issues

We continue to be concerned about the participation of small agencies in the program, and the speed with which the Department is able to approve financial transactions and other phases of the program.

In order to encourage small housing authorities to apply for HOPE VI funds, the Secretary is requested to review the Notice of Funding Availability and written application requirements to ensure that barriers to small agency participation are removed. This work should be performed with the input of small housing authorities. To further streamline HOPE VI grant processing, the Secretary is requested to review the grant procedures to reduce the number of points where the Department's approval is required, especially with regard to financial transactions. Housing authorities that have a proven track record or a good rating from a credible financial rating institution may require less oversight, allowing these transactions to move forward more quickly.

CHA Housing Authority
OF THE CITY OF CHARLOTTE, N.C.
Harrison Shannon, Jr.
President/CEO

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January 31, 2002

The Honorable Melvin L. Watt
Congress of the United States
House of Representatives
2236 Rayburn House Office Building
Washington, DC 20414

Dear Mel:

I am grateful to you for sharing information regarding the anticipated vote by Congress on whether to continue the HOPE VI program and the related timetables. While we were aware that this was forthcoming, we were not educated on the process or if grantees would have input. I am equally appreciative to you for all that you have done, and I know will do, to ensure the continuation of this essential program.

The three HOPE VI grants awarded to the Charlotte Housing Authority enabled us to address three communities with significant physical and social problems. An assessment of the capital needs for these communities totaled approximately $44-million which our Authority simply did not have. Even if the necessary dollars had been available, it would not have made good business sense to use them to attempt to renovate these severely distressed communities. Thus, HOPE VI was the only answer other than entirely razing them.

HOPE VI has been about more than just bricks and mortar. It has significantly changed the lives of public housing residents, the impacted neighborhoods, and the at-large community. It has afforded opportunities for public/private partnerships in the housing industry that have the potential for long-term relationships. The concepts of mixed-income housing and new urbanism are now nationally understood and, I am confident, will soon be replicated even in some private market housing communities.

Enclosed I share both some of the HOPE VI experiences and some of the changes we feel would enhance the program. Should you have questions or need additional information, please do not hesitate to contact me.

Thank you for affording me this opportunity to share my thoughts and suggestions.

Kind regards,

Harrison

Harrison Shannon, Jr.
President/CEO

Housing Authority of the City of Charlotte, NC
(Charlotte Housing Authority)

HOPE VI EXPERIENCES

- Provided an opportunity to be creative and innovative in transforming an abandoned and desolate area of the City into a thriving mixed-income community.
- Stimulated investment in the area, which has continued to spread and increase the local tax base.
- Afforded an opportunity to create public housing in what is now a highly desirable area. The mix of public housing, tax credit units and market rate units has created social and economic diversity that otherwise would not have been achieved. The addition of single-family homes has also enhanced neighborhood stability.
- Encouraged public/private partnering to leverage resources to create and enhance community amenities, i.e. community center, linear park.
- Provided funding to develop/procure resident programming to foster self-sufficiency and economic independence.
- Provided a mechanism to demolish obsolete, substandard housing and create liveable units with an expanded life cycle.
- Provided significant tax benefits to the City and County. Prior to HOPE VI, this area of the City generated very few tax dollars.
- The HOPE VI grant that facilitated the Charlotte Housing Authority's efforts to remake Earle Village into a viable, mixed finance community (First Ward Place) was truly a neighborhood recovery program. Away with the ripple effect theory, this HOPE VI initiative resembled the tidal wave effect.
- Three of Charlotte's public housing neighborhoods with extensive physical and social problems were addressed by the HOPE VI grant. The capital needs assessment for these three communities totaled approximately $44,000,000. These funds were unavailable. HOPE VI provided the only solution other than complete demolition.

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**-2- Charlotte Housing Authority
HOPE VI**

HOPE VI CHANGES NEEDED

- Should require that residents participate in a Family Self-Sufficiency (FSS) Program in order to return to the new community.
- Should require local government participation as part of the application process and establish minimum thresholds.
- Increase amount of funding available so that more grants can be awarded.
- Provide mechanism for ensuring that projects that meet threshold requirements are automatically in line for funding during the next application cycle (assumed grant funds are expended before all worthy projects are awarded.)
- Coordinate with housing finance agencies to ensure HOPE VI sites receive priority in funding.
- Allow HOPE VI program staff to process disposition applications associated with the revitalization plan.
- Allow housing authorities acting as developers to be excluded from Part 85 Procurement.
- Find a means whereby a funded housing production program can be woven into the fabric of the HOPE VI Program.
- Housing authorities that have successfully developed and implemented HOPE VI programs should be given bonus points for experience and success, a rating factor should be included in the NOFA.
- Restrict the number of HOPE VI grants that a housing authority can receive during a funding cycle/fiscal year to perhaps one or two.

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WRITTEN TESTIMONY

OF

KURT CREAGER

ON BEHALF OF

NAHRO

REGARDING

THE "HOUSING AFFORDABILITY FOR AMERICA ACT OF 2002"

HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

Kurt Creager, President; **Jim M. Inglis**, Senior Vice President; **Larry Cobb**, Vice President-International; **Larry A. Loyd**, Vice President Housing; **Terrence James Madigan**, SPHM, Vice President-Professional Development; **Marilyn Phillips**, SPHM, Vice President-Member Services; **Bill Pluta**, Vice President-Community Revitalization & Development; **Elizabeth B. Wilson**, Vice President-Commissioners; **Saul N. Ramirez, Jr.**, Executive Director

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As President of the National Association of Housing and Redevelopment Officials (NAHRO), I would like to submit our written testimony on the "Housing Affordability Act for America of 2002" to the House Subcommittee on Housing and Community Opportunity for inclusion in the congressional record.

NAHRO is the nation's oldest and largest organization that represents the interests of housing and community development agencies seeking adequate and affordable housing and strong communities. NAHRO represents more than 5,600 individuals, including approximately 2,500 housing agencies. NAHRO members own or manage more than 1.3 million units of public housing, representing more than 95 percent of all public housing in the United States. In addition, our members administer more than 1.4 million, or 93 percent, of Section 8 vouchers. Funds used by NAHRO's Community Development / Redevelopment members serve communities with populations of more than 148 million.

First, I would like to express my gratitude to Congresswoman Marge Roukema, Chair of the House Subcommittee on Housing and Community Opportunity, for demonstrating her continued leadership on affordable housing and community development issues with the introduction of the "Housing Affordability for America Act of 2002" (HR 3995). I would also like to thank Ranking Member Barney Frank and the other distinguished members of the Subcommittee for the informative hearings they have held, which have helped shape HR 3995 by recognizing many of the industry's most pressing issues.

On behalf of NAHRO, I am pleased to announce our endorsement of the "Housing Affordability for America Act of 2002" (HR 3995), which clearly demonstrates the insight gained from the series of hearings last year on housing affordability and availability the Subcommittee. With the introduction of HR 3995, you have provided an important legislative vehicle, which if passed into law, would streamline and bring much-needed flexibility to vital housing programs such as the Housing Choice Voucher Program, Public Housing, HOPE VI, HOME, and the homeless housing programs. Furthermore, HR 3995 has helped raise the issue of the need for multifamily affordable housing programs.

Title I - Home Investment Partnership Program (HOME)

Overview

The HOME program is one of the few federal programs that adds affordable housing stock to many local communities. It enjoys very broad bipartisan support and has successfully fostered partnerships and creativity at the local level, leveraging investment at a 2.5 to 1 ratio. The program has produced a good mix of rental units and homeownership opportunities for low- and moderate-income families.

Section 101. Affordable housing production and preservation

Background

This provision would amend HOME to establish a housing production program in an effort to increase the production and preservation of mixed-income rental housing that is affordable to very low- and extremely low-income families (ELI).

Concerns

NAHRO has a number of concerns with this proposal. First, it uses recaptured Section 8 funds as its funding source. The provision would deplete needed resources from one housing program, which addresses a particular problem, to fund another housing program that solves a different problem. Second, there are provisions in this bill that are designed to increase the utilization of Section 8, which in turn, will make less money available for recapture. These provisions provide greater flexibility for housing assistance payments (HAP) and change the 40 percent cap from adjusted income to gross income, resulting in increased utilization and, ultimately, greater expenditure of Section 8 resources. Thus, there will be less money available for recapture and for HOME's production program. Furthermore, HUD's FY 2003 budget proposal projects that there will be no unobligated and unspent funds available for recapture by the end of FY 2003. Finally, this provision saddles local governments with additional administrative burden. HOME administrators would have to contend with another set of regulations and reporting requirements and, HUD would need to develop a new formula.

Beyond these concerns, there are still a number of others. There is: 1) no language that allows for waivers to serve low-income communities; 2) no language that indicates who has the authority to decide the rent amount up to 40 percent, although the provision says that rent is to be set at "not more than" 40 percent; and 3) no clarification on what is meant by or how to determine the increases in tenant income, which sets one possible payment standard of the amount payable "under State or local law." The vague language leaves the door open on issues of rent in ways that might make it more difficult to meet debt service, depending on who has the decision-making power. Further, the restriction related to targeting of funds [i.e. Each Participating Jurisdition (PJ) must spend 50 percent of funds on ELI families.] limits the flexibility of a community to meet its long-term, ongoing needs.

Section 102. Removal of fair market rents from rent level determinations

Support

NAHRO supports this provision.

Section 103. Median income for rent determination

Background

This provision would allow small and rural communities to develop projects that meet underwriting requirements more easily.

Support

NAHRO support its intent, but is concerned about the impact it may have on the affordability of units.

Section 104. Three-year inspection cycle for tax credit projects

Background

This provision would give PJs the ability to synchronize with Low Income Housing Tax Credit (LIHTC) projects on risk-management techniques that determine when and how often they should conduct on-site project monitoring. Projects should be monitored at least once every three years. Currently, PJs are required to inspect HOME projects once every three years if the property has between one and four units; once every two years if the property has between five and 25 units; and annually if the property has 26 or more units.

Support

Basing property monitoring on risk-management techniques will allow PJs to focus on those properties that they believe are at the highest risk. NAHRO supports this provision, which would allow PJs to make local decisions based on the need rather than the size of the projects.

Section 105. Repeal of limitation on program assistance as percentage of operating budget

Background

This provision applies to HOME and Community Housing Development Organization (CHDO) technical assistance (TA) providers who have had to slow their work to avoid exceeding the cap. Lifting the cap would free them to meet the demand for TA based on their own capacity, rather than a false limit. However, this is also likely to result in some providers living and dying by TA dollars.

Section 107. Program year for matching contributions

Background

This provision would allow jurisdictions to report on the use of funds based on their program year.

Support with clarification

NAHRO supports this provision. However, the provision should allow the jurisdiction to report the match on a program-year basis so as to simplify program administration. However, the current bill language states "a fiscal year" not the "federal fiscal year." With this slight clarification, local agencies would be able to pick their program year.

Section 108. Membership of eligible community housing development organizations' boards

Support

NAHRO supports this provision, which should ease the strain of identifying appropriate board members, especially in smaller communities that lack a large private sector.

Section 109. Monitoring of compliance

Support

NAHRO supports this provision.

TITLE III – Supportive Housing For Elderly and Disabled Families

Section 301. Modernization demonstration for Section 236 elderly projects

Support

As a member of the Elderly Housing Coalition, NAHRO supports this provision.

Section 302. Service coordinators for supportive housing for persons with disabilities

Support

As a member of the Elderly Housing Coalition, NAHRO supports this provision.

Title IV – Section 8 Rental Housing Assistance Program

Overview

The Section 8 Housing Choice Voucher Program is an important tool in the affordable housing arsenal that can help meet the "worst case" housing needs of low- and extremely low-income households. Section 8 families are among the poorest in the nation, with almost 60 percent of households earning less than 30 percent of the area median income. Another 20 percent of families earn between 30 percent and 50 percent of the area median income, with the balance earning between 50 percent to 80 percent. Furthermore, while 40 percent of all voucher families earn wages, over 20 percent continue to receive some form of public assistance. Four out of five of the 4.9 million American households with "worst-case" housing needs do live in units that are physically adequate, but must pay more than half of their monthly income for rent.

A crucial benefit of Section 8 housing assistance is its mobility. A family may move to gain access to better jobs, better schools or safer neighborhoods without losing its housing subsidy. This characteristic of the voucher program has yielded positive outcomes, reducing the geographic isolation of low-income families with children.

Although currently at a 94 percent annual average budget utilization rate, NAHRO believes that the Housing Choice Voucher program's national utilization rate can be improved further through HR 3995's series of proposed changes.

Section 401. Thrifty Production Vouchers

Support

NAHRO supports the creation of additional affordable housing production tools that encourage local involvement and decision making, which the Thrifty Production Voucher (TPV) proposal would do. While we have yet to see the financial models of the unit operating cost formulas and, therefore, are unable to assess the specific market conditions affecting the program's feasibility, the proposal makes conceptual sense. NAHRO would support a limited demonstration of the TPV proposal, so long as it is voluntary, is carried out with additional funding, and does not divert funds from HUD's existing assisted housing programs.

NAHRO also supports the proposed program's recognition of the importance of decision-making at the local level. Community revitalization, for example, may be a desirable goal in some low-income communities. The opportunity to use TPV funds in qualified census tracts based upon these local determinations of need is a positive option.

Recommendations

1. NAHRO recommends further review of the tenant-selection process for local housing agencies' TPV owner waiting lists. Presumably, the wait list process would comply with the Project-Based Assistance (PBA) guidelines regarding a separate waiting list for the TPV projects. The initial PBA guidance requires full notification of every applicant on a local housing agency's (LHA) existing waiting list, which could number in the thousands. TPV projects are likely to have a small number of units. Notification of the full wait list would be administratively inefficient and costly for LHAs. It would be more logical to notify a smaller number of applicants, reflecting the size of the project. If the project has 20 units, for example, perhaps notification of 40 or 60 applicants would be sufficient. NAHRO recommends establishing a provision that permits the use of site-based waiting lists for the existing Section 8 project-based assistance program, similar to the one proposed for the Thrifty Production Voucher program.

2. The bill proposes that families who are denied a unit by an owner be entitled to an informal review by the LHA. This could potentially create confusion for both the owner and

tenant as to who controls tenant selection, which is a critical property management task. Tenant selection decisions should properly remain under the purview of the owner. The owner should have clearly defined tenant selection criteria, perhaps approved in advance by the LHA. If the tenant believes criteria have been improperly applied, there are other remedies that can be pursued. If the LHA finds a pattern of noncompliance by an owner, it should have the authority to deny the owner participation in the TPV program.

3. The bill requires that the LHA have an agreement, with the agency that will administer the funds for the construction or rehabilitation of the TPV housing, that will allow the prospective developer to submit a single application. While the language is intended to ease the application burden for a prospective developer, it is written in a way that could preclude a developer from using a private lender. It is unlikely that a private lender will want to enter an agreement with the LHA and conform its underwriting application to TPV proposal requirements and vice-versa.

4. LHAs that want to take advantage of the existing Section 8 Project-Based Assistance (PBA) Program may find themselves between a proverbial "rock and a hard place." LHAs may want to designate a portion of their Section 8 portfolio (up to 20 percent allowed) in order to have enough units to attract or leverage private investment and LIHTCs under their local Qualified Allocation Plan. If they do so, however, it takes time for the Section 8 PBA new construction or substantial rehabilitation to take place. This, in turn, adversely affects the LHA's lease-up rates because, during that time period, those vouchers designated for Section 8 PBA new construction or substantial rehabilitation would be counted against their lease-up rates. NAHRO recommends that HUD allow a grace period for LHAs that have designated Section 8 PBA vouchers for new construction or substantial rehab. This grace period should be provided as long as there is a well-defined construction plan in place with specific time frames. HUD's amendment governing its calculation method on LHAs' lease-up and utilization rates (FR 10/01/2001) provides a reasonable parallel for how Section 8 PBA units should be treated under the SEMAP lease-up indicator.

<u>Section 402. Monthly rent amount</u>

Background

While it is reasonable that families should not pay an excessive amount of their income on rent, NAHRO members have reported participants losing units because they were not allowed to pay 42 to 45 percent of their income toward rent. Those same families were often paying in excess of 50 percent of their income toward housing costs while on waiting lists. The existing 40 percent cap has also been counterproductive to deconcentration efforts. For example, extreme low-income families must find units that rent within the housing authority's payment standards. At the same time, their rent contribution must not exceed the 40 percent adjusted income limit. These competing requirements do not improve opportunities to deconcentrate Section 8 Housing Choice Voucher households in neighborhoods with low-poverty concentrations.

Softening the requirement on new tenants' rent caps from 40 percent of monthly adjusted income to 40 percent of monthly gross income would help families utilize their vouchers and improve national utilization rates, particularly for the 21 percent of households successfully leasing in–place. These tend to be elderly and disabled families that are particularly impacted by the current rent cap rule.

Support

NAHRO supports this provision, which would permit the 40 percent cap to be based on gross income versus adjusted income and to provide LHAs with some discretion to waive the cap for good cause. Currently, new voucher holders that are eligible for the Section 8 Housing Choice Voucher program are limited to paying no more than 40 percent of their monthly adjusted income toward housing costs. Families already on the program that are looking to move from one unit to another are not limited by this restriction and are prevented from leasing-up when this otherwise would occur.

We support such a cap as a general rule to protect voucher recipients from excessive rent burdens, but believe that flexibility is key to addressing extenuating circumstances. LHAs should be allowed some discretion to waive the cap for good cause. Such discretion should be provided when the LHA has applied the maximum payment standard allowed or when less than 40 percent of the voucher holders in its program are paying more than 30 percent of income for rent.

Section 403. Flexibility to assist "hard-to-house" families

Background

Under the current fee structure, LHAs receive no payment for any administrative time devoted to voucher applicants that do not find housing. While the administrative fee anticipates some of the cost of housing search assistance, a difficult rental market can require the extensive type of counseling and assistance that is necessary to assist extremely low-income families effectively locate and secure private rental housing. This is especially true in low-poverty neighborhoods special fees to offset initial lease-up costs. Those fees have been eliminated, forcing some LHAs to scale back their outreach and counseling efforts. In the past, voucher administrators were provided

Support

NAHRO supports the bill's proposal that allows unutilized housing assistance funds to be used for activities designed to help families find housing. Such assistance could be in the form of loans or grants to cover activities such as housing search assistance, landlord outreach and incentive programs, credit counseling/repair, move-in fees or security deposit, revolving loans, tenant education and tenant/landlord mediation, etc. In tight rental markets, counseling and tenant outreach efforts can help increase the lease-up, budget utilization and success rates of voucher recipients.

Recommendations

In the event that a housing agency fully utilizes its annual budget, NAHRO recommends allowing a small portion of Annual Contribution Conract (ACC) reserves to be used for voucher success activities. This would be solely for agencies' adjusted baseline number of households. NAHRO also recommends authorizing LHAs to use a small percentage of their ACC project reserves for housing search assistance if they meet the following requirements:

- A success rate below 80 percent,
- A unit utilization rate of less than 95 percent, and
- A budget authority utilization rate at or in excess of 100 percent.

This creates an incentive for all housing agencies to provide essential housing search-type services.

Section 404. Prohibition on re-screening of tenants

Support

NAHRO supports this provision as a way to prevent a double standard between the Section 8 project-based program and other assisted housing programs. This also will help prevent displacement resulting from owner "op-outs" that are beyond a tenant's control.

Section 405. LHA administrative fees

Support

With the concern over national budget utilization, it would be a judicious use of existing resources to take unspent HAP or ACC reserves for voucher success activities. If Section 403, "Flexibility to Assist Hard-to-House Families," were to be enacted into law, it would accomplish the objective of providing funds for highly utilized agencies as well as those that have been adversely impacted by extremely tight markets. In both instances, funds would only be used to serve agencies' adjusted baseline number of units under the ACCs. In short, Section 403 would score better than Section 405 "PHA Administrative Fees" under HUD's budget authority. While NAHRO's preference is to enact Section 403, if it is not, we support a performance- incentive administrative fee under Section 405.

Section 407. Extension of manufactured housing demonstration program

Support

NAHRO supports this provision in recognition of both the important role manufactured housing plays in providing affordable housing stock and the commitment on the part of Congress and HUD to ensure decent, and safe housing throughout the country.

Expanding housing opportunities for voucher holders - Voucher Payment Standards

Background

Voucher Payment Standards are used to calculate monthly Housing Assistance Payments and is based on the published Section 8 Existing Housing Fair Market Rents.

To be authorized to use an exception payment standard above 110 percent of the FMR, LHAs must demonstrate to HUD that it is justified by providing sufficient actual rental costs in a portion of their FMR area to determine that the exception is needed to overcome difficulties using vouchers or to help families find housing outside areas of high poverty, to enable a person with disabilities to lease appropriate housing. LHAs' requested exception payment standard area cannot exceed 50 percent of the population of the FMR area.

To meet that objective and to support families wishing to move to areas with lower concentrations of poor and minority households, an LHA may establish higher payment standard schedules for certain areas, or bedroom sizes, within its jurisdiction so that program families can rent units in low-poverty neighborhoods, etc.

Recommendations

NAHRO recommends allowing LHAs the discretion to raise their voucher payment standards to 120 percent, without HUD approval. This is so long as they have been at the 110 percent payment standard for six months and provide an initial housing search period of at least 90 days with a voucher success rate of 80 percent or less, or as a reasonable accommodation for a person with disabilities. Our recommendation is close to HUD's current standards for "success rate" payment standards, which currently requires a HUD waiver.

NAHRO recommends requiring LHAs to include in their Agency Plans the reason for the payment standard increase, a description of how and why the agency met the criteria, and a description of other steps being taken to address utilization. NAHRO also recommends that HUD be required to approve payment standards above the amount where more than 30 percent of voucher holders pay more than 40 percent of income for rent or when necessary to make a "reasonable accommodation" for a disabled person.

NAHRO recommends modifying HUD's existing policy to establish an exception payment standard up to 120 percent for whatever FMR or Voucher Payment Standard schedule HUD has authorized the LHA to utilize.

LHAs that received approval of a 120 percent Voucher Payment Standard at the 40th Percentile FMR for neighborhoods within their service area (i.e. high-cost neighborhoods), that were then approved for a 50th Percentile FMR or "Success Rate" Payment Standard, are currently required by HUD to keep their former exception payment standard of 120 percent under the former 40th Percentile FMR. As a result, the LHA's ability to serve that high-cost neighborhood remains static, while their ability to lease in other neighborhoods within their service area (including neighborhoods with high-poverty concentrations) increases.

We do not believe it was HUD's intention to grant a 120 percent Voucher Payment Standard for a high-cost neighborhood when the agency was at the 40th percentile FMR, but prohibiting that same high-cost neighborhood to receive a 120 percent Voucher Payment Standard when the agency's FMR is increased to the 50th percentile. HUD's current practice has the unintended consequence of decreasing housing opportunities in low-poverty neighborhoods while facilitating greater opportunities for low-income families to lease in high-poverty neighborhoods, resulting in greater concentrations of poverty. We believe this is a regulatory oversight that can be corrected, and are asking for support from Congress in its monitoring and oversight capacity.

Section 8 inspections

Recommendations

NAHRO recommends allowing Housing Assistance Payments (HAP) to be made to an owner prior to inspection of a particular unit so long as the following conditions are met:

1) A building inspection has been conducted by the LHA in the last six months;
2) A unit inspection is completed within 30 days from the time an LHA issue a HAP; and
3) The LHA and the owner have an agreement that any repairs on the unit must be made within 30 days of the unit inspection.

NAHRO also recommends discontinuing the 100 percent rent abatement requirement in cases where a HQS violation exists, but does not affect the entire unit. NAHRO believes that LHAs should have the discretion to abate partial payment since the unit is livable aside from the HQS deficiency. This is a simple measure that could help agencies encourage landlord retention by eliminating inflexible bureaucratic requirements that do not end up achieving the intended objective.

Expanding opportunities for mainstream vouchers for non-elderly disabled households

Support

NAHRO supported the Department's change this year, which allowed mainstream vouchers to be awarded to non-elderly disabled households in cases where housing agencies had designated a public housing development as elderly. Rather than being reissued as regular vouchers, they would remain available for other non-elderly disabled households if they were unutilized or turned over.

Expanding housing opportunities for voucher holders - Welfare-to-Work Voucher program

Background

In 1999, the HUD Appropriations Act provided $283 million to support a 50,000-unit Welfare-to-Work (WtW) Voucher Program. HUD awarded 121 WtW grants to 129 agencies through a NOFA competitive grant.

Recommendations

Because it was authorized and funded in HUD's 1999 Appropriations Act rather than in an authorizing bill, NAHRO recommends authorizing the Welfare-to-Work Voucher program from FY 2003 – FY 2007. To reiterate our position, NAHRO supports expansion of the WtW program with additional funding above and beyond any incremental Section 8 Housing Choice Voucher allocation, but does not support WtW targeting within HUD's incremental Section 8 Housing Choice Voucher allocations.

Expanding housing opportunities for voucher holders -Family Self-Sufficiency

Recommendations

NAHRO recommends expanding authorization of the Family Self-Sufficiency (FSS) housing program to other forms of assisted housing, including privately owned project-based assisted families.

Expanding housing opportunities for voucher holders -Resident Opportunities and Self-Sufficiency (ROSS)

Recommendations

NAHRO recommends allowing the use of Resident Opportunities and Self-Sufficiency (ROSS) funds to serve Section 8 families. More than twice as many families with children live in Section 8-assisted housing than public housing. NAHRO recommends an increase in the ROSS appropriation so that funding for services to public housing families does not compete with funding for services provided to Section 8 families.

Income targeting

Recommendations

NAHRO recommends a technical correction to the income targeting requirements, so that 75 percent of all vouchers issued, rather than leased, will be provided to households below 30 percent of AMI. "Working poor" households with incomes above 30 percent of AMI would not have to be skipped or determined eligible, but would be put back on the waiting list to satisfy HUD's existing implementation of the income targeting statute. This can be accomplished while still fully preserving the goal Congress established under the Quality Housing and Work Responsibility Act of 1998 (QHWRA) - to provide 75 percent of households below 30 percent of AMI with Section 8 rental assistance.

We believe this suggested technical amendment would provide greater administrative efficiency in the program's admissions and occupancy, which are the areas where agencies incur significant costs in order to satisfy current income targeting regulations. Further, both extremely low-income and very low-income households would benefit in proportions that still satisfy the existing statutory requirements established under QHWRA.

The income targeting statute under the Section 8 rental assistance program states, "Of the families initially provided tenant-based assistance under Section 8 by a public housing agency in any fiscal year, not less than 75 percent shall be families whose incomes do not exceed 30 percent of the area median income" [Section 513 (4)(E)(b)(1)]. HUD implemented the income targeting statute such that, "Not less than 75 percent of the families admitted to an LHA's tenant based voucher program during the LHA fiscal year from the LHA waiting list shall be extremely low-income families" [§ 982.201 (b)(2)(i)]. Ultimately, however, there are numerous mitigating factors that determine each voucher holder's ability to lease successfully that are beyond an LHA's control.

TECHNICAL AMENDMENT

Section 16(b)(1) of the United States Housing Act of 1937 (42 U.S.C. 1437n(b)(1) shall be amended by adding at the end, the following sentence:

"A voucher shall be deemed to have been provided under this paragraph when such voucher is issued to an applicant for assistance, irrespective of whether the voucher holder is successful in using the voucher to lease a dwelling unit."

HUD has authority under section 16(d) of the 1937 Act to approve for good cause, LHA establishment and implementation of different targeting requirements for the LHA's Section 8 tenant-based program, in accordance with the LHA plan. In addition, any HUD approval of a targeting exception must be consistent with the LHA obligation to administer the program in a manner that affirmatively furthers fair housing. If there are not enough extremely low-income families to fill available program slots during the LHA fiscal year, even though the LHA has opened the waiting list, given public notice, and conducted outreach and marketing and the vouchers will address worst case housing needs, then HUD may approve the LHA's use of a lower targeting standard. [§ 982.201 (b)(2)(ii)]

Unfortunately, HUD's existing regulations, including the Department's waiver authority, prohibits housing agencies from effectively serving, in any meaningful way, "working poor" households with incomes above 30 percent.

Title V - Public Housing

Background

Public housing has proven the most cost-effective way to house the nation's poor and elderly families. Public housing residents comprise both those who are and those who are not employed. Public housing waiting lists remain full, and in many cases, closed. This proves the need for and value of this program.

LHAs require additional resources to ensure that public housing communities provide safe, decent environments for residents. Unlike the private sector, LHAs cannot rely on rent receipts alone to cover expenses, but must rely on Congress to appropriate sufficient funds to ensure that public housing buildings operate efficiently. In addition, private landlords are not required to provide supportive services and programs designed to lead residents to self-sufficiency or ensure that certain needs are met. Over the years, LHAs have been expected to not only provide housing, but an increasing number of supportive services.

Section 501. Waiver of resident commissioner requirement

NAHRO supports this provision. HUD PIH Assistant Secretary Michael Liu said at a recent meeting that the Department is considering a certification by a small agency that shows it has made every reasonable effort to establish an advisory board and has found no interest on the part of its residents.

Section 502. Joint Ventures

Support

NAHRO supports this provision.

Section 503. Establishment of third-party assessment system

Support

NAHRO supports this provision and recommends the following as an amendment to the legislative language proposed.

Recommendations

Upon determination that the third-party assessment system meets the needs of HUD, the public housing industry and their representatives, residents of public housing, the General Accounting office, and the National Academy of Public Administrators, it will serve as a replacement to the existing Public Housing Assessment System (PHAS). In using the assessment system, the Secretary of Housing and Urban Development shall provide for the implementation of a FACA committee whose responsibilities will include, but not be limited to, the establishment of performance standards that will be the benchmark for agencies.

Section 504. Public Housing Agency Plans for small public housing agencies

Support

NAHRO supports this provision, which would suspend filing requirements for small LHAs for three years.

Background

In Notice PIH-2000-43, HUD's guidance on streamlining small agencies' PHA plan submissions defines small agencies as those agencies that operate 250 or fewer units of public housing.

NAHRO and other industry groups recently met with HUD on ways to deregulate small housing agencies from the annual planning process. The department is looking for ways to relieve small LHAs from some of the burdens that are placed on all LHAs, according to HUD Assistant Secretary for Public and Indian Housing Michael Liu, who initiated the meeting.

The department is leaning toward a definition of a small agency as one with fewer than 250 public housing units. The department is thinking of keeping the five-year planning requirement; streamlining the annual plan; and requiring a certification that shows changes to the annual plan have been reviewed by the Resident Advisory Board, passed by the Board of Commissioners, and is available to the local public. The department hopes to implement deregulatory provisions for small agencies in time to begin the FY 2003 fiscal year.

Recommendations

NAHRO recommends eliminating filing requirements for small LHAs with 250 public housing units or less. As the bill proceeds through the legislative process, NAHRO would like to explore the opportunity, for the purpose of this provision, to define small housing agencies as those with 250 public housing units or less.

Section 505. Development-based subsidies

Background

HUD's proposal would permit the use of up to $120 million in capital funds, $130 million in operating funds and $50 million in HOPE VI funds to attract private investors to public housing. The funds would help pay for year one of the project-based assistance conversion, which, in successive years, would be picked up by the Housing Choice Voucher Program as renewals. These are not set-asides within the formula. Funds would be distributed to agencies as usual, and they would have the option to use the funds for this purpose.

Private investment would pay for mandatory capital improvements for the development to be converted. Rents and the value of the property would cover debt service and other costs. They would be secured by a "loan loss reserve account," into which every participant in the program would pay a percentage of their funds.

Some of the regulations of the existing Project-Based Assistance program would be waived, including requirements for rent levels, deconcentration, and the percentage of units in a building that may be supported with project-based assistance. Program details, such as method of application and selection of properties, are yet to be decided.

During earlier congressional hearings HUD officials have testified that their proposal would generate $417 million that LHAs could use to address the growing capital needs of their developments. NAHRO believes that HUD should not attempt to fund what is, in essence, an experimental demonstration by reducing FY 2003 capital funding by $417million with the hope of leveraging private sector funds in the future. This cut would affect all agencies. However only those agencies that are successful with this new proposal will be able to recoup any losses. Therefore, for many LHAs this is not "voluntary," as the proposal has been characterized. NAHRO believes that HUD's initiative merits exploration, but that capital funding should be funded at $3.5 billion until results from the initiative bear out.

Capital Fund cuts to support small demonstration program

NAHRO supports measures that increase local flexibility to provide housing to low- and moderate-income households. NAHRO is pleased that the proposal offers housing agencies in some markets an option for addressing their deferred capital needs. NAHRO, however, believes this program should begin as a small demonstration. This would test its feasibility and usefulness in addressing local housing needs.

Recommendations

1. Housing agencies should be able to go up to fair market rent (FMR) or Voucher Payment Standard, regardless of the debt load on the property.
2. HUD's example relies on a conventional 30-year mortgage at 7 percent. We believe further feasibility analyses should be performed so that the proposal can be examined under a variety of debt structures and interest rates.
3. The demonstration should ensure the replacement reserve is sufficient to carry through periods of economic downturn.
4. In order to provide stability and diminish risk, contracts for section 8 units should continue for a minimum of 15 years because of private market financing.
5. The converted project should be LHA-owned.
6. The demonstration program should permit LHA bond financing.
7. The demonstration program should allow revenues from other developments to subsidize the converted property
8. Participating LHAs should be able to use the demonstration program with HOPE

Moving-to-Work

Background

NAHRO believes that the Moving-to-Work demonstration offers many opportunities for innovative approaches to serving the low- and moderate-income residents' housing needs. Housing agencies involved in the demonstration agree and believe that more agencies can benefit from the innovative approaches that the limited number involved to date have pursued. Increasing the number of agencies involved in the demonstration would build on the lessons learned by the original agencies and provide greater insight into providing affordable housing to the nation's poor.

Recommendations

NAHRO recommends enacting legislation that will expand the number of agencies participating in the Moving-to-Work demonstration to 100.

Subtitle B: HOPE VI

Background

HOPE VI is performing the dual function of eliminating obsolete public housing projects and replacing them with mixed-income, attractive, neighborhood-revitalizing developments. It is a program that enjoys broad bipartisan support and has proven a catalyst that has revitalized neighborhoods and galvanized local support from a variety of local housing and community development entities. The program should be streamlined to provide the type of flexibility that has proven successful in communities of all sizes. Greater flexibility from federal regulations will reduce costs and increase utilization of these funds for housing-related activities.

Section 521- Section 523. HOPE VI

Support

NAHRO supports extending the authorization of the HOPE VI program.

Recommendations

NAHRO recommends extending the program to five years versus the two years mentioned in the bill. NAHRO also recommends amending the statute to provide consideration of projects by geographic location and those that are large, relative to the size of the agency.

This would open the program to smaller agencies, and help achieve greater geographic diversity.

As the bill proceeds through the legislative process, NAHRO recommends: (1) permitting production of incremental units to increase the supply of public housing; (2) amending the definition of "severely distressed" to include social distress factors, and units for elderly and disabled persons; and (3) authorizing funding for the program at $625 million.

Demolition under the HOPE VI program should receive less emphasis, since HUD now has demolished, or plans to demolish, an estimated 130,000 public housing units by 2004. We would like to see HOPE VI address development of new public housing. The program currently prevents LHAs from developing incremental (additional) units. NAHRO also recommends amending the definition of "severe distress" to take into consideration the needs of smaller and mid-size agencies, whose needs differ from those of agencies located in large urban areas. Differences include smaller projects, a different mix of residents and resident needs, more elderly households. Social distress and community revitalization, however, are equally important in smaller communities as they are in larger cities. Furthermore, NAHRO recommends that HOPE VI, which is currently limited to family development, be opened up to developments for elderly and disabled persons.

Housing and services for the elderly in public housing

Background

NAHRO has always advocated for increased funding for public housing programs. We feel that we must now take this opportunity to mention the elderly – currently an underserved population. HUD's Resident Characteristics Report data shows there are at least 172,000 elderly persons in public housing, but some think this number is higher. One recent study figures at least 554,000 elderly persons live in public housing (Housing Research Foundation, "*Public Housing for Seniors – Past, Present and Future,* Washington, D.C., March 2002). The federal government has forgotten this population. No new programs or funding have been provided in recent history for the elderly in public housing. The service coordinator program for public housing has not been expanded since 1995. NAHRO would like to see the service coordinator program expanded to $50 million with additional funding.

As these seniors age, they are increasingly susceptible to premature placement in nursing homes. The slightest inability to take care of oneself can result in such placement, which comes at a much greater cost to the public than if the person were able to age at home. To this end, industry groups are collaborating on bill language that they would like to see included with H.R. 3995. The language would put in place a program for assisting the elderly, improving their living conditions, and preventing premature placement in nursing homes. Like the people the program is designed to serve, it includes a diverse range of services and improvements that range from minor support to establishing assisted living in public housing. NAHRO would also support a detailed study of the number, locations, ages, and health conditions of the elderly in public housing so as to better target funds and programs for their benefit.

TITLE VI – Homeless Housing Programs

Section 601. Interagency Council on the Homeless

Supports

NAHRO supports this provision, which would extend the authorization for the Interagency Council on the Homeless through FY 2004. Recognizing the critical need for cooperation and collaboration across agencies as the need to access mainstream resources continues to grow, NAHRO would, in fact, encourage the authorization of this agency for five years, through FY 2007, with an authorization level of $1 million.

Section 602. Federal Emergency Management Agency Food and Shelter Program

Support

NAHRO supports extending the authorization of FEMA's Emergency Food and Shelter Program.

Recommendations

NAHRO recommends extending the program for five years versus the two years mentioned in the bill.

Section 603. Emergency Shelter Grants Program

Support

NAHRO supports extending the authorization of the Emergency Shelter Grants program.

Recommendations

NAHRO recommends extending the program for five years versus the two years mentioned in the bill.

Section 604. Supportive Housing Program

Supports

NAHRO supports extending the authorization of the Supportive Housing Program.

Recommendations

NAHRO recommends extending the program for five years versus the two years mentioned in the bill. NAHRO also appreciates the language authorizing the funding of the Supportive Housing Program's (SHP) permanent housing renewals through the Housing Certificate Fund. In recognizing the importance of housing stability for extremely vulnerable tenants, NAHRO would ask that consideration be given to extending this authorization for five years, as opposed to the two years currently in the language.

NAHRO welcomes the language that lifts the cap on the amount that a grantee may request for capital expenses. This will particularly assist those agencies undertaking larger projects and in high cost areas. NAHRO also appreciates the consideration given to awardees. These changes will allow communities maximum flexibility in addressing their local needs.

For this same reason, NAHRO is concerned about the set-aside within this program for permanent housing. While permanent housing is recognized as a crucial component in the housing continuum, the need and capacity of every community are different and set-asides do not allow for those differences. NAHRO hopes to the have the opportunity to work through this matter as the bill proceeds through the legislative process.

Section 605. Section 8 assistance for Single Room Occupancy (SRO) dwellings

Supports

NAHRO supports extending the authorization of the Single Room Occupancy (SRO) program.

Recommendations

NAHRO suggests extending the program for five years versus the two years mentioned in the bill.

Section 606. Shelter Plus Care

Support

NAHRO supports extending the authorization of the Shelter Plus Care program.

Recommendations

NAHRO recommends extending the program for five years versus the two years mentioned in the bill.

NAHRO also appreciates the language authorizing the funding of S+C renewals through the Housing Certificate Fund. In recognizing the importance of housing stability for extremely vulnerable disabled tenants, NAHRO would ask that consideration be given to extending this authorization of renewals for five years, as opposed to the two years currently in the language.

NAHRO does have a concern with the language on the conditions imposed, only because we feel it may be redundant with current requirements. All units already undergo a HQS inspection on an annual basis. So, the need for the local government to certify the habitability of the units may be double-diligence. Further, there is no indication of what "certifying" might entail and who would pay the cost. NAHRO hopes to the have the opportunity to work through this matter as the bill proceeds through the legislative process.

Section 607. Amendments to Table of Contents.

NAHRO would request additional information on Sections 402, 404 and 443 as entered into the Table of Contents.

Conclusion

NAHRO believes that HR 3995 will help America realize the goal to provide more effective federal programs to serve the neediest of Americans. NAHRO lends our support to the bill, which is ambitious in its scope, and looks forward to it becoming law.

NMHC National Multi Housing Council

National Apartment Association

TESTIMONY OF GARY EISENMAN,

EXECUTIVE VICE PRESIDENT OF RELATED CAPITAL COMPANY

ON BEHALF OF THE

NATIONAL MULTI HOUSING COUNCIL AND

THE NATIONAL APARTMENT ASSOCIATION

PRESENTED TO

THE SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

ON

H.R. 3995, THE HOUSING AFFORDABILITY FOR AMERICA ACT OF 2002

TUESDAY, APRIL 23, 2002

The American apartment industry...working together for quality, accessible, affordable housing.

SUITE 540 • 1850 M STREET, NW • WASHINGTON, DC 20036 • (202) 974-2300 • FAX (202) 775-0112 • WEB SITE: WWW.NMHC.ORG

Chairwoman Roukema and distinguished members of the Subcommittee on Housing and Community Opportunity, my name is Gary Eisenman. I am Executive Vice President of Related Capital Company, a developer, manager, and financier of real estate properties headquartered in New York that oversees more than 1,100 properties in 47 states. I am a member of the National Multi Housing Council, a trade association representing the nation's larger and most prominent apartment firms. NMHC operates a joint legislative program with the National Apartment Association, a trade group representing over 30,000 apartment executives and professionals. It is my pleasure to testify on behalf of both organizations. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, professional management, and finance. Together, NMHC/NAA members own and manage over five million apartment homes nationwide.

NMHC and NAA commend you, Chairwoman Roukema, for your leadership, and we thank the Members of the Subcommittee for your valuable work addressing the important issue of affordable rental housing in America. We, too, believe it is critical to meet the housing needs of low- and moderate-income families.

NMHC/NAA wish to express our support for H.R. 3995. Specifically, we appreciate Title II, which proposes valuable improvements to the FHA mortgage insurance program, and Title V, which would improve several public housing program components.

I have been asked to address the Section 8 Housing Choice Voucher Program. The program can be one of the most effective means of addressing the need for affordable housing; however, the program's potential has been constrained and its success should be greater. We support the provisions of H.R. 3995 aimed at improving the voucher program. However, even with those important reforms, the proposed legislation falls short of increasing the supply of housing from which voucher holders may choose. Without a sufficient supply of housing, voucher holders do not have choice, which is precisely what the Section 8 program aims to provide. We believe that the chief reason for the lack of housing available to voucher holders is the program's structure and administration, which discourage private owner participation and make it difficult for voucher holders to compete with unsubsidized residents for vacant apartments.

Restrictive program requirements artificially reduce the number of apartments available to voucher holders. In fact, according to one Department of Housing and Urban Development (HUD) estimate, only two to three percent of apartment properties with five or more units contain units that are subsidized with Section 8 vouchers. This extremely small percentage indicates the lack of market support for the program as it is now structured. As a result, voucher holders must visit multiple properties to find an owner who is willing to bear the cost burdens of participating in the program.

NMHC/NAA support greater property owner participation, but that participation must not be at the expense of property owners. Increased participation should occur because serving a subsidized resident represents an opportunity comparable to serving a market-rate resident. The acceptance of a Section 8 voucher must not be equated with lost income or decreased property values. Rather, the program should be as similar as possible to providing housing to market-rate residents by reducing costs that exceed those for non-voucher residents. Therefore, it is essential that the Subcommittee's efforts to improve the Section 8 program support broader owner participation by addressing the program's significant administrative burdens.

To increase owner participation, the program must be more "transparent" to the market. Transparency would minimize the differences between serving subsidized and non-subsidized residents. NMHC/NAA propose the following recommendations to achieve that goal:

- Property owners should not be subject to additional administrative burdens because they rent to Section 8 residents and, conversely, Section 8 residents should not be viewed as less desirable by property owners because of the burdens they indirectly create for property management staff.
- Owners should be able to turn vacant subsidized units over within a reasonable time that is comparable to the time period required to turn over market-rate units.
- Owners should expect timely rent payments for subsidized residents, and they should have the right to expect timely compensation if payments are delayed.
- All residents, including voucher holders, should be held accountable to common standards and laws established by states and localities. In addition, the program should only include federal laws that are applicable to both voucher and non-voucher residents.

My statement will focus on four key proposals NMHC/NAA believe would improve owner participation and, in turn, voucher utilization: (1) Improving the Housing Quality Standards Unit Inspection Process; (2) Improving the Subsidy Payment System; (3) Increasing the Payment Standard; and (4) Amending the Lease Addendum.

1. Improving the Housing Quality Standards Unit Inspection Process

Apartment owners agree that voucher holders should reside in decent, safe, sanitary environments, but we believe that this can be achieved without conducting lengthy individual unit inspections prior to occupancy. Currently, before an apartment is eligible for lease to a Section 8 voucher holder, the administering Public Housing Authority (PHA) must inspect that unit for compliance with HUD-prescribed Housing Quality Standards (HQS). PHAs handling 1,250 or fewer units must complete the initial unit inspection within 15 days of a tenancy approval request. Those with more than 1,250 units must conduct the initial inspection within 15 days or within a "reasonable" time after the request.

Unit-by-unit inspections delay resident occupancy even if the PHA conducts its inspection within the required time frame. Further, because of the limited resources available to PHAs for inspections, and the difficult logistics that accompany inspections, they are infrequently conducted in a timely manner. Some apartment owners report delays of 30 days or longer. Given that the professional apartment industry relies on seamless turnover to meet its overhead costs, the financial implications of such delays to owners are significant.

Not only do unit-by-unit inspections cause intolerable delays in leasing units, they do not necessarily satisfy HUD's objective of protecting residents and assuring owner compliance with the agency's health and safety criteria. They do not accurately assess the property's regular property management practices or HQS compliance. They only reveal the status of a unit at a particular moment in time.

We propose speeding up the move-in process by allowing PHAs to conduct individual unit inspections within 30 days after the resident moves in and payment commences. PHAs could conduct building-wide, rather than unit-by-unit, inspections in certain cases. We also propose that PHAs advise voucher holders that they should not accept an apartment in significant disrepair and that they should report those apartments to the PHA. This approach would reward professionally-managed properties that participate in the program and allow PHAs to focus their scarce resources elsewhere. We wish to note that our recommendations are consistent with the proposed language currently under consideration by the Senate Banking and Urban Affairs Committee.

2. Improving the Subsidy Payment System

Another aspect of program administration that would improve private owner participation is improving the Subsidy Payment System. PHAs are required to make prompt, direct subsidy payments to apartment owners. Unfortunately, subsidy payments are often untimely, which discourages owners from participating. Yes, HUD's regulations allow PHAs to be sanctioned for untimely payments, but those sanctions are nominal because they must be paid for from a PHA's limited administrative fees. As a result, they do not serve as an incentive for prompt payment.

NMHC/NAA believe more apartment owners would participate in the Section 8 program if the costs of renting to voucher residents were more comparable to the costs of serving unsubsidized residents. Therefore, it is essential to overhaul Section 8's costly payment structure. Just as owners would not regularly accept late rental payments from market-rate residents, they should not be forced to accept late subsidy payments.

One way to achieve the goal of transparency between subsidized residents and market-rate residents would be to require that all PHAs make automated electronic fund transfers, thereby assuring timely subsidy payments. While some PHAs already use automated funds transfer systems, making this uniform among all PHAs would substantially reduce costs for both owners and PHAs.

3. Increasing the Payment Standard

NMHC/NAA recommend that the Fair Market Rent (FMR) be based on at least the 50th percentile of area median income. The current payment standard to owners typically ranges between 90 and 110 percent of an area's FMR. Both the payment standard generally, and FMR levels specifically, are far too low to support owner participation. FMRs, set annually for each metropolitan area, must be high enough to encourage owner participation and, in turn, create a sufficient supply of apartments and choice for voucher holders.

The shortage of affordable housing is a true example of market supply and demand at work. Private owners must receive sufficient rents to cover the costs of developing and operating an apartment property or the property will not be built. If the FMRs are too low, the owners will not be able to rent to subsidized residents because they will not generate enough income to operate and maintain the property.

The current FMR level is the 40th percentile rent, or the dollar amount below which 40 percent of the standard-quality rental housing units are rented. Establishing the FMR at the 40th percentile is a primary reason many apartment owners do not participate in the voucher program. These rents are simply too low to support the property's operations.

We further recommend that the payment standard be raised to 120 percent of FMR in high-cost areas, and that PHAs be given the flexibility to raise the level to 150 percent in areas where the voucher utilization rate is less than 80 percent and the market occupancy rate is greater than 95 percent. It should be noted that in high-cost areas, even that increase would still be well below market rents.

4. Amending the Lease Addendum

HUD requires every lease to a Section 8 voucher holder include its standard addendum. The addendum itself requires that the lease include, word-for-word, all of the addendum's provisions. If there is a conflict between the addendum and another lease provision, the addendum preempts the lease.

The addendum contains numerous provisions that may override local practice and even landlord-tenant (NMHC/NAA prefer "owner-resident") laws, putting owners in a very untenable situation. Differences between Section 8 and market leases also require owners to specially train their staffs to administer Section 8 leases. This is particularly difficult in an industry where employee turnover averages 50 percent.

In short, HUD's lease addendum is many times incompatible with state and local landlord-tenant laws and disregards industry-wide model lease language developed by NAA. This inconsistency creates confusion among apartment owners and causes difficulties for owners who must comply with one set of lease requirements for voucher residents and another for non-voucher residents residing within the same property. Apartment owners have told us time and time again that the lease addendum creates obstacles that discourage their participation in the program.

We propose the elimination or modification of the lease addendum to reflect standards used with market leases, thereby reducing administrative burdens and other costly procedures. Alternatively, NMHC/NAA propose establishing pilot programs to test alternative, less conflicting and less burdensome lease addendums or the NAA model lease.

NMHC/NAA support the addendum's intended purpose, which is to ensure the safety of Section 8 residents. However, residents are already protected by existing local laws. The addendum does not add anything to these protections, it only adds costly burdens to owners, which, in turn, discourages their participation in the program.

In summary, NMHC/NAA support the Section 8 program and wish to engage more fully in it. However, such participation is not economically maximized without reforming the program to reduce the significant costs and burdens it imposes on apartment owners. I thank you for the opportunity to testify on behalf of the National Multi Housing Council and the National Apartment Association, and wish to offer our assistance as the Subcommittee continues with its important work toward creating a more effective and efficient program. Thank you.

Testimony on behalf of
National Alliance to End Homelessness
by
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to
House Subcommittee on Housing and Community Opportunity
Re: H.R. 3995,
Housing Affordability for America Act of 2002
April 23, 2002

Madam Chairman, Mr. Frank and members of the Subcommittee, I am honored that you have invited the National Alliance to End Homelessness to testify before you today. As the Executive Director of the Supportive Housing Network of New York, I am on the national advisory committee to the Alliance. The Supportive Housing Network represents 150 non-profit agencies that have developed permanent housing with on-site services for over 18,000 low income and formerly homeless individuals and families in New York State. The National Alliance to End Homelessness is committed to ending homelessness—a goal that we are convinced is well within our reach as a nation. In the past, the Alliance and its members have been pleased to work with the Committee to make progress toward this goal. Your concern about homelessness and affordable housing programs is laudable.

The National Alliance to End Homelessness is a nonpartisan, nonprofit organization that was founded in 1983 by a group of leaders deeply disturbed by the emergence of a new social phenomenon – thousands of people living on the streets. Since its founding in 1983, the focus of Alliance has shifted as the problem of homelessness has changed. Once focused on securing immediate food and shelter, today the Alliance, which has grown to include 2,000 member nonprofit and public sector agencies and corporate partners in every state in the nation, focuses on permanent solutions to homelessness. Like the Alliance that has developed a 10-year plan to end homelessness, the Supportive Housing Network of New York has outlined a Blueprint to End Homelessness in New York City.

I am speaking today about the H.R. 3995, the Housing Affordability for America Act of 2002. This bill includes several items that are critical to the goal of ending homelessness. These include making permanent the set-aside for permanent supportive housing, funding renewals of the Shelter Plus Care program from the Housing Certificate Fund, reauthorizing the Interagency Council on the Homeless, and reauthorizing several important programs of the McKinney-Vento Homeless Assistance Act. This bill would also target funds for the development of affordable housing to people who are most likely to become homeless – those with extremely low incomes. To be fully appreciated, these provisions must be understood in the context of what it takes to end homelessness.

It is important to remember that prior to the 1980s, there was not widespread homelessness in the nation. Although there were problems such as mental illness, drug abuse, and deep and pervasive poverty, people experiencing these problems were able to find a place to live. But then the seeds of deinstitutionalization, loss of affordable housing stock, destruction of a million units of single room occupancy housing, new kinds of illegal drugs and an increase in poor, single parent households began to take root. In the 1980s, they grew into homelessness. The absence of widespread homelessness before then is a reminder that homelessness is not inevitable. It has not always existed, and it does not have to exist now.

To end homelessness, several important steps have to be taken. One is to prevent people from becoming homeless – in other words, closing the front door into homelessness. This bill begins to address this problem by targeting flexible housing resources to people with extremely low incomes – below 30% of the area median income (AMI). This is especially important considering that the amount of housing affordable to low-income households has been steadily declining for several decades. In 1970, there were 300,000 *more* affordable housing units available, nationally, than there were low-income households that needed to rent them. By 1995, there were 4.4 million *fewer* affordable units than low-income households that needed them. As these figures demonstrate, the need for affordable housing for lower income families is severe, and we encourage the subcommittee to continue to find resources to solve this problem.

Another important step in preventing homelessness is ensuring that the public service systems that are supposed to care for disadvantaged people–including TANF, mental health, substance abuse treatment, criminal justice, and foster care systems are doing their jobs. Unfortunately, those programs are outside of the jurisdiction of this subcommittee. It is our hope that other members, and partners at the state and local level, are as dedicated to ending homelessness as the members of this subcommittee.

Ending homelessness also requires that we open the back door out of homelessness by providing the housing and supportive services needed for families and individuals to move into permanent stable homes. In New York there is a great precedent for collaboration between the city and State, known as the New York/New York Agreement, to develop and operate thousands of units of permanent supportive housing for homeless individuals living with mental illness. This effort has resulted in a significant reduction in the number of individuals utilizing the shelter system in New York City.

The dimensions of the homeless problem are sizeable. The Urban Institute has estimated, based on the National Survey of Homeless Assistance Providers and Clients undertaken in 1996 by the Census Bureau, that as many as 3.5 million people experience homelessness in the course of a year.[1] In New York City each night over 33,000 men, women and children sleep in our shelter system, the largest census since 1987 with homeless children the largest growing population.

Roughly 80% of people who become homeless enter the homeless system and exit it again relatively quickly. They have a crisis that affects their housing. They typically address their immediate problem and – despite the shortage of affordable housing for poor people – they find housing. This group includes both single individuals and families, and they are very similar in most characteristics to other people who are poor. They have similar education levels and numbers of children.[2]

For these people, the homeless system should facilitate their move to housing and make their homeless episode as brief and the least traumatic as possible. When services are needed, they should be delivered while the family or individual is in stable permanent housing. (A few exceptions to this strategy include survivors of domestic violence who may need temporary shelter in a confidential and secure environment, and adults who are just finishing substance abuse or mental health treatment and may need intermediate levels of supportive housing.)

The proposed legislation strikes the right balance between local flexibility and accountability by reauthorizing key programs from the McKinney-Vento Homeless Assistance Act. Three of these programs (Shelter Plus Care, Supportive Housing, and Section 8 Moderate Rehabilitation/SRO) are awarded as part of an innovative and successful model of planning and decision-making – the Continuum of Care. The Continuum of Care process has brought together faith-based and community-based organizations in partnership with state and local governments to assess their needs and plan a coordinated response. This method of awarding homeless assistance funds is effective, and the bill wisely maintains it.

While the majority of homeless people don't need specialized housing, about 20% have more significant barriers to ending their homelessness. They have one or more chronic disabilities, including mental illness and substance abuse. They typically live in shelters and on the streets, and their episodes of homelessness can last several months or years. Many are veterans. Their homelessness exacerbates their disabilities and vice versa. One would think that housing them in shelters or allowing them to live on the streets would at least be an inexpensive if not humane response. However, this is not true. A groundbreaking study by the University of Pennsylvania shows that a chronically homeless, mentally ill person living on the streets of New York City exacts an annual public cost of approximately $40,000.[3] This is so expensive because they frequently use high cost public services, such as emergency and psychiatric hospitals. When they have an illness, it generally progresses to a severe stage before they get care. Their homeless life aggravates their mental illness, so they are more likely to need more expensive residential treatment. Chronically homeless people are also more likely to enter the criminal justice system.

But there is a solution – supportive housing. This model combines permanent, stable housing with on-site supportive services, which may include case management, job training, medical care, and mental health care. When chronically homeless people with mental illness in New York were housed in supportive housing, the cost saving that was experienced for each individual was almost equal to the cost of developing and operating a unit of supportive housing. In other words, with minimal investment, supportive housing virtually pays for itself and the individual and our communities are much better off.

The Administration has embraced the goal of ending chronic homelessness in 10 years. We wholeheartedly support this goal, and believe that it will lead to the eventual end of widespread homelessness. The Alliance estimates that there are about 200,000 - 250,000 chronically homeless people in the nation that need permanent supportive housing. The proposed bill makes a crucial contribution to achieving this goal by taking two important steps.

The first is that it requires 30% of funds provided under HUD's Homeless Assistance Grants be used for permanent housing. This important provision encourages communities to focus on ending homelessness by developing permanent housing. The appropriations committee has included this provision in the VA/HUD appropriations bills for the last several years. Prior to that, the share of homeless resources that were being used for permanent housing was dwindling.

The second step is that the bill funds Shelter Plus Care and Supportive Housing Program/Permanent Housing renewals through the Housing Certificate fund. This measure ensures that people who move into permanent supportive housing can stay for as long as they need to. It also enables developers of supportive housing to find the financing they need. Creditors usually want a guarantee that a unit will generate income for at least 10 to 15 years before they provide financing. Funding renewals from the Housing Certificate Fund provides that assurance. The move also allows homeless assistance funding to focus on developing new units of supportive housing instead of getting used up renewing the same projects year after year.

In addition to these steps, the bill removes a barrier to developing supportive housing by eliminating the caps on construction and rehabilitation. This is especially helpful in high-cost areas, where the production and preservation of supportive housing are often sorely needed.

While these proposals will ensure that enough housing is developed for chronically homeless people, it is also important to consider the services they need. The Departments of Health and Human Services, Labor, and Veteran's Affairs, as well as other Federal, state and local partners will have to contribute more than they do now. The bill would reauthorize the Interagency Council on the Homeless, which will provide a forum for discussion and hopefully lead to greater attention and funding for these needed services.

Bringing all of these resources together to end chronic homelessness will have another benefit. Because chronically homeless people have such great needs, many of the resources currently devoted to the homeless assistance system are used to just *manage* their homelessness. When enough supportive housing is developed to address those needs, the homeless assistance system will be free to do what it is supposed to, that is, to quickly re-house people who have experienced a temporary crisis.

Ms. Chairman and members of the Committee, I appreciate your concern for homeless people and for affordable housing as expressed in this hearing and in the well crafted bill you have proposed. We will be happy to work with you in any way possible to make the dream of ending homelessness a reality.

[1] Burt, Martha and Laudan, Aron. "America's Homeless II: Populations and Services." February 2000. Oral Presentation at the Urban Institute First Tuesdays Forum. Washington, D.C.

[2] Bassuk, Ellen, L.F. Weireb, J.C. Buckner, A. Browne, A. Salomon, S.S. Bassuk. 1996. "The Characteristics and Needs of Sheltered Homeless and Low-Income Housed Mothers." *Journal of the American Medical Association, 276: 640-646.*

[3] Culhane, Dennis, Stephen Metraux and Trevor Hadley, "Executive Summary. The Impact of Supportive Housing for Homeless Persons with Severe Mental Illness on the Utilization of Public Health, Corrections and Emergency Shelter Systems: The New York-New York Initiative." April 2001

CONSORTIUM *for* CITIZENS *with* DISABILITIES

TESTIMONY OF ANDREW SPERLING
NATIONAL ALLIANCE FOR THE MENTALLY ILL
ARLINGTON, VA
ON BEHALF OF THE CONSORTIUM FOR CITIZENS WITH DISABILITIES HOUSING TASK FORCE
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

APRIL 23, 2002

Chairwoman Roukema, Ranking Member Frank and members of the Subcommittee, the Consortium for Citizens with Disabilities (CCD) Housing Task Force is grateful for the opportunity to provide testimony on HR 3995, the Housing Affordability for American Act of 2002, and efforts to address the housing affordability crisis facing people with disabilities. We would like to take this opportunity to share our views on this important issue.

The Consortium for Citizens with Disabilities (CCD) is a Washington based coalition of approximately 100 consumer, advocacy, providers and professional organizations who advocate with and on behalf of people of all ages with disabilities and their families. The CCD Housing Task Force focuses specifically on housing issues that affect people with disabilities, particularly the availability of affordable and accessible community based housing options and the protection of their fair housing rights. The individuals who we represent - most of whom have very low incomes, many of whom depend solely on Supplemental Security Income or other disability benefits - may be current participants of HUD public and assisted housing programs, may be on federal housing program waiting lists, or may need to apply for federal housing assistance.

Last year -- with the support of the Melville Charitable Trust and the Technical Assistance Collaborative (TAC), CCD published *Priced Out in 2000: The Crisis Continues* documenting the large and growing housing affordability crisis facing people with disabilities. This report contains the most complete, current and accurate analysis of housing affordability for the poorest of our nation's citizens - people with severe disabilities who are receiving federal Supplemental Security Income benefits. Across the country today, housing needs of people with disabilities, and the housing affordability crisis that they experience, is worse now than it has been in recent memory.

CCD is grateful for your leadership in introducing HR 3995. This legislation contains a number of provisions that will help ease the housing affordability crisis facing people with disabilities by reauthorizing and reforming a range of existing HUD programs. While CCD appreciates this effort, we also want to go on record in support of additional, more far reaching steps to both expand HUD's current programs and to develop new strategies to ensure that mainstream affordable housing programs more effectively serve people with disabilities. CCD further believes that it is critically important that this Subcommittee pay serious attention to the need for a new housing production program that focuses resources on the production of rental housing serving extremely low-income households.

Housing Needs of People With Disabilities
Before moving into CCD's views on HR 3995, I would like to briefly outline the current situation with respect to the housing needs of people with disabilities. Unfortunately, millions of people with disabilities today stand little chance of having a decent and affordable home of their own. This is particularly true for more than 3 million adults with

disabilities who receive federal Supplemental Security Income (SSI) benefits - equal to a monthly income of only about $517 in 2001.

Because of their extremely low incomes, people with disabilities are facing a severe housing crisis - a crisis that is getting worse. Currently, people with disabilities - particularly people with disabilities receiving SSI benefits - have the highest incidence of unmet housing needs of any group eligible for federal housing assistance.

According to HUD's 1999 "Worst Case Housing Needs" report, the number of "worst case" renter households in the United States actually declined 8 percent between 1997 and 1999. However, this decline in housing need occurred only among elderly and family households and specifically did not benefit people with disabilities. In fact, HUD states that "new research with Supplemental Security Income program data suggests that [housing] needs among the disabled may have increased slightly between 1997 and 1999."

Further, HUD's 1999 report indicates that at least 1.3 million adults with disabilities receiving SSI had "worst case" housing needs in 1999. It is very important to note that HUD states that this needs estimates undercounts people with disabilities. Currently, HUD estimates only capture one segment of the very low-income population of people with disabilities - that is individuals who receive federal SSI benefits. HUD estimates completely exclude people with disabilities receiving other types of disability benefits such as Social Security Disability. HUD estimates also do not include people with disabilities who may be employed at low wage jobs, or who are in the process of applying for SSI, and need housing assistance.

HUD's estimates do not consider people with disabilities living unnecessarily in "restrictive" settings such as state institutions or nursing homes which, according to the U.S. Supreme Court's Olmstead vs. L.C. decision, violate the Americans with Disabilities Act (ADA). In 1999, the U.S. Supreme Court's Olmstead decision affirmed that under the ADA, people with disabilities have a basic civil right to live in the most integrated community-based setting appropriate to their needs. Most people with disabilities who will benefit from the Olmstead decision are SSI recipients. They will require federal housing assistance in order to be able to move into permanent housing in the community.

The lack of accurate data from HUD compelled the CCD Housing Task Force to publish its own housing needs estimates. Using HUD data which showed that more than 70 percent of households below 30 percent of median income have a severe rent burden, the CCD Housing Task Force estimated in 1996 that at least 1.8 million people with disabilities receiving SSI had worst case needs. In the year 2001, the number was certainly much higher.

Because of their extreme poverty, people with disabilities receiving SSI or other disability benefits cannot afford decent housing anywhere in the country without some type of government housing assistance. Yet relatively few non-elderly disabled households (ages 18-61) currently benefit from HUD subsidized housing programs. Recent HUD data indicate that fewer than 500,000 people with disabilities are being assisted by all HUD subsidized housing programs. Despite the fact that households with disabilities make up at least 25 percent of the households with "worst case" housing needs data published by HUD Policy Development and Research show that fewer than 13 percent of the households assisted by HUD are households with disabilities.

Moreover, key findings in the *Priced Out in 2000* document that this affordability crisis continues to worsen:

- People with disabilities are the poorest people in the nation. As a national average, SSI benefits in 2000 were equal to only 18.5 percent of the one-person median household income, and fell below 20 percent of median income for the first time in over a decade.
- In 2000, people with disabilities receiving SSI benefits needed to pay - on a national average - 98 percent of their SSI benefits to rent a modest one-bedroom unit priced at the HUD Fair Market Rent. An SSI recipient paying this amount for rent would have only $11 per month left over for all other essential expenses, such as food, transportation, telephone, etc.
- Cost of living adjustments to SSI benefit levels have not kept pace with the increasing cost of rental housing. Between 1998 and 2000, rental housing costs rose almost twice as much as the income of people with disabilities.

- In 2000, there was not one single housing market in the country where a person with a disability receiving SSI benefits could afford to rent a modest efficiency or one-bedroom unit.
- "Housing Wage" data from the National Low Income Housing Coalition shows that people with disabilities who received SSI benefits needed to triple their income to be able to afford a decent one-bedroom unit. On average, SSI benefits are equal to an hourly rate of $3.23, only one third of the National Low Income Housing Coalition's housing wage, and almost $2 below the federal minimum wage.

In addition to the problems of affordability, there are several other important factors which have contributed to the housing crisis facing people with disabilities. These factors are discussed briefly below.

- The decline in the supply of subsidized housing available to people with disabilities. Since the implementation of "elderly only" housing policies, non-elderly people with disabilities have been increasingly denied access to federally subsidized housing developments. HUD, General Accounting Office and numerous CCD Housing Task Force studies all document that over 60 percent of privately owned HUD-assisted housing developments have occupancy policies which either severely restrict or completely exclude people with disabilities under age 62. CCD has estimated that over 273,000 units of HUD public and assisted housing which were -by law - available to people with disabilities prior to 1992 are now reserved exclusively for elderly households. Thus far, only 40,000 new Section 8 vouchers have been created to make up for this loss.
- Cuts in the Section 811 budget. Ironically, as the need for housing assistance for people with disabilities has grown substantially, federal funding for disability specific housing programs has declined dramatically. Cuts to the Section 811 program during the Clinton Administration have seen its funding fall from $387 million in the early 1990s to its current level of $217 million. This amount of funding must support 5 different activities, including: (1) new production activities; (2) tenant based rental assistance (up to 25 percent of the appropriation); (3) initial funding of Project Rental Assistance Contracts; and (4) renewal of Project Rental Assistance Contracts; (5) renewal of tenant-based subsidies. It is clear that an increase in appropriations is necessary to meet all of the above program objectives. The Section 811 program must continue to be a valuable tool for non-profit organizations to produce new, affordable, and accessible housing stock that is extremely difficult for people with the most severe disabilities to obtain in the private market.
- Lack of access by people with disabilities to other federal housing assistance programs including the HOME and CDBG programs, the federal Low Income Housing Tax Credit Program and the Consolidated Plan process. As they are currently administered by state and local housing officials, these federal programs are rarely used to expand housing supply for people with disabilities. The problem is two-fold: (1) these programs are almost never linked to the operating subsidies or project based rental assistance resources that are needed to develop housing that is affordable for people with disabilities below 30 percent of median incomes; and (2) state and local officials rarely prioritize or fund housing for people with disabilities through the Consolidated Plan process.
- People with disabilities continue to experience pervasive housing discrimination from affordable housing funders and providers. A 2001 Abt Associates reports that HUD assisted housing managers regularly prevent people with disabilities from applying for or moving into subsidized housing developments. Many PHAs, including some of the largest PHAs in the country, denied people with disabilities access to public housing without HUD approval to do so. Some organizations and agencies that receive federal funding do not comply with the Fair Housing Act Accessibility Guidelines, which are needed to produce new units of barrier free and otherwise accessible housing in the private rental market. Low Income Housing Tax Credit owners have a long track record of refusing to accept Section 8 rent subsidies from people with disabilities in wheelchairs who are desperate for accessible and affordable housing.

HR 3995 Contains Needed Improvements to HUD's Programs
CCD would like to express support for a number of provisions that address the housing crisis facing people with disabilities. However, as noted above CCD believes that many of these could be supplemented by changes and expansions that would ensure that limited federal resources most effectively target extremely low-income households facing the most severe affordability problems. CCD views the following provisions in HR 3995 as most important for addressing the needs of people with disabilities.

- Homeless Program Extensions - CCD is extremely supportive of provisions in HR 3995 extending the authorization of the Supportive Housing and Shelter Plus Care programs. These permanent supportive housing programs are two critically important resources for addressing the needs of people with disabilities experiencing chronic homelessness. As you know, people with severe disabilities are disproportionately represented among the chronically homeless population that are often forced to rely on shelters and transitional housing programs for long periods of time. Reauthorization of these programs is critically important if we are to achieve the President's goal of ending chronic homelessness over the next decade.
- Shelter Plus Care and Supportive Housing Contract Renewals - CCD is extremely grateful for the provisions in HR 3995 assuring renewal of operating subsidies and contracts through the Housing Certificate Fund (HCF). This proposal will ensure that non-profits and local Continuum of Care applicants can invest in permanent supportive housing with confidence that they are truly ending chronic homelessness. More importantly, it will provide stability in the lives of formerly homeless people with disabilities, knowing that they will not be losing their housing through no fault of their own.
- New HOME Housing Production and Preservation Program - CCD is pleased that HR 3995 includes a proposal to authorize a new affordable housing production program within HOME. As noted above, people with disabilities are disproportionately represented among households classified as "extremely low-income." CCD believes that if Congress is going to invest federal resources into a new production program, the highest priority should be placed on production of rental housing serving individuals and families at, or below 30 percent of area median income. CCD would like to urge you to consider modifications to this proposal to encourage production of property models that favor accessibility over those, such as townhouse developments, that do not. Where HOME participating jurisdictions are required to monitor projects and enforce program compliance, CCD would like to see explicit direction given to these communities to ensure that their projects comply with the appropriate accessibility standards of Section 504 and the Fair Housing Act.
- Thrifty Voucher Production Program - CCD supports inclusion of a new project-based voucher program that can be used in conjunction with new construction or substantial rehabilitation. This Thrifty Voucher Production (TVP) program offers tremendous promise in demonstrating how more affordable resources can be funded with fewer dollars, by subsiding project-based operating costs, rather than debt service. CCD also strongly supports extending key provision of the TVP to the Section 8 project based program. These provisions include allowing property owners to establish waiting lists for properties, rather than using existing PHA project-based lists. Such owner or site-based waiting lists would vastly improve the access of people with disabilities to affordable housing opportunities, especially for people with severe disabilities leaving institutions or other restrictive settings that would have great difficulty accessing PHA waiting lists. Further, CCD would strongly encourage language requiring projects using TVP vouchers to comply with
- accessibility guidelines for substantially-renovated properties. Private multifamily housing, tax-credit housing and federally-funded or assisted housing are still being built in violation of the Fair Housing Act Amendments of 1988 or Section 504 of the Rehabilitation Act.
- Voucher Success Fund - CCD is extremely pleased that HR 3995 contains provisions allowing PHAs to use up to 5 percent of allocated Section 8 funds to directly support counseling, rental security deposits and other activities to help voucher holders secure rental housing. In many housing markets across the country, low utilization rates for tenant-based voucher-holders are related to extremely limited rental housing markets. However, beyond tight rental markets, many voucher-holders simply find it impossible to find landlords willing to accept Section 8. These difficulties are compounded for people with disabilities confronting stigma and discrimination. Making funds available for counseling and housing search assistance will help ensure that people with disabilities can actually obtain housing once they receive a voucher and help underperforming PHAs improve their section 8 utilization rates.
- The Elder Cottage Housing Opportunity [ECHO] program - CCD views this proposal as a commendable effort to help elderly people remain in their homes despite the arrival of grandchildren. CCD would encourage you to consider expanding this proposal to allow for adaptation of homes to permit people with disabilities to remain in their homes and avoid institutionalization or to enable people with disabilities residing in institutions to return to their homes. Such a policy becomes even more imperative in light of the Supreme Court decision in Olmstead.
- Housing Impact Analysis - This section of HR 3995 appears to require agencies such as HUD to develop an evaluation of the impact of federal regulations on housing affordability. On its face, that appears to be a legitimate objective. At the same time, CCD is very concerned that such analyses might be used to undermine

or weaken the very civil rights laws and regulations that enable people with disabilities to live in the community, e.g. the Fair Housing Act, the ADA and Section 504 of the Rehabilitation Act. CCD is by no means asserting that this is the intention of this provision, but nonetheless would strongly support a additional language excepting fair housing and civil rights protections from these regulatory analyses.

Section 811 issues
In addition to the various proposals contained in HR 3995, CCD would also like to offer to the Subcommittee a few ideas for reforming and modernizing the Section 811 program. As you know, Congress intended that the Section 811 program, as well as the Section 202 program, help very low-income people who need supportive housing in the community. When these two supportive housing programs were first authorized, it may have been appropriate for the policies and appropriations governing these programs to be so intrinsically linked. However, in the year 2002, the housing developed with Section 811 funds is very different from the housing developed with Section 202 funding.

While elderly households continue to prefer to live in larger housing developments reserved for elders, people with disabilities have expressed a clear preference for less stigmatizing, scattered-site, and low density models of housing that are well integrated within the community. Non-profit developers of Section 811 housing have found that low-density models of housing for people with disabilities are extremely difficult to develop using the current Section 811 program. Current Section 811 rules require an onerous development process (e.g. HUD has 375 pages of guidance and forms). The single-purpose corporation ownership arrangement is also incompatible with a low-density scattered site approach development and makes it impossible to acquire a percentage of the units in a larger affordable rental housing project.

Lower density projects are typically more difficult, and more expensive to develop because the developer must "spread" the fixed costs associated with the project (i.e., architectural and engineering fees, site work, development fees, etc.) over as many units as possible in order to meet the program's cost limits. This may work for Section 202 projects that may have 100 units or more, but does not work for a 6-unit project. The single purpose corporation requirement makes it much more difficult and costly to obtain and use other housing development financing to bridge "gaps" caused by limited Section 811 funding provided per project. "Gap" financing is often needed because the Section 811 costs limits are frequently too low to build good quality accessible housing on a scattered site basis.

As a result of these incentives in the Section 811 program, and reductions in funding over the past decade, many non-profits have been discouraged from even competing in the program. For example, last year, there were no applications submitted from the state of Hawaii, even though there is a desperate need for supportive housing for people with disabilities in that state. In 2000, the State of Alaska did not have any Section 811 applications submitted. In both these states, experienced section 811 non-profit developers have reported that the Section 811 application and HUD development process is too inefficient and costly to administer. The application process is extremely complicated, and often requires even experienced developers to pay $10,000 or more for a specialized Section 811 consultant. Non-profit disability groups can rarely afford to pay this amount of "up front" money unless there is a reasonable chance that an good application will be funded. CCD has advocated for many years for simplification of the Section 811 program in order to develop housing that more accurately reflects the housing preferences of people with disabilities. While Section 811 program options have been expanded beyond group homes and independent living facilities to include units in condominium, cooperative and other multi-family developments, the program's development process and HUD's burdensome administration procedures make these models much more difficult - and expensive - to pursue

In CCD's view Section 811 can be reformed without abandoning its primary purpose as a production (as opposed to a tenant-based) program that directs funds through non-profit disability organizations. What is most important is to simplify the program and allow experienced non-profit sponsors to waive certain requirements (e.g., single purpose corporation for each project) that do little more than add fixed costs. More importantly, greater flexibility is needed to expedite the application process and allow non-profits to layer funding and partner with for-profits to integrate Section 811 housing into housing that is being developed across the community.

Finally, CCD would like to go on record with concerns about the future of the Section 811 "mainstream" tenant-based rental assistance program. First authorized a decade ago, this program has been funded 25 percent of the

Section 811 appropriation since 1996 as five-year certificates. Because HUD never developed standards for this program, it has been administered as Section 8. However, last year HUD began renewing expiring "mainstream" vouchers through the Section 811 program, rather than the Housing Certificate Fund. In fact, for FY 2002 renewal of these tenant-based rent subsidies will consume the entire $xx million increase appropriated for Section 811. Moreover, for FY 2003 HUD estimates that $32 million will be needed to renew all these expiring rent subsidies – more than three times the proposed $10 million increase recommended by the Bush Administration.

CCD strongly recommends that this Subcommittee direct HUD to develop standards for the Section 811 "mainstream" to ensure that it operates independently of Section 8 and has among its key features: non-profit disability organizations as the sole eligible applicant, segregated funding for renewal of expiring contracts to prevent diverting of resources from the Section 811 capital advance/project-based program and targeting to people with severe disabilities with high support needs.

Conclusion

Chairwoman Roukema and members of the Subcommittee, thank you for the opportunity to provide testimony on this important issue. The CCD Housing Task Force looks forward to working with all members of this Subcommittee to improve the performance of HUD's programs to make them more responsive to the needs of people with disabilities. I would be happy to respond to any questions.

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Written Statement of Testimony of
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Presented by Harry A. Byrd, Jr., Principal

H.R. 3995
The Housing Affordability for America Act of 2002

Hearing before the
U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity

Room 2128 Rayburn House Office Building
Washington, DC
April 23, 2002 – 2:00 P.M.

Good afternoon Chairwoman Roukema, Ranking Member Frank, and other members of the Subcommittee on Housing and Community Opportunity. My name is Harry Byrd, principal of The Harkin Group, LLC. With me today is John Kinsey, also a principal of The Harkin Group. On behalf of the company, I thank you for the privilege of addressing this subcommittee today and sharing with you some of our experiences and what we have learned as a result of working with the HOPE VI Program over the last nine years.

ABOUT THE HARKIN GROUP

The Harkin Group has been involved with the HOPE VI Program since it was first introduced in 1993 as the Urban Revitalization Demonstration Program, or URD. Our initial involvement was as employees of a public housing agency that sought and was awarded a grant in the first round of HOPE VI funding. Harkin principal, John Kinsey, served as the agency's HOPE VI Director. Currently, we are associated with HOPE VI as private consultants providing program management and other services to public housing agencies that are currently funded or that are seeking funding. More details of our experience, along with resumes of the principals are included as an attachment to this testimony.

ABOUT HOPE VI

Optimally, obsolete public housing sites that are redeveloped under the HOPE VI Program are transformed from communities of isolation and hopelessness into viable self-sustaining neighborhoods of opportunity and vitality. Elements of this transformation include:

(1) Changing the physical design and shape of public housing;
(2) Establishing positive incentives for self-sufficiency and comprehensive services to empower residents;
(3) Establishing and enforcing strict occupancy and eviction rules, which directly impacts the quality of live for residents;
(4) Lessening concentrations of poverty, promoting mixed-income communities; and
(5) Forging partnerships with other agencies, local governments, non-profits and private businesses.

The true intent of the HOPE VI Program can be accomplished. However, we have recognized that there are strategic areas of this program that should be improved upon to afford housing agencies the opportunity to better accomplish the overall goals established by the program.

RESIDENT DISPLACEMENT

Of major concern to us, as well as to proponents and opponents of HOPE VI alike, is the number of original residents of the public housing site who return to the revitalized community. There are many reasons this number currently may be lower than desirable.

Loss of Units

The strategy for developing mixed communities under the HOPE VI Program is to ensure the correct mix of subsidized, market rate and affordable housing that is built back on the site. The design of these communities also seeks to decrease the concentration of poverty in a specific geographic region by decreasing density on the public housing site. Therefore we typically end up with a decrease in the public housing inventory within the respective local community. Fewer units results in fewer residents that can be accommodated. Based on our experience, housing agencies are replacing from 35%-50% of HUD-subsidized housing units lost through HOPE VI demolition/revitalization. To combat this impact, it is necessary to strengthen the requirement for the developer to ensure increased financial commitment on the part of the public and private sectors. This action would provide necessary resources to increase the boundaries of the revitalization area beyond the mere footprint of the public housing site itself, thus allowing an increase in the number of units developed. Currently, there is no requirement for one-to-one replacement of public housing units lost to HOPE VI redevelopment. While we realize that one-to-one replacement may be difficult, a greater commitment towards achieving this goal should be emphasized in the requirements of the program.

Redevelopment Timeframe

As a rule, public housing residents living in a development targeted for HOPE VI revitalization are relocated prior to commencement of demolition and construction. It has been our experience that the time frame between residents being relocated from the site and new housing units being developed that allows them an opportunity to return can be anywhere from 3 to 5 years. In some cases, the period is even longer. For instance, the Housing Authority of the City of Winston-Salem, NC received an award in 1998. Although elderly residents began returning to the site in December 2001 upon completion of the elderly housing facility; it will be October of 2003 before the first multi-family units are available for occupancy. Final build-out of the project is not anticipated until late 2005, seven years after grant award. Another example is the Arbor Glen (formerly Dalton Village) HOPE VI Program in Charlotte, NC, a 1996 award. The first families will begin returning to the portion of the community revitalized under HOPE VI this year. This time span alone can cause residents to become frustrated and disillusioned with the program and to choose not to return. Reducing the period between the time residents are relocated and the time they can return to the site can have a positive effect on the number of residents returning. One way to accomplish this is through comprehensive upfront planning that ensures the housing agency is ready to begin program implementation immediately upon grant award. The greater the degree to which all components are developed and in place, the greater the degree of speed and efficiency in which they can be implemented.

In some cases, applications have been put together in very short time frames. While the elements are present in the application that allow a score high enough to qualify for funding, the up-front planning and full involvement of public housing residents and a cross section of the greater community over a longer period of time sufficient to allow for total buy-in is not there. Projects that have gone through an intense participation process and have a cross-section of buy-in and support seem to have the best chances for timely implementation and continued resident support and interest in returning to the community. A good example of the type of participatory process and upfront planning that has proven to be successful across the country has been developed by Urban Design Associates (UDA) of Pittsburgh. UDA believes that early and direct, meaningful participation of the neighborhood residents is an essential part of understanding what to design and how to develop the architecture. UDA sees design as the creative focus for bringing together citizens, economists, engineers, architects, developers, contractors and policy makers to build humanized visions for the future. As part of the HOPE VI design process at the outset of application preparation, UDA conducts charrettes to obtain input from residents, the general public, local community groups, as well as the public and private business sectors.

Resident Tracking and Monitoring

Along with involvement of residents at the outset, it is imperative that public housing agencies provide good tracking and monitoring of residents during redevelopment. PHA's must provide adequate follow-up and supportive services to keep them involved in the redevelopment process and working towards their eventual return. In instances where this is lacking, many original residents who were displaced from the site are lost.

Community and Supportive Services

Of foremost consideration in HOPE VI programming and implementation are the residents for whose benefit the program was conceived and designed. Community and supportive services must be in place early on that include activities designed to help residents make smooth transitions into their new living environment. These activities must focus on achieving self-sufficiency, upward mobility, economic independence with sustainable "living wage" jobs, educational achievement, and improved quality of life for the maximum number of public housing residents in the existing development and in the revitalized community. Success of this component is dependent upon the support and participation of social service and other non-profit agencies. It is encumbent upon housing agencies to develop comprehensive transitional housing programs that provide the necessary support, training and resources through case management in assisting families to be prepared to return and to move toward true self-sufficiency.

MIXED INCOME NEIGHBORHOODS

The intent of the HOPE VI Program is to build social and economically diverse communities of inclusion consisting of public, moderate or affordable, and market rate housing. Typically, HUD has found that a mix of one-third public housing, one-third tax credit or other affordable housing, and one-third market rate rental and/or homeowner-ship housing is a good balance. This mix should encompass housing for seniors, single-family homeownership and multi-family housing. However, each situation is unique and should be treated as such.

The design of these mixed-income communities should be comprehensive and integrated into the broader community to address the social and economic needs of residents and the physical revitalization needs of both the public housing site and the surrounding community. These programs are designed to be true elements of change and to address as many issues as possible related to blight and neighborhood distress. Further, design and programming for build-out of the site should include economic strategies that will provide for sustainability of these communities going forward. If the mix that is typically recommended by HUD can be achieved, then the economics of the project will define the level of private sector participation required to ensure sustainability.

Another important element is the attraction of market-rate development and reinvestment back into the community. A comprehensive analysis of competitive market-rate housing (rental and homeownership) is key to understanding the appropriate mix, pricing, amenities, unit types, phasing and subsidy requirements to create a stable, mixed-income community. The HOPE VI effort must include the market rate sector and be seen as a public-private initiative in order to change long-standing perceptions about the quality of public housing and create the climate for private reinvestment.

LOCAL GOVERNMENT SUPPORT

Just as critical is the level of participation and commitment from local government. Although the program is funded through local housing agencies, local government buy-in and commitment of resources are essential to securing HOPE VI funding and to the long-term success of the program. The return on investment for these stakeholders is realized in the form of an increased tax base and the elimination of distressed and revenue-draining communities. Moreover, HOPE VI revitalization serves as a catalyst for economic and other redevelopment efforts in the city that may not have otherwise occurred. Development that has taken place under the First Ward HOPE VI Program in Charlotte has spearheaded both public and private development in the surrounding area.

LEVERAGING

In order for the goal of a truly mixed community to be realized, it is imperative that we optimize the various resources from all stakeholders and beneficiaries of the project. Housing agencies are therefore encouraged to provide substantial leveraging of other public and private sector resources to augment HOPE VI dollars. Communities that are developed under the HOPE VI Program are closely akin to private sector development programs. They require complicated financing structures that are multi-layered with negotiated agreements that should be in the best interest of the housing agency. If not properly negotiated, the financial agreements may compromise the integrity of the program. For example, when agreements are reached that do not infuse enough public dollars into the project to support required infrastructure, physical design may have to be modified, altering the originally planned vision for the community. Also, if private sector dollars do not come into the project to support the level of market rate development required to make the project financially feasible, this could result in fewer units being developed and fewer residents returning to the site. Even though HUD has specific requirements as relates to leveraging and commitment of resources from other sources, it has been our experience that the lion share of financial responsibility has been borne by the housing agency through the use of its HOPE VI funds.

PROGRAM MANAGEMENT

HOPE VI Programs are very complicated and are quite different from other capital improvement programs that many housing agencies have undertaken. Oftentimes they find it difficult to administer with the capacity of in-house staff and to negotiate the intricate details of the mixed finance proposals and development agreements required. Earlier program requirements called for housing agencies to have program management in place to enhance capacity and to protect the interest of the PHA as necessary. That requirement has been dropped. As a result, many housing agencies that lack capacity and the necessary expertise to undertake these programs have a tendency to proceed without clear focus and understanding of the program as well as poorly crafted and negotiated development agreements that result in increased time delays in project implementation. This impact will be felt to an even greater extent as more mid-size and smaller housing agencies are funded.

CONCLUSION

So, indeed, if we can implement HOPE VI programs consistent with the requirements and guidelines established by HUD, we will build better communities that include senior housing, homeownership and family housing—neighborhoods that have been integrated into the broader community and include a true mixture of affordable, market rate and subsidized housing. Residents will be provided with community and supportive services and case management so that issues identified as barriers to becoming self-sufficient will be eliminated.

Having worked on both the public side as HOPE VI Program administrators and on the private side as consultants to housing agencies on HOPE VI, we have been afforded the unique opportunity of viewing the program from different perspectives. In our assessment, we feel the HOPE VI Program was well-conceived and has provided many opportunities to public housing agencies and the residents they serve. We strongly feel this program should be continued, if not in its existing form, certainly in some modified form such that public housing agencies may continue to provide assistance to transform the lives of their residents, as well as transform the physical obsolescence of the design of the site and structure of the dwelling units.

This concludes my testimony. I will be happy to respond to questions at this time.

Attachment to Written Testimony

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The Harkin Group, LLC

The Harkin Group, LLC, a full-service Program Management and Consultant firm formed in October 1997, is a multi-disciplinary collaboration of professionals with a strong emphasis on housing, community development, economic development, grantsmanship and public/private ventures. The principals of the firm have over 40 years of combined experience in project and financial management.

The broad range of knowledge of the Harkin Group encompasses a complete cross section of public sector, private sector, local and federal government, and neighborhood community development experience. The principals, Harry A. Byrd, Jr. and John Kinsey, have extensive experience in matters related to the HOPE VI Program—its planning, development, and implementation. The Harkin Group has been involved with four (4) successful HOPE VI grant applications and has provided HOPE VI program management and/or consultant services to several public housing agencies. The principals of The Harkin Group have an in-depth knowledge of and experience in all applications of HUD, local, state and federal guidelines as related to HOPE VI and public housing.

Resumes

HARRY A. BYRD, JR.

Mr. Byrd is a Principal with The Harkin Group, LLC consulting firm. He provides expertise in the following areas:

- Organizational Strategic Planning
- Operating and Capital Budget Development and Monitoring
- Financial/Budget Planning
- Program Evaluation and Analysis
- Project Scheduling
- Program Development and Management
- Contract Negotiation
- Grant and Proposal Writing
- HOPE VI Financial Program Management
- Community Planning and Development

Relevant Experience

- Mr. Byrd supervised the financial planning process for an organization with annual sales of $500 million.

- Mr. Byrd prepared and monitored capital construction budgets in excess of $100 million.

- Mr. Byrd directed the development and implementation of operating and capital budgets for a State Department of Transportation. Annual capital budgets exceeded $300 million.

- Mr. Byrd directed the financial, construction and maintenance operations for an agency's capital assets (90 facilities) totaling over $400 million in value.

- Mr. Byrd managed the general accounting, cash management and real estate functions for a commercial bank. Prepared financial statements and monthly performance reports. Responsible for the bank's investment program.

Background

Prior to establishing his own consulting firm, The Harkin Group, Mr. Byrd served as Senior Vice President and Chief Operations Officer for the Charlotte Housing Authority. In this capacity, Mr. Byrd had full responsibility for the management and administration of all programs at the agency. He played a key leadership role in significantly improving the Authority's financial condition and in developing one of the strongest mixed-income, tax credit and public/private leveraging components of any HOPE VI Program in the country.

Prior to his tenure with the Authority, Mr. Byrd was employed as Budget Manager for the Virginia State Lottery Department. In that capacity, he was responsible for the development and control of a $750 million operating budget.

Other professional positions in Richmond included Assistant Budget Director for the Virginia Commonwealth University, and Comptroller of a commercial bank. He has over 20 years of experience in financial management in both the private and public sectors.

Mr. Byrd is a graduate of Rutgers University and was awarded the degree of MBA from Fairleigh Dickinson University in New Jersey.

JOHN KINSEY

Mr. Kinsey is a Principal with The Harkin Group, LLC consulting firm. He is recognized across the country as one of the top innovators in HUD's HOPE VI/Urban Revitalization Demonstration Program. He provides expertise in the following areas:

- Organizational Strategic Planning
- Operating and Capital Budget Development and Monitoring
- Financial/Budget Planning
- Program Evaluation and Analysis
- Project Scheduling
- Program Development and Management
- Contract Negotiation
- Grant and Proposal Writing
- HOPE VI Financial Program Management
- Community Planning and Development

Relevant Experience

- Mr. Kinsey successfully administered a $42.6 million program to transform a 30-acre public housing development in the Uptown area of Charlotte, NC. The Charlotte program is recognized by HUD as one of the top programs in the country.

- Mr. Kinsey participated in a think tank to develop a new approach to transforming public housing in America.

- Mr. Kinsey directed a $24.6 million HOPE VI Program to transform a 40-acre public housing development into a mixed income community in the West side of Charlotte, NC.

- Mr. Kinsey developed over fifteen community development corporations across the State of North Carolina.

- Mr. Kinsey developed the Riverfront Development Program for the City of Elizabeth City, NC.

- Mr. Kinsey developed a successful Affordable Housing Program for the City of Elizabeth City, NC.

- Mr. Kinsey developed a land use/transportation Geo-coding model for the St. Louis Regional Council of Governments, St. Louis, MO.

Background

Prior to establishing his own consulting firm, The Harkin Group, Mr. Kinsey served as the HOPE VI Program Manager for all HOPE VI Programs in Charlotte. The First Ward Place (formerly Earle Village) HOPE VI Program is recognized by the Secretary of HUD as the flagship program, primarily due to Mr. Kinsey's in-depth knowledge of and experience in all applications of HUD, local, state and federal guidelines as related to HOPE VI and public housing.

Mr. Kinsey's prior professional positions include Director of Planning, Community Development and Inspections for the City of Elizabeth City (NC); Community Development specialist with the State of North Carolina Department of Natural Resources and Community Development; and Project Director for the St. Louis (Missouri) Regional Council of Governments. He has also held positions with the United States Defense Department.

In addition to his undergraduate degree from North Carolina Central University, Mr. Kinsey completed 2 years of graduate study in City and Regional Planning at Southern Illinois University, where he was designated as a HUD Fellow.

With more than 20 years of employment in both the public sector and with private development, Mr. Kinsey has extensive experience in program development and implementation and federal grants administration.

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Written Testimony of

Terri Hamilton Brown, Executive Director,

Cuyahoga Metropolitan Housing Authority

on behalf of

THE COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES (CLPHA)

Submitted to the

HOUSE FINANCIAL SERVICES COMMITTEE, SUBCOMMITTEE FOR HOUSING AND COMMUNITY OPPORTUNITY

April 23 2002

Testimony of Terri Hamilton Brown, Executive Director of the Cuyahoga Metropolitan Housing Authority, on Behalf of the Council of Large Public Housing Authorities, before the House Financial Services Committee, Subcommittee for Housing and Community Opportunity

April 23, 2002

Good Afternoon, Chairwoman Roukema, Ranking Member Frank and Subcommittee Members -

I am Terri Hamilton Brown, Executive Director of the Cuyahoga Metropolitan Housing Authority (CMHA), which owns and operates public housing in the Cleveland, Ohio area. I would like to first recognize my Congresswoman Stephanie Tubbs Jones, of the Ohio 11^{th} District, who has been a champion for low-income families and affordable housing in our community. I also want to thank Chairwoman Roukema for inviting me to testify on behalf of the Council of Large Public Housing Authorities (CLPHA).

CMHA manages 10,856 units of public housing in five municipalities and administers 11,917 Section 8 vouchers throughout Cuyahoga County. CMHA is one of the original members of CLPHA, which has been representing large public housing agencies since 1981. CLPHA's members manage over 40% of the Nation's public housing and almost 30% of the Section 8 tenant-based assistance. As you know, public housing is home to over 3.2 million Americans who would otherwise have great difficulty locating decent, affordable housing. Our residents include over 1 million elderly and disabled, about 250,000 veterans and about 1.2 million children.

Speaking on behalf of all public housing agencies, we appreciate the efforts of this Subcommittee to draw attention to affordable housing issues, through the legislative initiatives included in H.R. 3995. CLPHA's membership is particularly interested in and has specific recommendations regarding provisions related to reauthorization of the HOPE VI program, private debt financing for public housing properties, elderly housing, a third party public housing assessment system and the Section 8 program. Given that public housing serves the most needy families, it is recommended that PHAs have full access to any new programs that produce affordable housing units. Although authorizing proposals, such as those contained in H.R. 3995, can help public housing, it should be stressed that no program can be successful unless it receives adequate funding. Legislative efforts to increase resources for public and assisted housing, such as the recent initiative to obtain an additional $15 billion in Federal assistance, are critical to ensuring that low-income Americans have access to safe, decent, affordable shelter.

I. The HOPE VI Program Should Continue Its Focus on Eradicating the Most Severely Distressed Housing and, At the Same Time, Facilitate The Redevelopment of Some Smaller Projects.

I am especially pleased that H.R. 3995 reauthorizes the HOPE VI program. Not only has HOPE VI been the catalyst for turning around neighborhoods that were once forgotten, but the program was the first to facilitate the investment of private monies into public housing. CMHA has received three HOPE VI implementation grants for five different properties, which are allowing us to address a total of 1648 severely distressed housing units through renovation, demolition, and new construction. To date, CMHA has completed the renovation of 503 public housing units at King Kennedy South and Outhwaite Homes, and turned them into viable and competitive properties by employing the defensible space concepts of individual entrances, landscaping, fencing, and security lighting. Because of HOPE VI, CMHA was able to transform an outdated highrise into the Carl B. Stokes Social Services Mall, which was a national model when it opened in 1996. The Stokes Mall has served thousands of residents since its inception through more than 20 different social service providers, including two transitional housing programs, a neighborhood network computer center, literacy and job training partnerships, and a daycare center, which will also provide training opportunities for residents. As the HOPE VI program has evolved, CMHA has adopted a mixed income community approach while still trying to maintain the number of public housing units available to our traditional clientele of very low-income families, and the services necessary to support and empower residents.

While HOPE VI has had many successes, there remain numerous severely distressed public housing properties that, without HOPE VI, will never be revitalized. For example, CMHA has two properties, Valleyview and Woodhill Homes, which date back to1940 and are both functionally obsolete with site layouts and infrastructures that do not accommodate today's needs or life styles. Since CMHA's estimate of capital improvement needs is more than $200 million, it is important that targeting distressed properties remain the primary focus of this program, as they make up a substantial part of the public housing modernization backlog. I appreciate efforts in H.R. 3995 to give more PHAs access to the program, however, the focus should be on the size of the project that is eligible, not the size or geographic location of the PHA. There are situations where smaller agencies have large scale, severely distressed properties in need of a traditional HOPE VI grant, and larger agencies need financing to redevelop smaller communities.

I endorse CLPHA's recommendation to revise language in H.R. 3995 to create a two track system for HOPE VI - one track that continues to provide grants to the most severely distressed and a second track that would focus on smaller redevelopment projects that require smaller grant amounts. Such a system would provide housing authorities of all sizes with greater access to funds.

Another on-going concern about HOPE VI for PHAs of all sizes is the burdensome and constantly changing application process. CMHA, like many other housing authorities, invests significant resources in design plans and the application process for HOPE VI grants. It is common to spend between $150,000 and 250,000 per application. Given that HUD changes elements of the application criteria each year, an application that does not receive an award in one year must often be mostly re-written in the following year. To create a more efficient funding system and avoid the drain and possible waste of resources resulting from another application process, CLPHA recommends that H.R. 3995 enable HUD to give priority to applications which receive a score of 85 or above in the prior year. In addition to that recommendation, I strongly suggest that you direct HUD, through notice and comment rulemaking, to establish application criteria for the HOPE VI program going forward.

II. The Project-Based Private Debt Financing Strategy for Public Housing Included In H.R. 3995 Will Not Generate the Private Investment Promised and Could Lead to "Opt-Outs" in Public Housing.

In the FY 2003 budget, HUD justifies a 15% Capital Fund cut by proposing a private debt financing model which the Department believes will generate enough non-governmental money to off-set the reduction. CLPHA members recognize that backlog modernization needs cannot be met with government money alone and are looking for additional tools to help private investment. However, lenders will not be interested in lending money to public housing if the Federal government signals that it seeks to disinvest in the program. HUD has made clear that even if it could implement such a proposal in FY 2003, which seems doubtful, not all PHAs could take advantage of it. As a result, all PHAs would suffer a funding cut, but only a handful would be able to offset the loss with private money. Given that outcome, this proposal does not in any way justify a reduction in the Capital Fund appropriation.

The debt-financing model included in H.R. 3995 does not recognize that PHAs are already successfully using the Capital Fund to leverage millions of dollars in private money through bank loans and bond issuances without putting public housing at risk of foreclosure. Several multi-million dollar transactions have been closed with repayment pinned on a PHA's future allocation of Capital Funds. In addition, one major bond issue has closed and several others are now being negotiated by PHAs with Wall Street and the established bond rating agencies including Standard & Poor's, Moody's and Fitch. These borrowings are possible because investors and the bond rating agencies have seen - up to now - the stability of capital appropriations, upon which they rely for repayment. The model included in H.R. 3995 and the accompanying drastic reduction to the Capital Fund will hamper these efforts. Moreover, HUD has been extremely slow in processing these transactions, making it even more costly for PHAs to access private money.

CLPHA members also have serious concerns about several elements of this proposal. The provisions giving HUD the authority to remove the low-income use restriction on public housing property in the event of foreclosure, is of particular concern as it places public housing units in danger of "opting-out". This could result in the additional loss of low-income housing stock for many communities like Cleveland that have already experienced numerous HUD-insured property foreclosures and opt-outs. Other provisions giving HUD the ability to operate properties that are financed privately instead of by the PHA, to displace lower income residents under certain circumstances, and waive other public housing requirements are also problematic. Moreover, this model has never been tested, thus it is unclear whether banks, investors and other private interests will lend money to public housing under these circumstances.

PHAs need as many tools as possible to access private investment. However, what works in one community might not work in another. To that end, I urge you to adopt a two-pronged approach that would enable PHAs to leverage more private funds by: (1) including language in the bill that would give explicit guidance to HUD in order to expedite the agency-wide Capital Fund borrowings which have already successfully raised hundreds of millions of dollars, and (2) directing GAO to prepare an analysis of other models that could potentially generate private investments. This way, PHAs could continue to use a model that works and at the same time gauge the interest of lenders and identify any unanticipated requirements and default measures that would jeopardize the continued use of these properties by low-income families.

III. *Elderly Plus* Will Provide Safer, Better-Serviced Buildings, Will Help Seniors Avoid Premature Shifts to Nursing Homes, and Save Medicaid Funds

Public housing is the Federal government's largest program serving low-income elderly and disabled residents. Almost forty percent of public housing units house these vulnerable populations, yet few of our buildings are configured to serve special needs or are staffed with social service professionals experienced in meeting these needs. Given that over two-thirds of these buildings are now over thirty years old, they were not designed to comply with the *Americans With Disabilities Act* and lack other needed amenities, including sprinkler systems, community-dining facilities, space for physical and recreational activities, grab bars and other physical aids. The physical needs of our elderly residents are also changing rapidly as they are living longer with more chronic medical conditions. Public housing presents a great opportunity to be retrofitted for the various forms of assisted living to support the rapidly aging population, which would enable elderly residents to delay the inevitable move to nursing homes. In addition, the provision of appropriate mental health and social services would assist with the management of both elderly and disabled residents at public housing properties and help them maintain an independent lifestyle.

CMHA created the Manor at Riverview in recognition of the need for such a program, and included 69 units of supportive housing and a health clinic as part of a major modernization effort at a large elderly highrise building. Our experience has shown it takes both a huge investment in capital improvements and funding for on-going personal care and health services, as well as social service coordinators. Although the intent of the Manor is to provide the necessary physical and social support services by which our frail senior public housing residents can continue to live independently, it has been a real challenge to make this program affordable for very low-income families and to attract a quality service provider for the limited funding that this program can generate, particularly in a state like Ohio, which has not adopted a Medicare waiver provision.

While H.R. 3995 includes a provision to enable projects funded under the Section 236 program to be converted to assisted-living type facilities, and there is already a program for projects financed under Sections 202, Section 8 and other FHA programs to do the same, there is no similar authorization for public housing. To that end, CLPHA is working with other housing industry groups to gain support for the *Elderly Plus* proposal. This initiative would create a demonstration of $100 million for competitive awards to PHAs, large and small, for innovative conversions of obsolete buildings for the elderly and\or disabled into assisted living facilities and other supportive housing. Awards would be coupled with funds for service coordinators to leverage local services or for congregate care services. Funds could come from a separate appropriation or recaptured Section 8 monies. The *Elderly Plus* proposal has already been introduced in the Senate as S. 1885. I encourage you to include *Elderly Plus* in H.R. 3995, so elderly and disabled persons in public housing have equal access to supportive living environments.

IV. Public Housing Program is Successful, On The Whole, Well Managed, But Needs A Reasonable Assessment System That Establishes and Measures Standards for Performance.

Since 1937, the public housing program has provided shelter to billions of needy Americans who are not served by the private real estate market. Despite unsubstantiated claims to the contrary, the public housing program is, on the whole, effective and well managed by approximately 3,200 local public housing authorities ("PHAs"). In recent years, many PHAs have made great strides in leveraging their resources to improve the quality of the housing they provide, rebuild neighborhoods, and support residents. Housing authorities that misuse funds or do not perform to industry standards should be penalized. However, it has become increasingly difficult for PHAs to demonstrate that they are successfully meeting an appropriate standard given the flaws of the Public Housing Assessment System (PHAS).

Problems with the current system, especially concerning physical inspections, have been well documented by CLPHA and the other industry groups. CMHA, along with many other housing authorities, can provide examples of how some of our best properties have unjustifiably received failing scores. We welcome and support a physical inspection assessment of our properties; however, it has to be done through a fair and credible evaluation system that reflects the true condition of the property for the sake of the residents who live in these buildings, our ability to adequately evaluate management and maintenance staff, and general public perception.

While we support Section 503 to the extent it calls for an entity outside of HUD to develop a prototype assessment system, we do not feel it goes far enough to ensure that clear, measurable standards are part of such a system. This could be accomplished by adding language to create a National Housing Quality Board that would be charged with developing and enforcing standards for public housing authority performance. This group of independent real estate industry professionals would establish standards that could be measured by the prototype assessment system. A similar industry-driven model has been successfully used in the manufactured housing industry and is similar to recommendations set forth by the National Academy of Public Administration (NAPA) in its recent report to Congress. Given the number of privately managed HUD-assisted housing properties that have defaulted in the past several years due to poor management and oversight, such a system might be appropriate for HUD's Section 8 portfolio as well.

V. The Provisions of H.R. 3995 Effecting Section 8 Will Help Improve the Program, However, Additional Flexibility Is Needed To Improve Utilization In Tight Real Estate Markets.

Good management is important to improving the use of the Section 8 voucher program, but it only tells part of the story. While we at CMHA have taken our Section 8 program from troubled to a high performer in just three years and have achieved a 98% utilization rate, many of my colleagues in tight real estate market areas, despite good program management, are having difficulty using vouchers due to a shortage of affordable rental units. We believe that many of the Section 8 program enhancements proposed in H.R. 3995, specifically the provisions to assist hard to house families, simplification of rent calculations, and creation of more incentives in the Section 8 administrative fee, will make the program an even more effective way to assist low income families.

Section 8 could also be better used in most housing markets if PHAs had more flexibility to attach subsidy to specific units through the project-based program. Currently, the law makes this difficult because (1) it limits the number of units receiving subsidy to no more than 25% of a building; (2) the site selection criteria exclude areas with higher poverty rates which prevent the redevelopment of many inner-city neighborhoods that are in need of an investment catalyst and make it difficult to preserve affordable units in rapidly gentrifying areas; and (3) the procedures for procuring developers for these units is overly-complicated. We encourage you to consider adding language to H.R. 3995, which would improve utilization rates by enhancing the ability of PHAs to use the project-based program.

VI. PHAs Should Be Important Players In Any New Affordable Housing Production Programs.

My colleagues and I endorse the efforts to create more affordable housing units targeted at families with extremely low incomes. As this is the population that makes up the largest portion of the PHA waiting list, it is critical that PHAs have easy, direct access to these programs so that families who have waited, in some cases, for years for affordable housing will have first priority. However, without additional resources to fund such a program, it will do little to alleviate the affordable housing crisis. Despite the important role of public housing in serving the neediest families, there is also a statutory bar to the development of incremental or replacement public housing units. A repeal of this provision should be included in H.R. 3995, so PHAs can fully participate in any new development efforts.

Again, I appreciate the opportunity to testify before you today on behalf of CLPHA, and look forward to working with you on legislation to improve public and affordable housing programs for the residents we serve.

Testimony of

Hans Dekker
Executive Vice President
Baton Rouge Area Foundation

H.R. 3995
The Housing Affordability for America Act of 2002

Before the

U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity

April 23, 2002

Testimony of Hans Dekker

Introduction

Good afternoon, Madam Chairwoman and members of the Subcommittee. My name is Hans Dekker and I am the Executive Vice President of the Baton Rouge Area Foundation. The Baton Rouge Area Foundation is the largest community foundation in Louisiana with over $200 million in assets. Last year we granted over $50 million dollars to our area's non-profits. Part of my responsibilities at the Foundation is to direct the Foundation's investment in neighborhood and community revitalization. While I am not a public housing expert, I have worked for the last eight years with the Foundation and prior to that as a program director for the Local Initiatives Support Corporation to revitalize Baton Rouge's most distressed neighborhoods and have seen first hand the need for the significant investments of capital that HOPE VI represents.

Housing Needs

East Baton Rogue parish (county) and many medium-size cities across the nation have real housing needs and as prevalent distressed housing as large cities. Here are some sad facts about housing and neighborhood conditions in East Baton Rouge Parish:

- Over half the census tracts in East Baton Rouge Parish are classified as low and moderate income;
- Almost all of our inner-city census tracts have a declining population;
- The median household income in the five census tracts that make up the immediate neighborhood around the sites targeted in our HOPE VI applications is between $4,900 and $11,000.
- The average net income for residents of the subject units of the East Baton Rouge HOPE VI application is $3,431; twenty-five percent of the land in the immediate neighborhood is vacant and/or abandoned.

This poverty and abandonment translates directly into high levels of crime and disease concentrated in our most distressed neighborhoods[1]:

- For the year 2000, Baton Rouge was ranked 6th in the nation for crime rate;
- The level of violent crimes in Baton Rouge in the year 2000 was twice the national average; and,
- Baton Rouge has the 12th highest AIDS case rate per capita in the nation among major metropolitan areas.

[1] Federal Bureau of Investigation and Centers for Disease Control statistics

Our neighborhood, civic and elected leadership have been working together for years to revitalize our distressed neighborhoods. However, HOPE VI represents the only significant, large source of funding for revitalization. As such, a HOPE VI award could be crucial to our success or failure.

The reforms to the HOPE VI program proposed in HR 3995 are needed and timely. Particularly, I hope Congress will adopt the proposed reforms that would change the program to factor in the size of a proposed project relative to its community and to encourage 'representativeness with regard to agency size and geographic location.' I plan today in testimony to illustrate why these and other changes are needed. I will also highlight areas where the spirit of the changes will need to be followed through in the Department of Housing and Urban Development's (HUD) implementation of the program.

Baton Rouge HOPE VI Experience

The East Baton Rouge Public Housing Authority has applied for a HOPE VI grant in each of the last three years. They have never received a grant award. *These applications were not afterthoughts; they represented a significant commitment of housing authority and community resources.* Each year the housing authority has devoted a significant commitment of its unrestricted resources to its applications. Furthermore, each year they have organized significant community involvement in their application. Last year as a result of the housing authority's application efforts the Baton Rouge community committed over $61 million to match the anticipated HOPE VI grant. These repeated applications have created expectations among the residents of the complexes and neighborhoods that were targeted as well as the civic and governmental leadership in Baton Rouge. Needless to say any applicant would be disappointed if its grant application was not approved. *However, Baton Rouge believes that there are inherent biases against small and medium sized cities and their housing authorities in the current HOPE VI program that have made our past attempts largely futile. Furthermore to apply again without a more level playing field would only continue to create false expectations among our neediest citizens and neighborhoods.*

Although HOPE VI is changing the face of America's public housing, it could be even more effective when unleashed in smaller communities where proportionate numbers of communities and families are in need. One of the key goals of the HOPE VI program is to reduce our nation's stock of distressed public housing units. In fact, in each of the three HUD reviews of East Baton Rouge HOPE VI applications, they were awarded the maximum points for the distressed nature of the units for which they were applying. However, because of a bias in the allocation of funds towards larger public housing sites and by extension large cities, the distressed nature of sites is overwhelmed in the scoring process by the size of the complexes/units.

NOFA Allocation Bias

The 2001 HOPE VI awards exemplify the bias to large cities or public housing sites. Of the $540 million HOPE VI budget, $225 million was set aside for projects (i.e., one site, not one agency) with 300 or more units. These applicants were able to effectively compete in two categories, the set aside, and the remaining $265 million if they were not funded. A smaller applicant like East Baton Rouge with 171 units total between two sites could only compete for the second pool of funds. Furthermore, the competition for this pool is now more competitive because agencies that were not funded from the set-aside are automatically included in the second pool of funds.

The bias manifested itself in the 2001 awards. Only three sites with less than 300 units were funded. The three sites with less than 300 units—Bridgeton, NJ, Hagerstown, MD, and Macon, GA—took just over $57 million or 11 percent of the HOPE VI revitalization money. Large housing authorities made out well, taking the balance of the funds remaining in this second allocation[2]. Six of the 16 grants went to some of the largest cities in the country – Atlanta, Chicago (2), Boston, Philadelphia and Washington, DC. Eleven out of sixteen grants were to areas with a city center population greater than 300,000. These are Atlanta, Philadelphia, Washington, D.C., St. Louis, Phoenix, Boston, Chicago, Seattle, Tampa and Portland. This accounts for 75 percent of the total funds awarded. Furthermore, four of the major city centers are multiple HOPE VI grant recipients. Atlanta has received a total of four grants, Chicago has received eight, Washington, D.C., has received five and Seattle has received four.

Additionally, housing authorities such as the Housing Authority of St. Louis and the Chicago Housing Authority have troubled histories, both recently appearing on HUD's Troubled Housing Authority List. The Troubled Housing Authority designation is reserved for those housing authorities which have demonstrated an inability to maintain properties, manage resources and manage finances. Yet they continue to receive HOPE VI awards.

The bias against small and medium-sized cities has also been a part of the program throughout its history. According to figures compiled by the National Association of Housing and Redevelopment Officials:

> "Of the $4 billion already invested through FY2000 in HOPE VI, nearly half (47 percent) has been awarded to 13 large housing authorities. But small public housing communities are experiencing deterioration as population and jobs shift, crime worsens, and the economic downturn squeezes local resources."

HUD designated Troubled Housing Authorities have also received HOPE VI grants throughout the program. For example, the Housing Authority of New

[2] Data and Analysis from the Housing Research Foundation, Inc.

Orleans, another troubled housing authority, has received two HOPE VI awards while other communities with much better administration and trackrecords have not received any HOPE VI awards. The support for these Troubled Housing Authorities was the initial goal of the HOPE VI program. It is has had predictable results with many of the troubled housing authorities being unable to execute their HOPE VI grants successfully.

While it is understandable that resources be devoted to fortify even troubled large housing authorities, I would urge the committee not to overlook the demonstrated needs of smaller housing authorities and consider broad reforms that directly address the selection biases and the allocation disparity they bring about.

Criteria Bias

Specific criteria in the HOPE VI program are also biased against smaller cities. For example, the "Leveraging Resources" factor – the amount of HOPE VI funds requested as compared to other funds committed in the grant application -- is biased against agencies in small and medium sized cities. All applicants heavily rely on many of the same sources for a significant portion of their leveraging, such as federal funds (HOME, CDBG) that come through the city or a housing authority's own HUD-allocated funds e.g. the capital fund program. But the leverage ratio scoring is based on an actual dollar amount committed and not on a percentage of the allocation of federal funds. By definition, larger cities with larger allocations of federal community development dollars have an ability to provide more absolute dollars. If HOPE VI valued the percentage committed by a local community of its total community development allocations, it would better reflect the level of leverage commitment from the city than the current system. The sources of funds are often from unified sources and can be compared applicant to applicant.

The criteria in the application for community and supportive services (a separate scoring category) count leverage in a similar way and further manifests the bias against small and medium size cities. Again, I hope Congress will consider this bias as it looks toward enacting broad-based reforms.

Unrealistic Leverage Projections Lead to Unequal Distribution

Much of the leverage projections used in grant applications is made up of the sale of yet to be awarded Low Income Housing Tax Credits (LIHTC). In Tennessee for instance, where Nashville has received two HOPE VI awards; Knoxville one; Memphis one (and trying for a second); and Chattanooga one, the LIHTCs to build out their projected deals would consume the entire state allocation for the next six to eight years. Given the extremely competitive demands on tax credits in states it is likely not realistic nor is it good policy to commit that amount of LIHTCs to a State's HOPE VI awards. Yet these commitments are counted as leverage. Other States with multiple HOPE VI's projects are in similar straits. These projections allow states to remain competitive for HOPE VI awards when other States have received either significantly fewer or no awards.

The Capacity Conundrum
One of the areas for which East Baton Rouge's most recent application lost points is the lack of experience and capacity of our housing authority to implement the HOPE VI program. The HOPE VI program in the past has made it a policy decision to provide awards to some of the most troubled public housing authorities in the nation. Our housing authority is not classified as troubled and has acquired high quality assistance in the preparation of its applications by hiring a developer with a verifiable and successful HOPE VI trackrecord. It planned to acquire high quality assistance in the implementation of grant. It has successfully managed large scale – for its size – HUD modernization grants and has obligated funds in a timely and effective manner as required. *Given the predictable difficulties some of the troubled agencies have had in effectively using their HOPE VI awards, would not a HOPE VI investment in well-run housing authorities – who can acquire top flight assistance -- be a smarter way to provide quality housing and neighborhood revitalization?*

Site Design
The impact of site design and lessening the concentration of poverty are criteria that are often difficult for the smaller agency to meet. The large housing authorities have literally 100's of units at one site - e.g. New Orleans or the Portsmouth, Virginia project, where the HOPE VI program demolished 668 units on 40 acres. Large sites offer enough land to redevelop in a cohesive, "New Urbanist" site style that the HUD reviewers favor. In smaller cities and housing authorities, it is difficult to find land where we can show a similar design impact. Typically, with smaller site applications there is a not a larger and contiguous footprint that allows the larger site, larger cities to score higher. Furthermore, additional land is more costly to acquire and develop, than if you have a large public housing site available. However, a scattered site approach can have a very strong impact on a neighborhood as a whole, while equally benefiting the public housing residents.

Consistency in Review and Scoring
As mentioned above the Housing Authority of East Baton Rouge Parish has submitted applications for HOPE VI for the last three years. For the last two years, we have basically had the same team preparing our applications for the same proposed project. The subsequent applications strove to improve on the deficiencies from the prior year submission. Despite this consistency our applications have received substantially different scores year to year in the same categories. If the criteria do not change (as stated in the NOFA and the application) from year to year the housing authority ought to be allowed to come in only to update and improve the areas where it was deficient. For example, in Baton Rouge we lost different points each year on the capacity criteria, even though our answer in 2001 was an amplification of 2000. There were other examples in our applications where HUD made policy decisions at the review table, that changed from year-to-year rather than notifying the applicant how

various criteria would be interpreted. Furthermore the reviewers are not allowed to ask questions to clarify the issues that are simply not understood in the application.

Ability to redress misinterpretations/mistakes in scoring
In previous years, HUD downgraded the East Baton Rouge Housing Authority scores and said that the wrong development cost guidelines were used. This was later proved to be an incorrect statement on their part. However, the points stood as tabulated by the HUD reviewer. It would be appropriate to offer housing authorities an opportunity to address misinterpretations and misconceptions.

Conclusion
The proposed reforms in H.R. 3995 are needed to begin to address allocation disparities in HOPE VI funding. But I would encourage the committee to consider that the problems I have highlighted will not be fully addressed without broader reforms that specifically ensure fairness to small- and medium-sized communities both in the application selection, procedures, and criteria itself and in HUD's commitment that communities of all sizes will be fairly represented in funding assistance.

While poverty is prevalent in all the cities that receive HOPE VI, the current biases are a detriment to some of the most impoverished parts of the country. The South, for instance, typically has the highest poverty rates in the nation, but has smaller numbers of large cities and higher levels of poverty in small-medium sized communities than other parts of the country. Ironically, in some of these small-medium sized communities a better opportunity exists to redevelop a whole neighborhood with a higher overall positive impact on the community -- the smaller size of the community the greater the impact of the projects to the community as a whole. Smaller community size with a relatively high impact HOPE VI project can also work to the benefit of broader goals of reducing poverty and racial segregation. Providing greater opportunities to integrate the entire HOPE VI project within the broad community. In other words, a good HOPE VI project in a small-medium size city is not so apt to get lost within the much larger geographic areas of large cities. It will likely to be more a part of the overall community rather than isolated in an enclave of poverty. And, with that, a greater opportunity for HOPE VI project to yield further redevelopment results as its effect spills over more directly into the adjoining neighborhoods and community as a whole.

NOAAH

National Organization of African Americans in Housing **The Advocate for All People of Color**
www.noaah.org

Testimony of Kevin E. Marchman, Executive Director of the National Organization of African Americans in Housing (NOAAH), before the House Committee on Financial Services, Subcommittee on Housing and Community Opportunity hearing on H.R. 3995, Tuesday, April 23, 2128 Rayburn HOB, 2 p.m.

Chairwoman Roukema, Representative Frank and other members of this subcommittee, my name is Kevin Marchman, and I am Executive Director of the National Organization of African Americans in Housing, NOAAH. Thank you for this opportunity to comment on the Housing Affordability for America Act of 2002.

Like you, NOAAH is a champion of affordable housing opportunities for all people, especially people of color. NOAAH's membership is a unique combination of public housing agencies, including executive staff and board members; housing professionals, consultants and contractors; industry trade groups; neighborhood and resident groups; residents of affordable housing; students and other advocates. Indeed as a former public housing resident, public housing executive director and HUD Assistant Secretary, I have the privilege of leading an organization that has the diversity and experience to look at issues, programs and legislative initiatives from many perspectives.

And while the committee is interested in NOAAH's views on certain public housing issues relative to this bill, I would like the members to be aware that NOAAH's advocacy extends beyond simply those issues highlighted today and includes initiatives and programs targeting environmental and health issues (specifically, lead, mold and pests); expanded homeownership for minorities; economic development for the low-income; fair housing, especially increased penalties for predatory lending; the aggressive disposition of the FHA portfolio; HOME program expansion and a number of others on behalf of our diverse membership. And while our members often find themselves on competing sides of the same issues, all are committed to expanded opportunities for African Americans and other disenfranchised minorities. With that, again thank you for this opportunity to offer some thoughts on several public housing programs and policies in HR 3995.

Public Housing

- **Leveraging of Public Funds:** This proposal will allow housing authorities mixed use of private and public financing to rehabilitate and modernize public housing developments. Given the well-documented need for modernization of the public housing stock, we believe this additional tool is quite necessary. While it does and should not replace federal funding, this proposal provides public housing authorities with much-needed financial flexibility to tackle many serious problems, including those related to health and safety.

- **Waiver of Resident Commissioner Requirement**: NOAAH supports this proposed waiver. While we know not all state enabling legislation includes the ability to have residents on boards, and in some instances, may even exclude residents, by all accounts (Congress, HUD, and recently the Supreme Court), I think there is no better accountability than to have residents in roles and on boards to help design the rules, policies and programs that directly impact their lives. We would hate to see PHAs spend time coming up with reasons why they can't or won't have residents in responsible policy-making positions, including and especially on their boards.

- **Public Service Requirement**: Quite frankly this requirement is unfair, unworkable and unneeded. At the time of its introduction, it was considered a trade-off for subsidized rents--as sort of a payback for participation. Although well-intentioned, this requirement obscures the more legitimate and real goal of getting folks into jobs and training and into meaningful work or enterprises. Residents who want to volunteer on behalf of the development or neighborhood have always been able to and historically they have. There has never been a shortage of volunteering by public housing residents before this requirement and there is not now. The limited resources of public housing agencies should be spent on providing quality housing and opportunities for self-sufficiency.

- **Suspension of filing requirement for small Public Housing Authorities for three years:** Good idea, but small agencies should be defined as those that administer 250 or fewer public housing dwellings. Any new reporting requirements should not diminish, at the very least, resident input and participation; reporting items should reflect the direction and financial strength of the agency. Smaller agencies are currently spending precious funds and time on reporting to HUD unnecessary details, which HUD does not have the ability to meaningfully review them in any case.

- **Third-party public housing assessment system:** This feature gives authority to HUD to develop a prototype of an alternative evaluation system that assesses the overall performance of a public housing agency. We feel this is one of the most positive aspects of this bill. NOAAH and many of our members are working closely with HUD and others on an assessment tool that adjusts for differences in size, resources, infrastructure and stock among the nation's public housing developments.

- **Reauthorization of HOPE VI:** The HOPE VI program is a success. In the overwhelming cases in which the HOPE VI program has been implemented, there has been an increase in not only the quality of the housing stock but also the ability to engage the entire community in the revitalization process. Certainly not perfect, this program has provided the opportunity to create mixed-income communities that are revitalizing and transforming public housing. NOAAH is currently surveying its public housing agency membership regarding best practices and suggested programmatic and procedural changes to suggest to HUD and Congress for improving this much-needed and innovative program.

- **Section 8 Housing Vouchers:** NOAAH is also surveying its membership regarding Section 8 vouchers regarding concerns over recaptured funds, fair market rent ratios, increasing the value of certificates, the uneven use of certificates, lessons learned and best practices. I will be certain to share our findings with the Committee as soon as they are available.

- **Elderly and Disabled:** NOAAH joins other industry groups and leaders in support of programs and policies that will assist public housing agencies in converting their properties to assisted living facilities, and supports CLPHA's Elderly Plus proposal. It would give public housing the same opportunities accorded Sections 8 and 236 to convert units to assisted living facilities for the elderly and disabled.

- **Reauthorization of Native American Housing and Self-Determination Act of 1996:** We fully support this program. Affordable housing in Indian country ranks among the most needed in the nation. Period. NAHASDA was a breakthrough piece of legislation that deserves reauthorization.

As stated earlier, NOAAH is the housing advocate for ***all*** people of color; our members are assisting NOAAH staff with identifying, creating and implementing programs to increase the affordable housing stock nationwide and in Puerto Rico. We know that federal funding priorities have changed dramatically since September 11, but our concern continues to be the low- and moderate-income families (disproportionately African-American and Hispanic) who bear the brunt of competing and changing priorities. NOAAH supports the need for increased funds to assist housing agencies to meet the security needs of their own developments. And it goes without saying, NOAAH would ask Congress to restore the Drug Elimination Program, especially critical to the services and programs that agencies have been able to provide for at-risk youths and adults.

NOAAH membership is constantly documenting best practices, designing initiatives using technology to improve the quality of life, and identifying opportunities—public and private—for expanding the availability of the affordable housing stock and improving the quality of life for the low and moderate income.

Thank you.

Everywhere and Now Public Housing Residents Organizing Nationally Together (ENPHRONT)

Testimony by Joan Walker Frasier (on behalf of Ed Williams, President)
on
House Resolution 3995 – the Housing Affordability for America Act of 2002

U.S. House Subcommittee on Housing and Community Opportunity

April 23, 2002

Goodafternoon: My name is Joan Walker Frasier. I'm a resident of public housing in Atlantic City, New Jersey and also a state delegate for the national organization of public housing residents, ENPHRONT. I'm testifying this afternoon on behalf of Ed Williams, President of the organization.

ENPHRONT has several concerns about House Resolution 3995. In general, these concerns pertain to provisions of the bill that, if enacted into law, would weaken residents' role in shaping local housing agency policy. They include a provision in the bill relating to residents serving on housing agency governing boards as well as a provision that would exempt small Public Housing Agencies from the annual plan requirement. We also have ideas to share regarding HUD's HOPE VI program and the recently suspended 8-hour Community Service requirement, enacted as part of the Quality Housing and Work Responsibility Act of 1998.

Residents on PHA Governing Boards

ENPHRONT believes that the basis for well-run public housing is not only sound brick and mortar, but also deep, sustained and meaningful participation by residents in all aspects of a housing agency's operations.

To this end, ENPHRONT strongly opposes the provision in HR 3995 that would waive the requirement that PHAs appoint persons assisted by the agency to their governing boards if, upon demonstrating best efforts to do so, they fail to comply. When the Resident Commissioner mandate was enacted in 1998, residents, nationwide, celebrated. The requirement marked a fundamental shift from the federal government's earlier policy of simply encouraging housing agencies to appoint assisted persons to their governing boards. The requirement was also thought to be a necessity, given the fact that the nation's 3,200 housing agencies had been deregulated through the same Public Housing Reform Act that ushered it into being.

In recent years, as the number of residents serving on PHA governing boards has soared, ENPHRONT has observed, firsthand, the significant value of Resident Commissioners. Resident Commissioners have often helped to build trust between PHA administrators and residents in environments once mired by bias and conflict. Resident Commissioners have also injected into housing agency policy valuable insight that can only come from a life thoroughly accented by the public housing or voucher holder experience. Resident Commissioners have helped housing agencies to run better. They have helped to make public housing more than just about property. They have made public housing about people as well.

That HR 3995 would now seek to waive the Resident Commissioner requirement in some circumstances is wrong and unnecessary. Housing agencies have already been granted significant regulatory relief from the requirement. First, under current law, housing agencies can be exempted from the requirement if they, first, satisfy a few basic conditions. Second, when HUD first released its proposed rule on PHA organization in June of 1999, the draft rule required that PHAs appoint to their governing boards persons assisted by their agencies, and to do so within a set time frame. Housing agencies and others immediately railed against the implementation schedule of the requirement, citing the complexity of navigating local political environments as the reason for not being able to appoint Resident Commissioners within a set timeframe. In response, HUD later promulgated a final rule allowing housing agencies to appoint resident commissioners "as soon as possible." Though the mandate remained intact, it allowed the nation's housing agencies to move at different speeds in complying with the requirement. It's been over 3 years since the enactment of the law on Resident Commissioners. ENPHRONT believes that, by now, the majority of the nation's housing agencies should have done all necessary to make residents serving on governing boards a reality.

Public Housing Agency Plans

ENPHRONT also opposes the provision in HR 3995 that would exempt small Public Housing Agencies from having to submit annual plans for the next 3 Fiscal Years.

As you know, the annual plan requirement, like the Resident Commissioner requirement, came into being with the enactment of the Quality Housing and Work Responsibility Act of 1998 (also known as QHWRA). When Congress, through QHWRA, substantially deregulated the nation's public housing agencies, it envisioned the annual and 5-year planning process to be a vehicle for holding local housing agencies accountable to the federal government and local communities. It also envisioned housing agency plans and their supporting documents to be a library of information from which residents and the general public would learn about the mechanics of how their public housing agency functioned.

Though residents and advocates throughout the country did rally against many of the harsher elements of deregulation contained in QHWRA, we supported elements of the statute that provided enhanced avenues for residents to participate in shaping the mission and policies of local housing agencies. Such elements included the provisions on Resident Commissioners and PHA Plans. With deregulation, public housing residents were concerned, yes, but with these enhanced resident participation requirements, we were, at the same time, hopeful, that we could stand shoulder to shoulder with housing authorities in a shifting regulatory environment. HR 3995 threatens to dash these hopes. If the provision of the bill on PHA plans were enacted into law, residents would have no comprehensive avenue for shaping PHA policy.

Our concerns on this matter are substantiated by research conducted by ENPHRONT, in collaboration with the Center for Community Change, a national not-for-profit organization. In a research report tilted *Not Part of the Plan*, we explore the extent to which 10 housing agencies involved residents in the PHA Plan process during the first year that Agency Plans were required. Among the findings was that PHAs failed to comply with even the basic of requirements, such as making copies of the agency's most recently approved operating budget available for public inspection. It's our sense that this act of non-compliance with federal law stems not from a heavy regulatory burden, but, instead, from a resistance to changing the culture of how residents and PHAs relate.

In large part, ENPHRONT questions the need for a waiver provision. Under current law, the HUD Secretary already has the power to streamline the planning process for small PHAs. Why eclipse this provision and the thinking behind it with a 3-year waiver provision?

Indeed, ENPHRONT does oppose the waiving of the annual plan requirement for small PHAs. But on the other hand, we would be willing to discuss ideas for further simplifying the process. In discussing these ideas, it is imperative that talks not result in the stripping away or watering down of the core resident participation handles currently in place. These handles include the Resident Commissioner mandate and the requirement that housing agencies establish and provide support for Resident Advisory Boards (RABs).

We also believe that there are ways that both small and large housing agencies can beef up resident participation activities without relying heavily on the annual plan process. The vehicle for this would be an aggressive implementation by housing authorities of the activities required under HUD's regulation on Resident Participation, also known as 964. The 964 regulation, promulgated in 1994, requires residents to be involved in all aspects of setting a housing agency's mission and operations. It requires housing agencies to provide residents and resident council leaders with training on agency budgets and capital programs. It also requires that PHAs meet with residents routinely to discuss problems and ideas. Finally, 964 states that housing agencies must provide residents and resident council leaders access to important documents. If PHAs were to meaningfully engage in these activities and others required under 964 all year around, there would probably not be a need to try to force all of the resident participation tools into the PHA plan toolbox. However, there exist two barriers to making 964 work. One is that many housing authorities do not comply with the regulation. Two is that HUD, to date, has not promulgated a new 964 regulation to reflect the changes to resident participation rules brought about by the Quality Housing and Work Responsibility Act of 1998. One way that this committee can help increase and expand resident participation in policy setting is by urging HUD to quickly engage in a rulemaking process to revise and finalize the current 964 rule.

HOPE VI

HR 3995 proposes to expand the number and type of housing agencies able to receive HOPE VI funding by basing the scale of redevelopment work eligible for assistance on the size of the housing agency.

ENPHRONT supports a public housing revitalization program that reaches everywhere it is needed. However, even with this modification to program, we do not support HOPE VI in its current form. For a number of reasons, the organization believes that HOPE VI has hurt more than it has helped low-income residents living in public housing.

One of our primary concerns about the HOPE VI program is the lack of comprehensive and objective information revealing how the program is performing. HUD has published glossy covered publications full of pictures that examine select HOPE VI sites and select elements of HOPE VI within those sites. However, the public has yet to see any broad data on how the program is truly operating.

Of the information that has been revealed, an analysis of this information reveals very disturbing findings. One such finding is that HOPE VI has resulted in a net loss in the nation's public housing stock at a time when every single unit of public housing is needed. An analysis of figures released by HUD in 1999 show that HUD was approving plans that involved demolishing roughly 11,000 units of public housing each year. Out of these 11,000 units demolished annually, only 5,000 were being replaced each year with public housing units. Meanwhile, with thousands of units being lost each year, millions of families linger on housing agency waiting lists trying to get into public housing.

Just as disturbing, if not more, as the issue of losing valuable public housing units, are the startling figures which reveal that very few original residents of HOPE VI sites actually return to the new, revitalized communities. It is estimated that roughly 9,000 of the 11,000 units demolished each year under HOPE VI are occupied at the time that the planning for revitalization gets underway locally. Figures released by HUD in the spring of 2000 reveal that only an average of 2,000 of the 9,000 households nationwide move back into the revitalized communities. When you do the math, the end result is that roughly 7,000 households each year do not have an opportunity to return to new HOPE VI communities. ENPHRONT's contention with these figures is that HOPE VI was supposed to be about repairing broken properties and the broken lives of people living in distressed properties. However, HUD's figures reveal that HOPE VI is not benefiting those who it was truly intended to benefit. Roughly 7,000 households each year are being moved into other public housing communities, given voucher assistance or, in some cases, their whereabouts are unknown. This is a tragedy and outcome not envisioned by the National Commission on Severely Distressed Public Housing, the Congressionally-mandated body whose recommendations eventually led to the creation of HOPE VI.

Among our other concerns about HOPE VI is the fact that, in many cases, residents of affected sites are not meaningfully involved in the process of shaping the application for and implementation of HOPE VI grants. HUD recommends to housing agencies that they involve residents in the process of shaping a HOPE VI application at least one year prior to the time they apply for funding. It's been our finding, however, that housing agencies often consult with residents a few months prior to submitting an application.

The other concern is that HOPE VI feeds the problem – distressed public housing – it claims to want to get rid of. Since 1993, annual appropriations for HOPE VI have been made at the expense of providing needed increases in the public housing capital fund budget. This has occurred despite the backlog of capital needs accumulated by housing agencies. Recent estimates say that this backlog totals roughly $20 billion.

Finally, we are concerned that HOPE VI funds are being trained on projects that are not necessarily physically or socially distressed. For this reason, we believe that any reauthorization of the HOPE VI program must seek to refocus and keep focused the goals of the program on severely distressed public housing.

There are many recommendations that ENPHRONT has regarding HOPE VI. Of them all, one of the more significant and immediate ones is that we urge Congress to hold hearings on the program in order to compel HUD to explain the full impact of HOPE VI. The hearings would also allow residents, whose lives have been fundamentally changed by HOPE VI, to tell you their stories, heart to heart, face to face.

Community Service

ENPHRONT opposes the 8-hour Community Service requirement enacted under QHWRA. We view the requirement as unjust and discriminatory against low-income persons who receive federal housing assistance. The federal government provides mortgage tax deductions and other types of housing aid to higher income families. However, these families are not required to perform community service or anything similar to it in exchange for their housing assistance.

ENPHRONT believes that if unemployed, able-bodied adults living in public housing are going to invest time in any structured activity, the activity should be a training program that will prepare them for employment. PHAs have the perfect opportunity to develop such a program utilizing Section 3 of the 1968 Housing and Community Development Act. Section 3 requires housing agencies and other recipients of federal dollars for housing and community development assistance to do all they can to create employment and training opportunities for low-income people. Though the mandate has been on the regulatory books for over 3 decades, the success of the program has been, at best, spotty.

We urge Congress and this committee to work with HUD to develop a stronger rule on Section 3, particularly around monitoring and enforcement. We believe that such an action is necessary in order for residents to secure the resources necessary to attempt to climb the housing ladder into homeownership and family self-sufficiency.

On behalf of ENPHRONT, I thank you for the opportunity to testify before the committee and look forward to working with you in the very near future.

Testimony of Telissa Dowling
President, Resident Advisory Board
New Jersey Department of Community Affairs
On Behalf of the National Low Income Housing Coalition

U.S. House of Representatives, Committee on Financial Services
Subcommittee on Housing and Community Opportunity
April 24, 2002

Chairwoman Roukema and Members of the Subcommittee, I am honored to be here today to testify about H.R. 3995, the Housing Affordability for America Act of 2002. My name is Telissa Dowling and I am President of the Resident Advisory Board of the New Jersey Department of Community Affairs (NJDCA). NJDCA administers 19,000 vouchers throughout the State of New Jersey. The NJDCA Resident Advisory Board (NJDCA-RAB) represents the interests of these voucher holders with NJDCA. I have used a voucher to help pay my rent since 1996, I have been a member of the NJDCA-RAB since 1999, and I have been NJDCA-RAB President since 2001.

I am testifying here today on behalf of the National Low Income Housing Coalition. I am a member of the Coalition's board of directors and I am representing its members nationwide who share the goal of ending the affordable housing crisis. My fellow members of the Coalition include non-profit housing providers, homeless service providers, fair housing organizations, state and local housing coalitions, public housing agencies, housing researchers, private property owners and developers, state and local government agencies, faith-based organizations, residents of public and assisted housing, and other people concerned about low income housing.

We recognize that the intent of H.R. 3995 is to expand both rental and homeownership opportunities, as well as to make existing programs work better. We applaud the fact that Chairwoman Roukema and the Subcommittee have devoted significant time, last year and this year, to having hearings about the affordable housing crisis. H.R. 3995 covers a lot of ground and it is to be expected that there will be some disagreements about whether the policy changes it proposes are the best ways to accomplish the goals that we all share – to make sure that everyone in this country has a decent, safe and affordable place to live.

Housing Need

As the Subcommittee knows, housing affordability and availability are serious problems. According to HUD, 3.8 million unassisted, extremely low income families faced worst case housing needs in 1999.[1] These families, with incomes less than 30% of area median income (AMI), spent more that half of their income on rent or lived in substandard housing. These families are forced to pay too much or live in poor quality housing because there are two million fewer affordable units than there are extremely low income families, while a substantial proportion of the units that are affordable to extremely low income people are occupied by families in higher income ranges.[2]

Our annual study of housing affordability, *Out of Reach*, also describes the gap between what people earn and the cost of housing. There is no place in this country – no county, metropolitan area, New England town – where a person earning the minimum wage can afford the Fair Market Rent (FMR) on a two-bedroom apartment. In my home state of New Jersey, you would need to have three and a half minimum wage jobs to the pay the rent on that modest two-bedroom apartment.

[1] U.S. Department of Housing and Urban Development Office of Policy Development and Research, A Report on Worst Case Housing Needs in 1999: New Opportunities Amid Continuing Challenges, January 2001.
[2] Cushing N. Dolbeare, Low Income Housing Profile, 2001.

Vouchers

Vouchers do help close that affordability gap, by paying rents that would be unaffordable otherwise. Today, 1.5 million low income families are served by vouchers.[3] Choice and mobility are important attributes of vouchers, as tenants can choose where to use their vouchers, and can take the vouchers with them if they move. Such mobility gives families with vouchers the ability to move to neighborhoods where there is less poverty and where they may find improved economic and education opportunities for themselves and their children.

But in a lot of places, people with vouchers are having a great deal of trouble finding a place to live. A study that HUD recently released discovered that the voucher success rate – the percentage of people who received a voucher who actually found a place to live – has gone down since 1993. The national success rate for vouchers was 69% in 2000 for large metropolitan public housing agencies (PHAs). This means that 31% of all families issued vouchers were not able to use those vouchers. The 1993 success rate was 81%. Imagine spending all of those years on the PHA's waiting list only to get a voucher that you cannot even use.[4] This problem with success rates turns cruel in the life of an individual family hoping for a real housing opportunity.

I know of families that have had a great deal of trouble finding housing where they could use their vouchers. They ended up moving far away from their workplaces, effectively needing to pick between housing and jobs and hurting their efforts to improve their economic situations in the long term. That is a horrible choice to have to make.

[3] Meryl Finkel and Larry Burton (Abt Associates, Inc.), U.S. Department of Housing and Urban Development, Study of Section 8 Voucher Success Rates: Volume I, Quantitative Study of Success Rates in Metropolitan Areas (2001), available at http://huduser.org/publications/pubasst/sec8success.html.
[4] According to a summary of a 1999 HUD report, Waiting in Vain: An Update on America's Rental Housing Crisis, waiting lists were as long as 10 years in Los Angeles and Newark, eight years in New York City, six years in Oakland, and five years in Washington, D.C., Cleveland and Chicago. U.S. Dep't of Housing and Urban Dev't, Waiting Lists Grow While Affordable Housing Shrinks, Recent Research Reports, May, 1999, available at http://www.huduser.org/periodicals/rrr/rrr5_99art1.html.

Voucher Success

We know that there are some parts of H.R. 3995 that are intended to improve voucher success. The bill allows public housing agencies (PHAs) to use 5% of their funds for improving voucher success, such as housing counseling, downpayment assistance for Section 8 homeownership and rental security deposits. While we think giving PHAs the right to use their funds for these kinds of activities is a good idea, it should be limited to PHAs with success rates of 85% or less or with a geographic concentration of voucher holders, so that there is a connection between this special use of the funds and the need.

In addition, the percentage of funds that PHAs can use should be 2% rather than 5%, since the underlying goal is that PHAs use their funds for actual vouchers rather than voucher success activities. If PHAs take advantage of the new policy, they should have to report in their PHA Plans that they are doing so and what kinds of activities they are implementing to improve voucher success. PHAs should not be allowed to reduce the amount of administrative fees being used for voucher program administration to take advantage of this new policy. We also think that the use should not include downpayment assistance, as there are resources already available for downpayment assistance. With limited guidelines established by the legislation in terms of use, PHAs could chose to use the entire five percent on downpayment assistance, even though the underlying problem is low voucher success for rentals. Finally, PHAs should also be allowed to use reserves for the same voucher success purposes when they have low success rates and are not leasing all of their vouchers, but are utilizing all of their budgeted funds. This could happen, for instance, if a PHA has increased the payment standard by a great deal.

Raising the tenant's portion of the rent to 40% of gross income rather than 40% of adjusted income may make more apartments accessible to voucher holders. But the problem is that making more places available for voucher holders to rent comes only at the tenant's expense – the tenant can pay more of an already small income on rent. Why should tenants shoulder the burden of improving voucher success?

For the past year, National Low Income Housing Coalition has been advocating for several other changes to the voucher program that easily could improve voucher success. One important change we recommend would be to allow PHAs more flexibility to increase their payment standards. HUD's 2000 study determined that 39% of voucher holders were unsuccessful in tight rental markets and that successful voucher holders needed 93 days on average to find a unit in tight markets.[5] If rents tend to be higher in tighter markets, then PHAs would need more flexibility to increase what they pay – the payment standard – to make vouchers work.

Right now, PHAs only have the authority to bring their payment standard up to 110% of FMR without HUD approval. PHAs should be able to go up to 120% of FMR without going to HUD. Certain conditions could be put on that authority, such as allowing the increase only if the PHA has already tried 110% of FMR and still has a low voucher success rate; has to give voucher holders extensions in their search times for a place to live; or there is a concentration of voucher holders in high poverty areas.

HUD could also be required to approve requests for exception payment standards in areas where more than 40% of voucher holders are paying more than 30% of their income for rent and utilities. In such areas, it is clear that market pressures are making vouchers difficult to use and are causing too many tenants to pay too much in rent. An increased payment standard in those cases would lower the rent burden on tenants and increase voucher success.

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[5] Finkel and Burton.

We also believe that communities' consolidated plans need to describe the barriers to better voucher utilization and strategies for overcoming those barriers. The proximity between a community's job opportunities and housing opportunities for people receiving welfare assistance would be included in the plan. The community's development of its housing strategies would require consultation between welfare and housing agencies.

Owners of properties developed with funds from the Low Income Housing Tax Credit or HOME, regardless of location, are not allowed to discriminate against tenants because their source of income. But what good is this policy if voucher holders do not know where these properties are located? The HUD Secretary should be required to provide PHAs with an updated list of these properties in the area on an ongoing basis. The PHAs, in turn, should provide the list to families receiving vouchers.

PHAs should also have the authority to increase the payment standard for properties in lower poverty areas that were developed with federal resources through the Low Income Housing Tax Credit or the HOME program. It makes no sense that properties developed with federal resources with the goal of providing low income housing should be inaccessible to people holding a federal rent subsidy intended to give them mobility and choices.

Units rented by voucher holders must meet the federal Housing Quality Standard, but voucher holders may lose the chance to rent units while waiting for the PHA's inspection to give the green light for the unit. While it is important that federal resources are spent on housing that meets a standard of habitability, the requirements regarding the timing of that inspection can be changed to make sure that a housing opportunity is not lost to the voucher holder. There should be increased flexibility so that a building owner can begin receiving payment for the unit prior to an inspection if the PHA has recently inspected the building and a reasonable number of units without finding major problems. The PHA could inspect the unit within 30 days and the owner would have to agree to make repairs within 30 days after the inspection.

Greater Economic Well-Being

Inadequate, unstable housing makes it hard to achieve stable work for parents and stable schooling for children. The eligibility for programs that provide services to HUD tenants with the goal of improving their economic well-being could be expanded. HUD's Family Self-Sufficiency (FSS) program provides subsidized savings and case management for public housing and voucher tenants seeking better employment opportunities, while the Resident Opportunities and Self-Sufficiency (ROSS) program is a funding competition that provides grants to PHAs, tribal authorities and tenant groups for projects that would help tenants improve their economic situation. Voucher holders should be allowed to participate in the ROSS program. Currently, the program is limited to public housing tenants.

Under FSS, tenants participate in case management with the goal of achieving better employment. As the participants' earnings rise, PHAs take the value of the reduction in the PHAs' portion of the tenants' rent – which is reduced because the tenants can cover more of the rent themselves -- and put it into escrow accounts for the tenants. The funds in the accounts are available after five years to participants who successfully complete the program. But all PHAs are limited by law to one full-time service coordinator for the FSS program, regardless of the size of the program; the law should allow for the more than one coordinator, if the funds were available.

Project-based Section 8 tenants, who live in privately-owned, publicly subsidized properties, cannot participate in the FSS program currently. FSS should be extended to project-based tenants. The program could be administered by the owners of the project-based property, if they choose, or interested project-based tenants whose landlords do not set up the FSS program at the building could participate in the local PHAs' programs.

Enhanced Voucher Policies

The National Low Income Housing Coalition has had an ongoing concern about the displacement of tenants as the result of the termination of project-based housing assistance, either through the prepayment of a HUD-subsidized mortgage or an opt-out from a Section 8 contract, or both. Tenants whose buildings convert from project-based to tenant-based assistance are entitled to "enhanced vouchers." These vouchers have a payment standard that will cover a new and higher rent at the property following the conversion, as long as the PHA finds the new rent reasonable.

The point of providing enhanced vouchers is to prevent displacement, but not all property owners appreciate that tenants have the right to remain in their units following the conversion. While H.R. 3995 has a provision regarding tenants' right to use their enhanced vouchers, we believe that the legislative language could be simpler and more direct about the right of tenants receiving enhanced vouchers to stay in the building.

PHAs can also cause displacement when they insist on re-screening enhanced voucher tenants for eligibility for tenant-based assistance, even though the tenants were presumably suitably eligible for assistance as project-based tenants and the opportunity for re-screening is available only because of the conversion. We are very pleased that H.R. 3995 prohibits this rescreening.

In addition, enhanced voucher tenants – often elderly – may find themselves "over-housed" when the housing converts from project-based to tenant-based assistance, in a unit that was once the right size but is no longer because family members have moved away or died. If there is unit in the property that is the right size, an over-housed tenant must make a good faith effort to find a unit elsewhere. A tenant who cannot find a unit elsewhere may stay in the existing unit for a year and pay rent as if on an appropriately sized unit.

But after a year, the tenant's portion of the rent will increase to reflect the larger unit and the tenant may need to move from the property and will receive a voucher at the PHA's regular payment standard, rather than an enhanced voucher. We think that over-housed tenants should not be forced to move until an appropriately sized unit becomes available at the property in which they are living, especially as these tenants are likely to be older and more frail than tenants who do not find themselves in this predicament.

H.R. 3995 changes the way over-housed tenants are treated, but we do not think that the protections that are provided are enough and seem to apply more broadly to regular voucher tenants rather than to tenants receiving enhanced vouchers. We think that a tenant in a unit that is too big when the assistance converts from project-based to enhanced vouchers should not have to move until there is a right-size unit on the property and that the tenant's portion of the rent should not go up.

Public Housing

We are concerned that changes proposed in H.R. 3995 relating to PHAs will stifle essential opportunities for tenant participation and input. People receiving assistance from PHAs and their advocates worked hard for these opportunities to become law only four years ago, with the enactment of the Quality Housing and Work Responsibility Act of 1998 (QHWRA). Under QHWRA, PHAs received "the maximum amount of responsibility and flexibility in program administration" but in exchange, PHAs owed "appropriate accountability to public housing residents, localities, and the general public."[6] H.R. 3995 would undermine the trade-off in QHWRA and reduce PHAs' accountability to their constituents – the residents they serve and the communities in which they are located.

We stand firmly against the proposed waiver of the resident commissioner requirement. Exceptions already exist to the requirement for PHAs with fewer than 250 units or where commissioners are salaried and serve on a full-time basis or where the PHA has provided notice to the RAB about the opportunity for a resident commissioner and has received no response in a reasonable amount of time.[7] We do not feel that the Secretary should have waiver authority for this requirement.

We also oppose the three-year suspension proposed by the bill for the filing of PHA Plans by small public housing agencies, meaning those PHAs with less than 100 units. The PHA planning process is the primary opportunity for residents of public housing and voucher holders, through their resident advisory board, to have meaningful input into the PHA planning process. By legislation and regulation, PHA Plans must address topics relating to PHAs' operations, including needs, resources, admissions, rent determination, operation and management demolition and disposition, and others.

Whether required formally or informally, we can guess that, over the course of three years, PHAs may need to consider and make policy changes relating to some of these topics. But without the planning process, PHAs will be under no obligation to include tenants in their decisions. Tenants and their advocates pushed for a PHA Plan format that would provide guidelines to PHAs for issues they should consider in developing goals, policies and strategies

[6] Quality Housing and Work Responsibility Act of 1998, 42 U.S.C.§ 1437(a)(1)(c)) (1998).
[7] Id., 42 U.S.C. § 1437(b)(2) (1998).

and we cannot think of any reason to suspend the plan or replace it as the vehicle for tenant input.

In addition, depending how the term small public housing agency is interpreted, the three-year suspension could include PHAs with few or no public housing units but significant numbers of vouchers. For example, my voucher administrator, NJDCA, administers approximately 19,000 vouchers but has no public housing units. NJDCA receives substantial federal resources but may be exempted from the plan. Even if it turns out that those PHAs with only vouchers do not fall under the suspension, there are PHAs around the country with fewer than 100 public housing dwelling units but many more vouchers.

In my own experience as a voucher tenant and as president of the NJDCA-RAB, the required planning process has made the administrators who had been out touch with tenants' issues take tenants into account. Administrators had been making changes without understanding the effects on tenants. But the PHA planning process requires PHAs to consider tenants and their needs.

As for the third-party public housing assessment system, the National Low Income Housing Coalition appreciates that innovation requires testing new models and methods. We believe that the testing and implementation of any assessment system should be transparent to tenants and community members, so that their input, as required by H.R. 3995, is based on complete information. As we have already made clear, we also believe that any assessment system implemented should include the input of tenants regarding management and housing quality. We also believe that voucher holders should be involved in the consultation on the development of the assessment system and should have input into the assessment process itself regarding PHA management. Their role is not mentioned in this regard in H.R. 3995.

Along the same lines, new models and methods should receive testing and public input. The development-based subsidies would be something new but would provide a justification for reducing capital funding to public housing agencies. Pulling in private resources for public housing through the project-basing of units may seem particularly appealing in a challenging federal budget climate. The proposal seems to dovetail with the Administration's budget request, which suggests that a program of this sort could make up for a $417 million cut[8] to the Public Housing Capital Fund.

We have several serious misgivings about the proposal put forward in H.R. 3995 and its reason for being. First, we do not think that an untested concept for private financing will be able to immediately make up a significant budget gap in an already under-funded program area. If the Administration's requested cut were enacted, then PHAs would find themselves short of funds starting on October 1, 2002. It is unrealistic to think that this new financing model will be sufficiently well established to fill that gap so quickly. PHAs and lenders would need to become comfortable enough with the concept to try it and the nuts and bolts would need to be developed quickly, leaving it even less likely that communities and tenants would have an opportunity for input into implementation.

We are very concerned about the loss of actual units through this program. It seems ironic that H.R. 3995 provides for the production of units on the one hand and the loss of units on the other hand. The proposal would allow one third or more of units that have been project-based to secure additional financing to later serve unassisted tenants if those units become vacant. The PHA would need to provide additional tenant-based assistance in lieu of the lost project-based units. But, as H.R. 3995 recognizes, there are some communities where tenant-based assistance

[8] The reduction in unrestricted resources is actually $441 million, due to increased set-asides.

is difficult to use, making this trade-off between project-based and tenant-based assistance even more problematic.

The development-based subsidies would also allow the HUD Secretary to terminate the use restrictions on any property where there is a foreclosure, unless there is a purchaser available that would continue the use restrictions or the foreclosure was intended specifically to achieve the termination of the use restrictions. We assume that H.R. 3995 includes this provision because without it, lenders might not feel comfortable enough about their ability to be made whole through foreclosure. But we think that this provision makes the price of putting development-based subsidies into effect – the loss of real units – too high overall. Depending on the timing of the foreclosure and whether a preservation purchaser knew in advance of the possibility of a purchase, the time required to complete a preservation transaction could make the right of first refusal meaningless.

We also have concerns about the HUD Secretary's right, under H.R. 3995, to waive any provision of law or regulation that the Secretary believes to be inconsistent with the purposes of the development-based subsidies. This provision is problematic because it gives the Secretary the authority to override the stated will of the legislative and executive branches.

QHWARA imposed community service requirements on adult residents of public housing[9]. These requirements were discontinued for the 2002 fiscal year through the appropriations process,[10] except for HOPE VI projects, but remain on the books. We object to this requirement and support its elimination, as proposed by Representative Charles Rangel in H.R. 2493.

[9] Quality Housing and Work Responsibility Act of 1998, 42 U.S.C.§ 1437j(c) (1998).
[10] Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act for 2002, P.L 107-73 § 432 (2001).

Many people receive various benefits from the federal government and are not required to perform community service in exchange for those benefits. And public housing tenants live where they live because the challenges of the private market for jobs and affordable housing make other housing inaccessible to them. They should not be forced to work for free just because they could not afford to live somewhere else. The government has made a commitment – while inadequate – to provide housing to people who could not afford it otherwise, just as the government has made a commitment to homeownership through the tax breaks homeowners receive. But homeowners are not required to do community service in exchange for their deduction.

We think that one goal of public housing is to provide people who cannot afford housing on the private market with a stable, affordable place to live, so that those residents will have the foundation to seek to improve their economic well-being. Public housing residents themselves would probably benefit more from broader implementation of Section 3, for instance, which directs PHAs and other organizations receiving public housing and community development funds to provide, as much as possible, economic and employment opportunities to low and very low income people, with a preference for people receiving government housing assistance.[11] But we think that requiring community service squanders the energy of unemployed tenants and of PHAs, in terms of administration, which could be used in more meaningful ways to help tenants move to improved economic circumstances.

HOPE VI

The National Low Income Housing Coalition has had grave concerns about the HOPE VI program and we do not support the straight reauthorization, with expansion of eligibility to

[11] For information about Section 3, see Barbara Sard, Outline of How Federal Housing Programs Can Help Provide Employment and Training Opportunities and Support Services to Current and Former Welfare Recipients (2002), available at http://www.cbpp.org/1-6-00hous.htm.

smaller PHAs, which would be enacted by H.R. 3995. Instead, we think that HOPE VI should be changed to better serve existing residents of properties going through HOPE VI redevelopment and to prevent the loss of housing affordable to the lowest income people as a result of the HOPE VI process. Our position paper on HOPE VI reauthorization is attached to this testimony. In summary, reauthorization should require that:

- All residents in occupancy of a public housing development at any time in the one year period preceding the PHA's submission of a HOPE VI application for redevelopment of this public housing and who remain residents of housing administered by the PHA or receive voucher assistance from the PHA throughout the period of redevelopment shall have the right to live in units redeveloped through HOPE VI that are affordable and properly sized.
- PHAs shall abide by the provisions of the Uniform Relocation Act in all instances of displacement of residents that occurs as a result of implementation of a HOPE VI project. Beyond the requirements of the Uniform Relocation Act, relocation under HOPE VI should be conducted in a manner that ensures relocated residents the opportunity to live in an improved environment, which is the purpose of HOPE VI.
- No HOPE VI project will result in a net loss of physical public housing units to the jurisdiction in which they are located. Further, no HOPE VI project will result in a net loss of all housing units in the jurisdiction that are affordable and targeted to extremely low income households.
- HUD should limit approval of HOPE VI applications for redevelopment only of public housing that is indeed "severely distressed" and a clear definition of "severely distressed" should be formulated that reflects the opinions of residents, housing advocates and

leading housing experts. PHAs should be required to provide evidence that a public housing property is "severely distressed" under this definition.

Homeless Programs

We are pleased with the changes proposed to programs for homeless people under H.R. 3995. We support the reauthorization of the Interagency Council on the Homeless, since it is important for agencies with overlapping goals and constituents to communicate effectively. We are also pleased that the Supportive Housing, Shelter Plus Care and Section 8 Single Room Occupancy programs would be reauthorized under H.R. 3995 and that renewals for Shelter Plus Care and Supportive Housing would shift to the Housing Certificate Fund.

We also support the reauthorization of the Emergency Food and Shelter Program (EFSP) and recommend that it remain at the Federal Emergency Management Agency (FEMA) rather than the transfer to HUD sought by the administration. Under FEMA, EFSP funds have made it to the streets quickly to prevent hunger, eviction and foreclosure. HUD's track record with putting out funds does not inspire confidence that the program would continue to run with the same efficiency and success as under FEMA.

Elderly and Disabled Housing

We support the modernization demonstration program for Section 202 properties. We also believe in the value of allowing for service coordinators in housing for people with disabilities.

The 40% Standard and Production

Although the HOME production program proposed in H.R. 3995 was the subject of a prior hearing, our concerns about the 40% standard extend to that program. Under the production program in H.R. 3995, tenants could pay up to 40% of gross income in rent. While the standard of 40% of adjusted income has been in place for tenant-based assistance, the standard of 30% of income has been the rule when linked to specific units. A tenant with a voucher could choose not to rent a place that would cost 40% of his or her income, but for specific units produced with the HOME production resources under H.R. 3995, *someone* must rent the units or the production effort has been a failure. As the tenants under the production program in H.R. 3995 must be very low income or extremely low income, having them use 40% of their gross income on rent leaves them with little left over for other food, clothes, transportation, childcare and other family necessities.

Conclusion

H.R. 3995 covers a lot of housing policy. We appreciate the chance to explain why tenant participation is crucial, why the loss of public housing units through HOPE VI and the development-based subsidies for public housing will undercut the goals of the production program in H.R. 3995, and how H.R. 3995 could do more to improve voucher success, among other issues. We hope that you will take our concerns into consideration as H.R. 3995 moves forward. Thank you for your time and interest and for the opportunity to speak with you today.

Attachment to Testimony of Telissa Dowling

The National Low Income Housing Coalition
Position Paper on HOPE VI Reauthorization
March 2002

The National Low Income Housing Coalition remains extremely concerned about several aspects of the HOPE VI program that were originally articulated in a position paper the coalition developed in 1999. As 2002 is the year in which the statute that authorizes HOPE VI is due to sunset, it is anticipated that Congress will consider its reauthorization before the close of the 2002 session. The occasion of reauthorization offers the opportunity for examination of the problems of HOPE VI and changes to the statute to address these concerns.

NLIHC's concerns with HOPE VI fall into two major categories. The first is what happens to the existing residents of public housing developments that become HOPE VI projects. The second is the contribution that HOPE VI makes to the loss, nationally and locally, of housing that is affordable to the lowest income households. The recommendations that follow address these two issues.

Effect of HOPE VI designation on existing residents.

Although existing residents of a public housing development slated for HOPE VI are supposed to be the intended beneficiaries of the revitalization promised with HOPE VI, only a lucky few actually realize improved housing and economic conditions as a result of the HOPE VI intervention. Not only does this have obvious negative consequences for their material well-being, but making promises to low income people that the federal government is not going to honor feeds cynicism and alienation. Rather than promoting greater citizen participation as HOPE VI intends, disillusioned residents are likely to withdraw from civic engagement.

Therefore, NLIHC recommends that the HOPE VI statute be amended to require the following:

All residents in occupancy of a public housing development at any time in the one year period preceding the PHA's submission of a HOPE VI application for redevelopment of this public housing and who remain residents of housing administered by the PHA or receive voucher assistance from the PHA throughout the period of redevelopment shall have the right to live in units redeveloped through HOPE VI that are affordable and properly sized. The HOPE VI application, the redevelopment plan, and the PHA plan shall all provide for sufficient units to meet this requirement.

These redeveloped units can be located anywhere in the jurisdiction and are not limited to the actual site of the public housing that is demolished. However, this requirement does not preclude a resident from choosing to relocate to other existing public housing or choosing to utilize a housing choice voucher. As implemented, redevelopment shall presume and provide for the potential of all residents in occupancy at any time in the one year period preceding the PHA's submission of a HOPE VI application and who remain residents of housing administered by the PHA or receive voucher assistance from the PHA throughout the period of redevelopment to choose a redeveloped unit that is affordable and properly sized.

Further, **PHAs shall abide by the provisions of the Uniform Relocation Act in all instances of displacement of residents that occurs as a result of implementation of a HOPE VI project.** Beyond the requirements of the Uniform Relocation Act, **relocation under HOPE VI should be conducted in a manner that ensures relocated residents the opportunity to live in an improved environment,** which is the purpose of HOPE VI. An improved environment means a community with improved economic, employment, educational, social, and cultural opportunities.

<u>Loss of affordable housing stock</u>

In the name of reducing housing density and social isolation of poor tenants, HOPE VI projects usually result in a net loss of housing units overall and always result in a loss of units that are affordable to the lowest income households. At a point when there is broad consensus that the nation has an acute shortage of housing affordable for the lowest income households, for a federal housing program to actually cause further loss of housing stock is unwise policy. The National Low Income Housing Coalition supports a greater measure of economic integration, but believes that it is possible to simultaneously maximize the goals of economic integration and increasing the supply of housing affordable to the lowest income households.

Therefore, NLIHC recommends that the HOPE VI statute be amended to require the following.

First, no HOPE VI project will result in a net loss of physical public housing units to the jurisdiction in which they are located. Second, no HOPE VI project will result in a net loss of all housing units in the jurisdiction that are affordable and targeted to extremely low income households. HUD will not approve a HOPE VI application unless these **two conditions** are met. Sufficient funding should be made available to insure full implementation of this requirement for all HOPE VI projects, even if that results in fewer and more costly HOPE VI projects.

As originally intended, HOPE VI was to address the problem of "severely distressed" public housing. However, "severely distressed" has never been concretely defined and over time, HOPE VI has come to be used for any redevelopment that a housing authority wants to undertake. In order to reduce the potential for loss of viable public housing stock under HOPE VI, HUD should limit approval of HOPE VI applications for redevelopment only of public housing that is indeed "severely distressed."

In order to be able to do that, **a clear definition of "severely distressed" should be formulated that reflects the opinions of residents, housing advocates and leading housing experts. PHAs should be required to provide evidence that a public housing property is "severely distressed" under this definition in advance of a HOPE VI application** and allow such evidence to be publicly reviewed. Residents of the project in question and other concerned groups should be given the opportunity to respond to any claim by HUD, the PHA or other party that a property is severely distressed. **Penalties should be applied when a PHA has allowed a property to deteriorate in order to gain a competitive advantage in the HOPE VI application process.** Further, the public housing assessment system should require site-specific, yearly reports on the condition of all public housing.

AAHSA

Testimony of
THOMAS SLEMMER
President
National Church Residences
Columbus, Ohio

Representing
THE AMERICAN ASSOCIATION OF HOMES AND SERVICES FOR THE AGING

Before the
HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

April 23, 2002

Madam Chairwoman Roukema and members of the Housing and Community Opportunity Subcommittee, I am Tom Slemmer, President of National Church Residences (NCR). NCR is one of the nation's largest not-for-profit sponsors and managers of affordable housing for the elderly, including over 14,000 federally assisted housing units located in 25 states. I am pleased to be here today on behalf of the American Association of Homes and Services for the Aging (AAHSA), where I serve on the Board of Directors and chair the Housing Committee.

AAHSA represents more than 5,600 mission-driven, not-for-profit members, senior housing, nursing homes, continuing care retirement communities, assisted living, and community services organizations. Every day, our members serve more than one million older persons across the country. AAHSA is committed to advancing the vision of healthy, affordable, ethical long-term care for America. Housing is a critical part of the long-term care continuum. Our members own and manage more than 300,000 units of federally assisted and market rate housing, including the largest number of sponsors of Section 202 Supportive Housing for the Elderly.

First, AAHSA would like to commend you, Chairwoman Roukema, and the members of the Committee and staff, for your leadership in introducing H.R. 3995, the Housing Affordability for Americans Act of 2002. We fully support the goals of this bill to reform current housing programs; and believe the bill provides a timely opportunity to impact affordable housing by addressing the issue of growing housing needs.

I am particularly pleased to testify today on this bill, since I had the opportunity to represent AAHSA last summer, as part of a series of hearings that the Committee convened to identify key issues in preparation for drafting the bill. AAHSA is grateful that the bill includes some of our recommendations, including provisions in Title III to address modernization needs of older federally assisted elderly housing. We believe that one of the most critical needs confronting affordable housing in this country is the need to halt and replace the loss of the affordable housing supply -- what we see as a "silent crisis." AAHSA is particularly concerned with the need to provide housing security for the elderly and for other special need populations.

While AAHSA supports much of the bill, we will focus our comments on those provisions that particularly affect affordable elderly housing with production, preservation, and partnership:

- The critical need to increase the production of affordable elderly housing to meet present and future needs;
- The equally critical need to address preservation of the existing supply of affordable housing, including modernizing and retrofitting older facilities; and
- The need to build effective partnerships to assist with financing development and operations, as well as with the funding and delivery of supportive services to assist frail residents seeking to remain in their present home as they age.

In my testimony I will share some of NCR's experiences with recent efforts to preserve affordable housing, and recommendations developed from these experiences, as well as from the knowledge of AAHSA members about production, preservation, and facilitating services for the elderly.

Need to Increase Production

A recent HUD study reveals that more than 7.4 million households pay more than they can afford for their housing, including 1.4 million elderly people who pay more than 50% of their incomes for housing or live in substandard housing. A majority of these older households are on fixed incomes and receive no housing assistance. While 1.5 million elderly benefit from federally subsidized housing, about the same number of older persons remain within HUD's classification of "worst case" housing needs. Unfortunately, many older persons seeking affordable housing are confronted with multi-year waiting lists. According to a recent AARP study, there are nine older persons on waiting lists for every Section 202 elderly housing unit that becomes available each year.

As the Committee noted in its summary of the bill, "growing numbers of seniors are suffering from worst case housing needs. From 1991 to 1997, the number of senior low-income renters paying more than 50% of income toward rent, rose 8 percent, at the same time, the number of low-income senior households receiving public rental assistance dropped 13 percent. These factors could combine to create a crisis-level lack of affordable housing for senior citizens within the next decade." This situation will become worse as the elderly population doubles by 2030 and the supply of affordable housing shrinks because some owners are converting existing federally assisted units to market rate housing, and other housing is lost due to the lack of funds to modernize. There clearly is a need to increase the production of affordable housing.

Support HOME

AAHSA has been a long-time supporter of HOME as a valuable resource to enable state and local governments to assist non-profit organizations and others to produce and preserve affordable housing. AAHSA supports flexibility with HOME funds to respond to local housing needs. At the present time, a little over one third of HOME funds are used for new construction.

AAHSA supports proposals in the bill to increase the production and preservation of mixed-income rental housing affordable to extremely low-income and very low-income families through the use of HOME grants or loans for acquisition, new construction, reconstruction, or moderate or substantial rehabilitation of affordable housing. AAHSA supports the use of recaptured Section 8 contracts to increase HOME funds for production and preservation. Given the tremendous need to produce and preserve affordable housing, we are pleased that the Committee has also included in these hearings, consideration for other proposals to increase the production of affordable housing, including H.R. 2349, to establish a national affordable housing trust fund.

Support Mixed Financing of HOME with Section 202

Of particular interest to our nonprofit members is the need to increase funding for HOME and other affordable housing programs with increased flexibility for mixed-financing, including the use of HOME with the Section 202 elderly housing program. AAHSA appreciates the Committee's leadership with legislation to reform the Section 202 program to enable mixed-financing, mixed-income, and mixed-use developments, as well as refinancing options. Because of limited Section 202 funds, as well as an interest to develop mixed-income facilities, it was the intent of the recent statutory changes to leverage Section 202 funds targeted to very low-income older persons with other public and private resources, including HOME and Low-Income Housing Tax Credits (LIHTC). Unfortunately, HUD has not yet fully implemented these new reform measures. AAHSA would encourage the Committee to urge HUD to expedite the implementation of these mixed-income provisions, as a means to increase the supply of affordable elderly housing. In addition, AAHSA would recommend that Section 202 funds be used to satisfy subgrantee contributions for HOME funds, in addition to the use of Community Development Block Grants and tax credits, as provided in the bill.

Project-Based Thrifty Production Vouchers

AAHSA members have repeatedly cautioned that vouchers do not work as well for older persons; therefore, we have a reluctance to support vouchers. However, because we support providing a range of housing choices for older consumers, because there is a critical need to address production and preservation needs, and because these are project-based vouchers, AAHSA believes that Thrifty Production Vouchers (TPV) would provide a useful tool. In many regards, these new thrifty production vouchers are similar to Project Rental Assistance Contracts (PRACs) which are linked to the post-1990 Section 202 capital advance program. Similar to PRACs, the rent subsidy is based upon the project-operating budget and rent paid by residents as a percentage of their income. However, a critical difference between these proposed TPVs and PRACs is that PRACs do not have a debt service. It is important that non-profit sponsored elderly housing targeted to very low- and extremely low-income have additional resources to ensure financially sound operations.

We support the use of TPVs targeted to extremely low-income persons so long as TPVs could be combined with any capital subsidy program, including LIHTC, Community Development Block Grants, or HOME. In addition to the use of TPVs with new construction and substantial rehabilitation, AAHSA would recommend that TPVs be modify to enable non-profits to use them with preservation related acquisitions where there is a need to demonstrate a future stream of rent subsidy for low- and extremely low-income persons. We certainly would welcome TPVs as an additional valuable tool to preserve and improve the supply of affordable housing.

Support Use of HOME Funds for Grandchildren and Older Family Members

AAHSA supports provisions in the bill for expanding the use of HOME funds to address intergenerational needs of families. There is a need for funds to assist low-income families to care for their aging family members by the addition of a room and/or cottage housing adjacent to their home; as well as to enable older persons to care for their grandchildren. This option may be particularly helpful for baby-boomers seeking to respond to dual needs of aging family members and needs of younger children.

Need to Preserve Affordable Housing

One of the most critical needs confronting affordable housing in this country is the need to halt and replace the loss of the affordable housing supply. According to the 2001 State of the Nation's Housing by the Joint Center for Housing Studies of Harvard University, more than a million units of affordable housing have been lost for low-income persons over the past ten years (900,000 between 1993-1995 and 300,000 units between 1997-1999). The National Housing Trust (NHT) estimates that more than 150,000 units of federally assisted housing units have been lost over the past five years. In fact, over the past few years, many more affordable housing units have been lost than have been produced. In addition, NHT estimates between 500,000 and 600,000 federally assisted housing units are at-risk of prepayment and potential loss to market rate. For various reasons, owners are prepaying their federal mortgage, opting out of federally assisted housing and converting affordable housing to market rate.

Some protection has been provided for existing residents, including enacted enhanced vouchers; however, in some regards, enhanced vouchers may have the unintended consequence of masking the extent of recent losses of affordable housing helping to create the "silent crisis". Without enhanced vouchers, the adverse impact of dramatic increases in rent as units are converted to market rate would contribute to an outcry among existing residents. However, with enhanced vouchers affordable housing facility resources are gradually lost, unit-by-unit, as existing residents move out or die. Given the tremendous need for affordable housing, AAHSA believes that as many of these affordable housing units as practical, should be sustained for a long period of time.

In my testimony last summer, I cited a number of situations where NCR developed strong partnerships with local governments to preserve affordable elderly housing. In one situation in California, it took a very proactive role by the city government to use its power of eminent domain to acquire and preserve a 100-unit affordable elderly housing facility. In that situation, there was a public outcry when the for-profit owners sought to exercise their prerogative to evict the older residents. Unfortunately, since last summer, NCR has witnessed many other at-risk affordable housing properties lost to market forces at a fraction of the cost of newly constructed units. We are fearful that virtually all affordable housing building in high rent areas will be lost to lower income seniors. Older Section 236 affordable housings located in good market areas, i.e., located in neighborhoods or communities with tight housing markets or areas undergoing revitalization are at great risk of being lost. Based upon our experience, it is clear that there is a need for legislation to preserve the existing supply of affordable housing, particularly for low- and moderate-income elderly.

Modernization of Older Elderly Housing

AAHSA appreciates the Committee's actions to address the modernization needs of older elderly housing facilities, including the Section 236-demonstration program established in Title III. As testified earlier, Section 236 non-profit elderly developments appear to be most in need of modernization funds, and have limited access to capital. During a moratorium on the Section 202 program, the only federally assisted program available for non-profit organizations seeking to develop affordable elderly housing between 1969 and 1975 was the Section 236 program. As noted by the Committee, the Section 236 projects have aged considerably since 1973 and are in dire need of capital for modernization. Their lack of access to adequate capital puts them at risk of deteriorating to the extent that they are no longer viable properties.

AAHSA supports the use of these funds for repairs, rehabilitation, and modernization needs, including improvements for health and safety codes and compliance with the Fair Housing Act. AAHSA would recommend, however, that the date for recaptured Assisted Living Conversion Program (ALCP), the source of funding for the demonstration program, be extended from the end of the fiscal year to the end of the calendar year to ensure sufficient time to use ALCP funds for conversions.

We would also urge that the Committee clarify congressional intent with the use of the ALCP for the conversion of housing units to licensed assisted living "or related use." As AAHSA advocated in connection with enactment of ALCP, many affordable housing facilities need to be retrofitted to accommodate increased levels of services for frail elderly, but some elderly housing sponsors do not want to become a licensed assisted living facility. Unfortunately, many of these older facilities do not have adequate reserves or cannot access capital funds for improvements without a grant. It was the intent when enacted that these ALCP funds would be used for conversion to assisted living **or** for "related use", such as modernization/retrofitting needs. Unfortunately, HUD has not implemented this "or related use" provision. This demonstration program proposed in the bill will focus on the unused ALCP funds for the older non-profit sponsored Section 236 elderly housing facilities. We would also recommend, if sufficient ALCP funds are not available, that facilities participating in the demonstration program also be eligible for recaptured Interest Reduction Payments (IRP) and other available funds.

In addition to provisions in the bill to assist non-profit sponsored Section 236 elderly housing facilities, AAHSA appreciates actions being taken by committee members to urge HUD and the Administration to release over $300 million of recaptured Section 531, Interest Reduction Payments for modernization needs. These funds were IRP subsidies from Section 236 insured multifamily properties recaptured for the purpose of providing rehabilitation grants or loans to qualified owners who demonstrate need and have insufficient project income to support rehabilitation. While HUD indicated earlier its intent to issue rules to allocate these funds, to date, HUD has not yet allocated any of these IRP funds. About a quarter of the eligible Section 236 properties have elderly-headed households.

In addition to concerns for non-profit sponsored Section 236 elderly housing projects, we also have concerns for older Section 202s and those developed during "cost-containment" constraints in the mid-late 1980's when there were severely limited common space and amenities, over-reliance on efficiencies, and inadequate structural design. A recent AARP study found that 20% of the oldest Section 202 facilities reported that their capital reserves are inadequate to meet current repair needs and that 36% reported that reserves are inadequate to meet projected repair needs. AAHSA would urge that the Committee require the use of recaptured IRP funds for modernization needs of federally assisted nonprofit sponsored elderly housing.

Loss of Section 202 Elderly Housing

One of the more disturbing situations that has occurred since my testimony last summer, is the possibly unprecedented loss of Section 202 elderly housing facilities. In addition to concerns with the loss of these critically needed affordable elderly housing units, it is very important to recognize the negative economic impact of these loses. It costs over twice as much to replace these affordable housing units as it does to preserve them. As forewarned in my testimony last summer, a Section 202 elderly housing facility located in Detroit was foreclosed by HUD and sold to for-profit owners and converted to market rate housing. We assumed that the Michigan situation was unique; however a few weeks ago another Section 202 elderly housing facility located in rural New York was foreclosed and sold to a for-profit owner for market rate housing. NCR had been contacted by the local community in New York to acquire the Section 202 property to preserve it for affordable elderly housing. However, despite our interest, organizational capacity, and local support, NCR was not able to acquire the property at a price that would have allowed it to remain affordable to low income seniors. It is clearly shortsighted and not very cost-effective to use public funds that were invested into these affordable housing facilities and then, despite need, to sell these facilities at significant discount to for-profit owners to convert them to market rate housing. Non-profit affordable housing advocates simply cannot move fast enough to compete with market forces without more effective tools and a proactive HUD office. In recent years, local communities lost more affordable elderly housing units through opt outs and conversions than the state's entire Section 202 allocation to construct new units.

AAHSA supports various tools to assist in preserving at-risk affordable housing stock for the increasing numbers of older persons. For Section 202 elderly housing facilities, AAHSA strongly urges the prompt enactment of language to give a non-profit organization, the right of first refusal to purchase a Section 202 facility. In addition, AAHSA would urge that actions be taken to identify at-risk Section 202 and other affordable elderly housing properties, provide technical assistance to present and potential owners, and develop a means to provide quick access to capital to facilitate the transfer of ownership.

Extensions for Expiring Rent Supplements

AAHSA would also recommend that the Committee take action to address concerns that some of our members have with their expiring rent supplement contracts. At the present time, HUD will not renew these contracts because the program is no longer operational. Therefore, AAHSA would recommend that the Committee urge HUD to conduct a study of expiring rent supplement contracts and make recommendations to the Committee with actions that are necessary to preserve these properties. We have particular concerns with preservation of these affordable housing units and protection for older residents.

Activate Section 221 (d)(3)

AAHSA is concerned that one of the most effective tools in preserving affordable housing is no longer available -- the Section 221(d)(3) FHA insurance program. Due to problems in the program unrelated to affordable housing production, this program is no longer widely available. GAO recently reported that some of the organizations that received Section 221 (d)(3) were not legitimate not-for-profits; and therefore, should have used the Section 221(d)(4) which provides lower subsidy rates for for-profits. AAHSA recommends that the Section 221(d)(3) be reformed to be available only to legitimate not-for-profits that are preserving or producing affordable senior housing in perpetuity.

Establish HUD Office of Preservation

Because of the urgency, complexities of funding, and multitude of issues to preserve the existing supply of affordable housing before they are lost forever, AAHSA urges that HUD establish an Office of Preservation. The establishment of this office would serve as a focal point within the federal government to provide national leadership, including a partnership with HUD local offices, national organizations, and others, to develop and administer a comprehensive strategy to preserve the nation's supply of affordable housing. The Preservation Office should have the resources and authority to take quick actions to assist non-profits, state and local governments, consumers, financial community, and others with resources and technical assistance to preserve affordable housing. The office would also serve as a wake-up call to the silent crisis that is rapidly eroding the existing supply of affordable housing.

The scope of the responsibilities of the Preservation Office would be broader than the Office of Multifamily Housing Assistance Restructuring (OMHAR). Among suggested actions that the office could take include: technical assistance to non-profits and others on preservation needs; facilitate transfer of ownership, i.e., opt-outs with opt-ins; a database of potential at-risk properties; assist states and local governments to develop preservation programs in their state (such as the bi-partisan matching state program provided in H.R. 425/S.1365) funds (grants or loans) that could be quickly accessed by non-profits to acquire at-risk affordable elderly housing; and provide incentives for existing owners to transfer ownership to a non-profit committed to sustain affordability. The Office could also identify best practices and develop demonstration programs. Finally, while beyond the jurisdiction of this committee, AAHSA would urge the Committee to collaborate with the Ways and Means Committee to remove tax disincentives and/or provide incentives to transfer ownership to non-profit organizations to sustain long-term affordability.

Partnerships Needed for Elderly Housing

Given the present federal budget situation, as well as the goals and needs of affordable elderly housing, it is especially necessary that multiple funding sources be used to develop, operate and/or preserve affordable elderly housing. While this bill recognizes the need for many financial partners, including state and local governments (HOME, CDBG, trust funds, etc) and state and local finance agencies (LIHTC, bonds, etc), there are many other important public and private partners needed to support affordable elderly housing, particularly with funding or providing supportive services. Our non-profit members are quite experienced and successful with establishing effective public and private partners in their local communities.

Role for Faith-Based with Affordable Housing

AAHSA is pleased that H.R. 3995 recognizes the important contribution and partnership that the faith-based community can have with affordable housing and community development. All of AAHSA members are non-profits and more than three-fourth of the parent organizations are faith-based, representing most denominations. AAHSA supports language in the bill to remove barriers to participation by faith-based organizations in federal housing and community development programs, including Section 202s, Section 8s and CDGB; and without providing any preferential treatment for faith-based organizations. Our members uniformly believe that the current system of grants and contracts under the Section 202 programs generally work well and should maintain impartiality among sponsors of various faiths and between faith-based and non-sectarian, community-based non-profit organizations. Our members agree that faith-based organizations must be non-sectarian in their activities and must meet all the appropriate obligations placed on any recipients of federal funds. We believe that the present system of creating separate 501(c)(3) is necessary.

However, we would recommend technical assistance grants to assist with development or preservation be provided to less experienced or smaller organizations, including faith-based organizations. The level of expertise and capacity necessary for some of these federal programs may prevent participation by some faith- or community-based organizations in federally assisted elderly housing. There is a general consensus that the paperwork requirements to apply for funds can be burdensome; but these bureaucratic problems affect all applicants and recipients.

Need for Supportive Services

In addition to affordability, one of the most significant needs for elderly housing is the access to community-based formal and informal supportive services. AAHSA believes that the mission, expertise, and experiences of many faith-based organizations with social services can be very helpful in providing supportive services with elderly housing. Access to supportive services is particularly important for federally assisted elderly housing since the average age of residents is approaching 80 and most residents are older women living alone on fixed-incomes of less than $10,000 annually. Many of these older residents have aged since moving into the "independent" housing facility and prefer to remain in their present home as long as possible; yet many are at-risk of leaving should they not have access to necessary supportive services. Since HUD primarily focuses on the development and operations of housing and community development, it is essential that effective partnerships be developed with other public and private agencies involved with services and health care, particularly the Department of Health and Human Services (HHS). To this end, we developed a paper on possible collaboration between HHS and HUD which I have attached for your information.

AAHSA has long advocated for an affordable "continuum of care" for older persons (a term we are pleased has also been adapted to provide a range of services and needs for the homeless).
AAHSA is very grateful for the leadership that this committee has taken over the past few years to address supportive services needs of older residents, as well as for persons with disabilities and other special populations. We support many of the provisions in the bill to address supportive services and health care needs of special populations, including provisions in Title II

to update FHA healthcare mortgage insurance program by redefining "integrated service facilities," enabling them to be developed with hospitals, and to be refinanced.

Support Service Coordinators

AAHSA supports the provisions in the bill to fund service coordinators in Section 811 housing for persons with disabilities. AAHSA firmly believes that service coordinators are key to linking older and/or disabled residents with community-based supportive services. The role of service coordinators will become even more important as states and local communities recognize the emerging role of elderly housing in long-term care strategies, as well as the potential cost-benefits of enabling frail elderly to avoid unnecessary or premature higher cost level of care. They are also very importance in states and local efforts to respond to the Supreme Court *Olmstead* decision, as required by the President's New Freedom Initiative, to increase community-based living options for persons with disabilities, including older persons.

AAHSA has long advocated that there be well-trained service coordinators for elderly housing (as well as for other special populations) to facilitate access to community-based services. While we support grants to enable the staffing of service coordinators, we also urge that rent subsidies be increased to sufficient level to incorporate within the facility's operating budget the staffing of service coordinators. However, we recognize that in some cases, grants are essential, particularly in the initial staffing of coordinators into the facility's budget, and the staffing of coordinators in partially subsidized facilities. AAHSA would urge that the Committee take actions to ensure that Section 202s with a PRAC, as well as Section 811s, and non-profit organizations sponsoring or managing affordable elderly housing facilities financed through Low-Income Housing Tax Credits, are able to apply for service coordinator grants.

Study on Insurance of Federally Subsidized Elderly Housing

Another critical issue that has become a major concern this year, is the costs of Property, Casualty and Liability Insurance for HUD assisted elderly housing facilities throughout the country that has increased dramatically over the past 18 months. Our members have reported an increase in premiums from 100% to 400% -- far outpacing inflation rates—and well beyond any rent adjustment levels allowed through HUD's current regulations (Operating Cost Adjustment Factors, budget based rent increases, etc.). In addition, since this insurance is required, these dramatically increased rates are passed along to HUD; i.e., the federal government is subsidizing the insurance companies. One suggested remedy would be to establish a self-insurance program for HUD assisted facilities. Attached is a brief fact sheet outlining the proposal. AAHSA would urge that the Committee require HUD to conduct a study of the insurance situation with HUD assisted elderly housing, including potential for self-insurance and other recommendations. Because of the urgency of this situation, we would urge that the report be done as soon as possible to enable potential actions to be taken by this Congress.

Closing

AAHSA appreciates this opportunity to participate in these hearings to share some of our thoughts on H.R. 3995, the Housing Affordability for Americans Act of 2002; and we are grateful for the leadership of the Committee in addressing critical housing needs in our country. While we can anticipate thoughtful recommendations for national housing policy changes resulting from the research and deliberations of the Millennial and the Seniors Commissions, many older Americans cannot afford to await their final reports and the potentially lengthy review and implementation process. As the Chairwoman stated at the hearings on elderly housing last summer, "Our seniors deserve to partake in the American Dream – decent affordable housing for all." "There is no doubt that we must do more to increase new production and to preserve our existing elderly housing stock, but the solution to this fundamental goal will not be easy and it deserves our deliberate consideration." Therefore, we are grateful for the leadership of the Committee with advancing necessary legislative changes as outlined in this important bill; and would urge your consideration for the recommendations in my testimony. We look forward to working with the Committee and your capable staff to advance this bill. Please direct questions on this testimony to Larry McNickle of AAHSA staff (lmcnick@aahsa.org; 202-508-9447). Thank you.

Attachments

Proposal to Implement a Self-Insurance Fund for HUD-Assisted Elderly Housing Facilities

The costs of Property, Casualty and Liability insurance for HUD assisted elderly housing facilities throughout the country have increased dramatically over the past 18 months – far outpacing inflation rates - and well beyond any rent adjustment levels allowed through HUD's current regulations (Operating Cost Adjustment Factors, budget based rent increases, etc.)

Surveys of nonprofit owners have revealed increases in premiums ranging from 100% to 400%. Many insurance carriers have elected not to renew policies for facilities that they have insured for years. Our survey results also demonstrate that there is no direct correlation between increased premiums and negative claims history. In fact, many properties that have never had a claim have seen their premiums skyrocket.

Insurance industry representatives' report that increased rates are the result of outside market forces (losses incurred after September 11, 2001 and weaker returns on stock market investments, in particular.)

Although the increased costs represent a significant problem in their own right for nonprofit owners with already tight operating budgets, several other factors are also combining to make insurance a particularly problematic issue:

- **Exodus of Insurance Carriers:** Many insurance carriers have elected to exit the affordable elderly housing market and owners have received notices of non-renewal – regardless of their claims history. This exodus places owners in the difficult position of having to "shop" for insurance with carriers who are totally unfamiliar with their operation. These new carriers write policies that adjust for an unknown risk level (which means higher than normal rates.)
- **Fewer Choices for Property Owners:** As the number of insurance carriers decreases, owners have fewer choices and are forced to accept higher premiums than they can afford.
- **Unbundling of Policies/Less Coverage:** Many of the carriers that are writing policies for HUD facilities have scaled back the coverage they will offer, so owners are paying more for less. Many policies are being "unbundled" – forcing owners to buy separate policies for such things as boiler insurance, wind, toxic mold, employee liability and other types of coverage that have traditionally been included in one blanket policy.
- **Increased Deductibles:** Insurance companies are offering owners the option of keeping their premiums lower by accepting higher per claim deductibles. In many instances, policies are subject to deductibles that exceed the cost of the average property/casualty claim. Consequently, if a claim is filed, the property will most likely have to pay the claim out of pocket.

Adequate insurance is not optional for HUD assisted facilities; it is required by HUD regulations. Therefore, HUD assisted facilities have no choice but to purchase comprehensive insurance coverage at the available market rate.

HUD project budgets are lean by design. There is very little room for dramatic increases in operating costs. At the same time, current HUD regulations do not allow owners to raise tenant rents sufficiently to keep pace with the rate of increases. As a result, owners are placed in an untenable situation. Even if a project can fund the current year's increases, it is highly unlikely that they will be able to find that money again in subsequent years.

Insurance industry forecasts indicate that insurance costs will continue to escalate over the next few years – and it is unlikely that costs will ever return to pre-2001 levels.

As HUD assisted properties allocate an increasingly higher percentage of their operating budgets for insurance premiums and insurance claims that don't meet their deductibles, there is less money available for more essential operational expenses such as facility maintenance, services for residents, employee salaries and benefits and renovation and repairs of older projects.

More importantly, as this money goes out of the HUD assisted facilities to pay insurance premiums, HUD is in effect diverting precious taxpayer dollars from the core purposes of HUD's programs into the bank accounts of commercial insurance companies.

In an effort to stop the cycle of HUD subsidization of insurance companies, AAHSA proposes that Congress direct HUD to explore the implementation of a self-insurance program for HUD assisted facilities. This program would be financed through premiums paid by HUD assisted facilities and managed by a private third party administrator selected by HUD through a Request for Proposal process.

Such a program would not require any additional funding, as it would be paid for with the premiums paid into it by participating facilities. The third party administrator selected to run the insurance program would receive a percentage of premium dollars paid into the fund. The premiums paid into the self-insurance fund would be placed in interest bearing accounts and any surpluses generated would be used to keep premium costs for facilities low.

Through this program, HUD would be able to "manage" insurance costs for the facilities in its portfolio – allowing owners to keep rents at affordable levels and still offer a high quality living environment for their residents.

Due to the urgent nature of this problem, we recommend that Congress direct HUD to report back to Congress on the feasibility of this proposal no later than August 1, 2002.

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HUD-HHS Collaboration to Address the Needs of Frail Elderly Residing in Elderly Housing

Introduction

When it comes to long-term care, today's consumers are loud and clear on one point: They want to stay in their own homes as long as possible and receive services and support there. A fortunate few have the means, ability and health to make this possible. For the vast majority of Americans, however, their need for at-home services will outstrip their ability to pay for them.

Moderate or low-income persons who are fortunate enough to live in federally assisted housing want to remain in these homes as long as possible, as well. Respecting this wish, some elderly housing facilities have increased their level of supportive services, added service coordinators and even converted housing units into affordable assisted living.

Where service options aren't available, however, frail and vulnerable elderly often end up in nursing homes prematurely. A 1999 AARP housing survey found that 52.4% of transfers from elderly housing were due to the need for more services, including nursing home care. Unfortunately, this is not necessarily indicative of an individual's inability to live at home with support, but rather the system's inability to accommodate the person in the least restrictive setting. The cause is often a complex web of multiple funding sources and administrative systems, conflicting eligibility requirements and regulations and lack of effective coordination between the departments of Housing and Urban Development (HUD) and Health and Human Services (HHS).

Senior housing can and should be a cost-effective component of long-term care. There are 1.5 million units of senior housing in public and private facilities. While the minimum age for senior housing is 62, currently the average age of Section 202 residents is over 80. Given the GAO's finding that 58% of people over 80 have a severe disability, it can be assumed that more than half of residents in federally subsidized senior housing need some type of services and support. Moreover, it's estimated that about a fourth of older residents are "at risk" of moving to a higher level of care.

Certainly, housing residents may reach levels of disability that require nursing care, and good nursing homes always will be needed. But AAHSA believes many frail residents in federally assisted housing can avoid premature placement in nursing homes if a full range of services and supports is available.

Consumer preference and economic realities support the model of senior housing with services to enable older persons to remain in their homes and communities. In addition, the mandates of *Olmstead v. L.C*, 119 S.Ct. 2176 (1999)—which require the placement of individuals with disabilities in the

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least restrictive setting—argue forcefully for state and federal governments to provide more housing, as well as more housing with services. The lack of affordable, accessible housing—specifically housing with services—has been cited by many groups as one of the greatest barriers to transitioning people to the community.

With a rapidly aging population and the current economic downturn, there is a great opportunity for HUD and HHS to collaborate to meet the current and future needs of frail and "at risk" elderly residing in federally assisted housing. Before this can happen, however, HUD and HHS must work together to undertake three fundamental tasks:

1) Develop a better base of information on the population of elderly residents in federally assisted public housing. This should include their needs for home and community-based services, as well as services already received and their satisfaction with and the effectiveness of these services.
2) Identify appropriate services and develop service delivery and funding mechanisms to ensure that residents can access needed home and community-based services.
3) Develop effective information and outreach programs to ensure that residents are aware of and, to the extent possible, take advantage of services and supports.

Develop a Better Base of Information

An adequate base of information is essential to developing an effective program of services and support. HUD, HHS, the Administration on Aging (AoA), public and private agencies, consumer organizations and state and local entities (e.g., county governments, area agencies on aging, community planning agencies and public housing authorities) all collect demographic data and information about the supply of and demand for services. Yet these databases are done in isolation, are not shared and are frequently incompatible. Federal agencies that provide funds for shelter, meals, services and health care have little ability to monitor HHS or AoA resources used by residents in HUD assisted housing. State and local programs are often part of the mix of resources used by residents, as well. And little information is available on resident satisfaction with or the effectiveness of services received, particularly in public housing settings.

HUD and HHS need to collaborate to:

- Review available demographic data on the need/demand for services by comparable populations and develop assumptions on overall service and support needs for residents in federal housing.
- Develop and implement a survey to measure resident/family/caregiver satisfaction with and the adequacy of home and community-based services and supports.
- Undertake a demonstration project to identify residents' use and the effect of Medicaid and other services and supports. Specific areas of study should include services most frequently used, how services were/are obtained, gaps in services, effectiveness of services/suppotts in maintaining residents in their homes and differences between early versus later intervention on health status, quality of life and institutionalization rates.

Identify Appropriate Services and Develop Service Delivery Mechanisms

There are several problems to overcome in securing services and supports for residents of federally assisted housing. These include identifying service needs and availability, identifying barriers to service delivery, increasing access to services and creating systems that facilitate effective service delivery.

In most urban and suburban communities, there is a wide range of services available (although these may be limited by the current shortage of direct-service long-term care personnel). Access to services may be limited by residents' lack of information about them or their eligibility requirements, or by practical limitations such as inadequate or inaccessible transportation. In rural areas, these problems often are complicated by the lack of a full range of services.

The complexities of service systems create potential barriers for older and frail residents who need a range of services coming from more than one agency. These include different eligibility requirements among programs; exclusions for some services based on eligibility for, or use of, another agency's services; limited service slots; rules and regulations that decrease flexibility, such as four-hour minimums for homemaker/home care workers in some programs; and waiver program eligibility requirements that preclude early intervention.

The proximity of services to older and frail residents can make a difference in access and utilization, as well. Co-location of services and supports, such as adult day centers and home health providers, is one strategy to enhance access and service delivery. Rather than providing or contracting for supportive services, the housing sponsor makes space available in and/or adjacent to the facility for various service providers.

Another way to accommodate frail older residents is to convert some housing units into affordable assisted living. However, providers and grantees often need information and/or assistance to make this possible. The need most often reported by grantees is help in securing the required service package. It should be kept in mind, however, that as we convert federally subsidized units into assisted living, we should simultaneously increase the number of non-assisted living units to continue to meet the needs of the more than 6.8 million elderly households in need of affordable housing.

To facilitate the delivery of services, HUD and HHS need to collaborate to:

- Ensure that every senior housing development has a service coordinator or case manager, preferably on site. This can be accomplished by increasing the program through HUD or adding HHS funded case managers (e.g., through targeted case management). Service coordinators and/or case managers also should be available to older residents residing in other federally assisted housing.
- Remove eligibility barriers and program guidelines that limit or prohibit needed and timely service delivery in senior housing. These efforts should include:
  - Encouraging the use of more flexible Medicaid spend-down formulas to increase the number of Medicaid-eligible housing residents.

- ✦ Creating a new waiver program tailored to the personal care and homemaker needs of housing residents who are Medicaid beneficiaries but don't meet nursing home eligibility requirements. This is particularly important in states that don't provide a Medicaid personal care option.
- ✦ Creating more flexible rules regarding the use of homemaker/home care staff for services to housing residents.

- Collect information on promising practices in coordination between agencies responsible for overseeing home and community-based services and housing agencies and/or funding coordination to develop replicable models of collaboration.
- Encourage activities such as physically linking or co-locating health and home and community-based support services to senior housing. For example, HUD could encourage the use of Community Development Block Grant funds to develop a community center co-located or adjacent to a Section 202 housing facility as a means to facilitate resident access to services.
- Encourage the development of affordable assisted living and increase utilization of HUD's Assisted Living Conversion Program through:
  - ✦ Facilitating conversion of existing elderly housing units by providing a funding source for services, such as a set-aside in Older Americans Act (OAA) funds or ensuring the availability of waiver services/funds (HHS) and affordable rent (rent subsidy over time) (HUD). Converting "independent" housing to "supported elderly housing" and/or assisted living is a lower-cost alternative to current, often expensive market-rate assisted living and minimizes the need for residents to move for more intensive services.
  - ✦ Collaborating on strategies to enable nonprofit organizations to acquire existing but unsuccessful (or unprofitable) high-end assisted living facilities to make them affordable to moderate and low-income individuals. Strategies should include tax relief for proprietary developers and owners who want to sell their projects but cannot afford the present capital gains tax. "Exit tax relief" could encourage the sale of these facilities to nonprofits, which could make the units available to the less affluent.
- Utilize technology to promote better and more service in rural areas and for education and assistance to older residents. This can be accomplished by:
  - ✦ Employing telemedicine to provide technical assistance to health care workers over significant distances, which can avoid uncomfortable and expensive transportation of elderly residents. Telemedicine also can be used in rural nursing homes, so they can facilitate care to their own residents and provide clinical consultation to residents in senior housing. Presently, telemedicine is not approved for use in nursing homes. This type of support also might entice more physicians into rural areas.
  - ✦ Investigating ways to provide technology to residents. The use of computers and other technology can provide information and education a resident may not seek from others or serve as a supplement to certain kinds of human contact and help keep them independent longer.

Develop Effective Education and Outreach Programs

Education and outreach to residents of housing programs is essential. Many residents are eligible for Medicaid but are either unaware or don't know how to apply for it. The variety of programs and complexities of the health and service system can be confusing and cause residents to delay or not seek needed services. Helping residents understand and access services is most successful when the information and assistance is available through someone, such as a service coordinator, with whom they have an established relationship. Specific types of collaborative education and outreach strategies are:

- Ensuring that all residents are given the option to be assessed for health and service needs on a regular basis. This is facilitated by having a well-trained service coordinator or case manager on site to do the assessment and then follow up on service delivery if needed.
- Developing a model protocol(s) for education/training of residents, caregivers and housing management on Medicaid long-term care service and support programs, how to identify eligible residents and how to use a referral process to ensure a prompt response from Medicaid agencies. Protocols should also be developed for other long-term care service programs, such as OAA and Social Service Block Grant programs. The model protocol(s) could be tested in a few states and localities.
- Disseminating information to residents on health and aging, as well as on programs and services available in the community. This should be done individually and through mechanisms such as health fairs held at the housing facility where providers and agency representatives meet with residents.

Interagency Taskforce

AAHSA believes HHS and HUD should establish an interagency taskforce to examine these recommendations. The taskforce should include key agencies involved with housing, supportive services and health care. HHS representatives should come from the AoA, Assistant Secretary for Planning and Evaluation and Centers for Medicare and Medicaid Services. HUD representatives should come from the Office of Multifamily Housing, Office of Indian and Public Housing and Office of Policy Development and Research. The USDA's Rural Housing Services also should be represented. In addition, the interagency taskforce should include technical experts from public and private organizations or agencies that represent state and local governments, nonprofit housing and service providers, academic and research institutions, providers and consumers.

This suggested list of actions for a HUD-HHS taskforce is merely an initial framework for interagency collaboration to improve housing, services and health care for the increasing number of older Americans. While these recommendations are primarily directed to older residents residing (or seeking to reside) in federally assisted elderly housing, many could assist the elderly in public housing, as well as those residing in the surrounding neighborhood.

In addition to responding to the overwhelming preferences of older consumers (and their caregivers) to stay independent in their homes as long as possible, these recommendations represent cost-effective policy shifts in how services are made available. As reported in a recently published study by Harvard University's Joint Center for Housing Studies, *Aging in Place: Coordinating Housing and Health Care Provision for American's Growing Elderly Population* (October 2001): "There are a significant number of expensive inefficiencies associated with this separation of health and housing services. As with most issues, the prevention of a problem is the most cost-effective form of treatment."

AAHSA looks forward to working with HHS, HUD and others to seek creative solutions to this critical need.

National Leased Housing Association
serving America's rental housing needs
NLHA

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Testimony of the National Leased Housing Association

Presented by Roy Ziegler, New Hope, PA
Hearing on H.R. 3995– April 23, 2002
Committee on Financial Services
Subcommittee on Housing & Community Opportunity

The National Leased Housing Association (NLHA) is pleased to submit our views relating to housing affordability issues impacting the Section 8 programs. For the past thirty years, NLHA has represented the interests of housing agencies, developers, lenders, housing managers, and others involved in providing federally assisted rental housing. Our members are primarily involved in the Section 8 housing programs – both project-based and tenant-based. NLHA's members provide housing assistance for nearly three million families.

We appreciate the opportunity to present our views on the Section 8 programs and look forward to working with the subcommittee on improving the housing opportunities for low and moderate income Americans.

Our testimony today will focus on the provisions of H.R. 3995 that relate to tenant based or project based Section 8.

Section 8 Vouchers

A critical component of any national housing policy is the Section 8 voucher program. Under the voucher program, tenants receive a portable subsidy to allow them to afford to rent an apartment or single family home that is decent, safe and sanitary. Over 1.5 million families currently benefit from participation in this program.

Over the years, the Section 8 tenant-based programs have been improved dramatically by consolidating regulations, removing certain barriers to landlord participation and adding flexibility to enable the voucher program to increase a family's chance of achieving self-sufficiency and/or to provide homeownership opportunities. NLHA's members appreciate the interest this subcommittee has shown in sustaining and improving the voucher program over the years.

Recognizing Rising Rents

The rents permitted under the voucher program have not kept pace with the rising rental markets in many parts of the country. As a result, there is a dearth of available apartments resulting in vouchers being turned back to our agencies at a much higher rate than normal. In fact, many agencies issue more vouchers than they have available due to anticipated turn backs. For example, a PHA with 10 available vouchers may need to allocate 25 vouchers before the 10 vouchers are successfully leased up. In other words, an agency can have a 95 percent utilization rate, but only a 75 percent success rate. Not only is this frustrating to the families waiting for assistance, it significantly increases the workload of the issuing agency.

HUD has already taken one important step by allowing the increase in Fair Market Rents in some areas to be raised to the 50th percentile. We request that Congress urge HUD to expand this increase to all markets. The Fair Market Rents (FMRs) being set at the 50th percentile means that 49 percent of units rent above that amount and 49 percent rent below it – in other words, the 50th percentile FMR is the average rent for the area. Since most of the FMRs are currently set at the 40th percentile, HUD is actually saying that a "fair" market rent is **below** the average rent for the area.

Congress can also take steps to improve the ability for families to successfully use their vouchers by amending the statutory provisions relating to the "payment standard." The payment standard sets the subsidy amount under the program and families pay the difference between that standard and 30 percent of their income. If the rent for the unit exceeds the payment standard, the family also pays the difference between the payment standard and the apartment rent - up to 40 percent of income (for new voucher participants). Generally, PHAs set the payment standard at the FMR, but current law allows PHAs the flexibility to set the payment standard for the voucher program between 90 and 110 percent of the Fair Market Rent (FMR). HUD field offices can approve exception payment standards up to 120 percent of FMR. This enables the PHA to adjust the payment standard to more accurately reflect the rental market in the area. However, with increasing rents in many communities, it would be more helpful if the PHAs had the authority to raise the payment standard to 120 percent of FMR without HUD approval.

We understand that the initial draft of H.R. 3995 contained a provision to increase a PHA's ability to raise the payment standard to 120 percent of FMR, but was removed due to budget authority concerns. We urge you to reinstate the provision during markup of the bill.

NLHA also believes that added flexibility in the inspection timeframes for voucher units would increase lease-up rates and supports the proposals offered by the National Multi Housing Council.

Flexibility in Tenant Payment Cap

A second issue that plays a large role in preventing lease-up relates to the 40 percent cap. Currently, families that are receiving voucher assistance for the first time or are currently in the program, but wish to move to a new unit are not permitted to pay more than 40 percent of adjusted income for rent. NLHA supports a cap as a general rule, but believes flexibility is key to address extenuating circumstances. An example of such a circumstance is an elderly woman renting an apartment with her spouse, the spouse dies. The reduction in income qualifies the woman for a voucher, but as she would be paying 42 percent of income for rent, the law requires her to move to a cheaper unit. This is a difficult concept to explain to someone that has lived in their apartment for many years, is afraid to move and to boot, would be paying 60 percent of her income without the voucher.

We appreciate Section 402 of the bill that amends the 40 percent cap provision to liberalize the calculation, thereby helping to address the above situations, but request that PHAs be provided exception authority to the 40 percent cap to allow families/elderly to rent in-place.

Covering the Costs of Running a Program

Agencies that administer the Section 8 program are paid a fee for each unit leased-up. However, over the years, the fee has been reduced while the costs of administering the program have continued to rise. The current fee is often inadequate for smaller agencies, or in tight rental markets and doesn't reflect the costs of providing significant search assistance to families, especially larger families or families with special needs that require more intensive assistance.

Many of the administrative costs for tenant briefings, counseling and inspections are incurred prior to lease-up, but agencies do not receive an administrative fee until a lease is executed. This process can take four to six months. In the past, agencies were paid a preliminary fee for every voucher holder. Congress reduced funding for such fees and only provides them for incremental vouchers. This has caused a huge gap in our funding needs. We strongly support your efforts to provide HUD the authority to offer incentive fees to high performing agencies (Section 405), but request that the reinstatement of preliminary fees be considered.

We applaud the provision (Section 403) to permit PHAs to use a portion of unused Section 8 budget authority for services and payments to help families obtain housing. Such funds could be used for security deposits, grants or loans, landlord incentive programs, expanded mobility programs, tenant education and housing search programs.

Enhanced Vouchers

The loss of project-based Section 8 units remains a concern for many communities. Congress has taken steps to preserve this inventory which have mitigated the number of opt-outs, but the project-based Section 8 inventory has shrunk by over 150,000 units. Fortunately, Congress has provided vouchers at sufficient rents to prevent the displacement of the families living in the apartments at the time of opt-out or prepayment. However, the lease-up of the enhanced vouchers can be burdensome and time consuming to housing agencies. The statutory requirement that every unit be inspected before an enhanced voucher is provided has resulted in significant delays, especially in larger projects. Unlike in the regular voucher program, many of the properties have been inspected by the Real Estate Assessment Center (REAC) prior to the expiration of the project-based contracts or the prepayment of the mortgage. It is redundant for the PHA to be required to re-inspect the units. We recommend that the law be amended to waive the inspection requirement if the property in question received a REAC score greater than 60 within the previous 12 months.

Section 406 would provide parity with the project-based Section 8 program regarding the treatment of "overhoused" families that receive vouchers. Considering that enhanced vouchers are provided to former recipients of project-based Section 8 to allow them to remain in their current homes after an opt-out or prepayment, this provision makes sense. By the same token, Section 404 levels the playing field for enhanced voucher recipients by prohibiting re-screening under different rules. Thank you for recognizing these inequities.

Section 8 Renewals

A number of PHAs and state housing agencies administer project-based Section 8 under the Moderate Rehabilitation program. This program provided over 100,000 units of housing, over half of which has been lost. The law governing Section 8 renewals currently provides disparate treatment of moderate rehabilitation contracts resulting in many owners leaving the program

We strongly support Section 408 of the bill that would treat expirations of Section 8 moderate rehabilitation contracts like all other Section 8 contract expirations. In doing so, we can preserve the remaining 50,000 apartments assisted under the program. We appreciate the leadership of Chairman Roukema and Rep. Andrews on this important issue.

Thrifty Vouchers

H.R. 3995 adds another project-based Section 8 Voucher program to the existing program, which was substantially revised by Congress less than two years ago and is attracting industry interest. The proposed program differs significantly in its terms from the current voucher program, and even has a different allocation mechanism for incremental vouchers. NLHA has concerns about the need for and desirability of the proposed program.

Ability to Use Thrifty Vouchers

The proposed thrifty voucher (or "T-voucher") is extremely limited in its usability. In addition to being restricted to newly constructed or substantially rehabilitated properties, it cannot attach to a unit of housing unless the rent for that unit does not exceed the reasonable operating costs attributable to the unit plus tenant paid utilities. In some cases, the maximum rent may have to be lower than operating costs as the rent is also capped at 75 percent of the Section 8 Fair Market Rent or payment standard, which in rural areas with low FMRs may be less than operating costs plus utilities.

It would be necessary, then, for the entire capital cost of a unit to be written down to zero, and perhaps with some writedown of operating costs in rural areas, for a T voucher to be usable. The principal vehicle for this writedown is the HOME program, a broad-based program that subsidizes the construction, substantial rehabilitation, moderate rehabilitation and acquisition of both rental and homeownership units, and the provision of tenant-based rental assistance. The cities, counties and states that receive HOME grants distribute them among eligible activities in accordance with local priorities. Grant funds in all but the very largest communities are quite limited and tend to be spread thinly among various activities. Historically, about 25 percent of HOME funds have been used to support newly constructed rental properties, in an average per unit amount of about $22,500.

The per unit HOME subsidy would have to be increased substantially for the T voucher to be usable, and the consequence would be either a reduction in the number of units produced with HOME assistance or a shift in priorities away from other HOME activities such as homeownership assistance. At the historic 25 percent allocation level for new construction, only 7 cities and counties in the entire country have HOME grants large enough to assist 50 units with T vouchers (at $60,000 a unit) without exceeding 25 percent of the HOME grant, and only 20 cities and counties could support 50 t-voucher units without exceeding the use of more than 50 percent of their HOME funds. A dramatic increase in HOME appropriations would be helpful but is unlikely. Indeed, the section 8 voucher budget has shown a greater tendency for growth in recent years than the HOME budget, so we question the wisdom of shifting more of the financial burden from section 8 to the HOME production subsidies.

In addition, while the present value of section 8 payments to cover debt service over the term of a loan (under the existing voucher form) is comparable to the cost of a front-end grant to cover capital costs (which would be necessary with the T voucher), the crucial initial year appropriation for a HOME grant under the T voucher approach would exceed the section 8 initial year appropriation under the current approach by an approximate magnitude of 15 to 1. We are concerned, therefore, about the potential negative impact of the T voucher mechanism on the volume of assisted housing units that might be produced under the combined HOME and Section 8 programs.

Purported Cost Savings

The purported cost savings of T vouchers are merely a shift in the source of subsidies. It may also be thought, however, that the T voucher is more economical because it is based on a budget review of operating costs rather than on market rents. This belief is misguided for two reasons. First, since T vouchers can only be used where there is a deep capital subsidy, the comparison should be made between regular vouchers and T vouchers in HOME projects. The HOME subsidy is designed to reduce rents to specified maximum levels. The amount of the HOME assistance to a project developer is measured to achieve specified rent levels based on a project's construction and operating budgets. The current section 8 rent is limited to the lower of the HOME approved rent or market rent. Further, where multiple subsidies are involved, such as tax credits and HOME, federal law requires a subsidy layering analysis to ensure that the combined subsidies are not more than necessary to achieve the desired rent levels.

Second, H.R. 3995 includes in the rents subsidized by the T voucher an ample cash flow allowance equal to 15 percent of all other operating costs, including owner paid utilities and an asset management fee. This level of allowance plus asset management fee is within the range of what an owner of comparable unsubsidized rental properties might consider as a reasonable amount for compensation and is substantially in excess of HUD limitations where imposed on subsidized rental projects. We are not saying that this level of surplus is unreasonable, but only that the cost saving benefits of T vouchers may be exaggerated. The T voucher is hardly so bare boned as its name suggests.

Impact on Tenants

The T voucher program has a lower income limit than the regular program – 30 percent of the median income for the area rather than 50 percent of median income. However, the current program targets at least 75 percent of the vouchers to families at 30 percent of median income or below. We believe that the current income limits and targeting requirements should not be further tightened if the voucher program is to be able to function over broad geographic areas. In any event, it is not necessary to create a new program in order to change income limits or targeting requirements.

Tenants should be concerned about the T vouchers because if they became the dominant form of project-based voucher, pressure would mount to make them more usable (and to achieve costs savings) by permitting rents in excess of the T voucher payment standard, as is possible in the current program, up to the statutory cap of 40 percent of the tenant's income. The potential result of these shifts would find a tenant in a HOME project with a T voucher paying 40 percent of its income toward rent and wondering how it happened that a rent at 85 percent of the old payment standard results in a tenant payment of 40 percent of income rather than 30 percent.

Administrative Complexities

The entire T voucher proposal is complex, the disadvantage of which is magnified by the anticipated low volume of the program. There is a lot to master for very little result. The proposal includes separate rules for projects for the elderly or disabled and projects for families, separate rules for projects located in qualified census tracts and those not located in qualified census tracts, separate rules for projects with no more than 25 percent of the units subsidized by T vouchers and those with more than 25 percent subsidized, separate rules for incremental T vouchers identified in appropriation Acts and for conversions of existing regular vouchers to T vouchers by PHAs. Even the definition of "extremely low income" under the proposed program differs in the measurement of 30 percent of median income from the definition of extremely low income in the rest of the section 8 voucher program.

In conclusion, the T proposal is a well-intentioned effort to enhance housing assistance, but we believe the proposal is a step backward, and we urge the Committee to reject it.

NLHA is committed to maximizing housing opportunities for low and moderate-income families and stands ready to assist the subcommittee in its work. Thank you for the opportunity to present testimony.

APPENDIX

April 24, 2002

Opening Statement of the Honorable Marge Roukema
Chair
Subcommittee on Housing and Community Opportunity

"HR 3995, the Housing Affordability for America Act of 2002"

Tuesday, April 24, 2002

This is the third in a series of hearings on H.R. 3995, the Housing Affordability for America Act of 2002, which is designed to increase the availability of affordable housing and expand homeownership and rental opportunities across the country.

Our first hearing on H.R. 3995 focused specifically on the HOME program, housing production, the National Housing Trust Fund as proposed in H.R. 2349, and the thrifty production voucher as proposed in H.R. 3995. The second hearing, held yesterday, focused on section 8, public housing, elderly, disabled, homelessness and HOPE VI.

Today we are pleased to have representatives from the Administration and we are most anxious to hear there insights on H.R. 3995, as well as on issues and initiatives that may not have been covered in H.R. 3995. The Administration has proposed several new or expanded initiatives in the 2003 budget to help more Americans reach the dream of homeownership, ensure affordable housing opportunities, strengthening and renewing our communities.

This Committee has already held hearings on two of the Administration's initiatives – CDBG and brownfields. In fact, we have worked closely with HUD on the brownfields legislation that was recently approved by the Full Committee.

The Administration has also proposed an American Dream downpayment Fund to assist first-time, low-income families buy their first home. On April 16, Congressman Rogers introduced legislation to authorize the American Dream Downpayment Fund. I was pleased to be an original cosponsor of that legislation.

The Administration has pledged to triple funding for the SHOP program in FY 2003. SHOP benefits faith-based and other community organizations dedicated to turning low-income Americans into homeowners. H.R. 3995 reauthorizes SHOP through 2007 and increases the cap on dollars spent per unit of housing produced to $15,000.

The Administration has also proposed establishing a separate housing counseling program that would be funded at $35 million. This program would replace the $20 million set-aside within the HOME program. Counseling can be an effective way to encourage Americans to step into homeownership. I agree with the Administration that housing counseling is an invaluable tool for not only prospective homebuyers but renters as well and anyone struggling to keep their home amidst financial stress.

In an effort to consolidate and coordinate the housing counseling programs, H.R. 3995 designates a single office in the Department of HUD to establish, coordinate and administrate all requirements, standards and performance measures that relate to housing counseling, homeownership counseling, mortgage-related counseling and rental housing counseling.

We will also hear from several private sector witnesses who will testify on the specifics of the FHA program. Title II of HR 3995 includes several provisions that would impact the Single, Multifamily and healthcare programs.

On the Multifamily side, H.R. 3995 indexes FHA mortgage limits to reflect building, land and impact fee cost increases in the future. In addition, the maximum high-cost percentage is increased to allow for production in extremely expensive markets such as New York City and San Francisco, similar to what is already allowed for Alaska and Hawaii. The bill also modernizes the thirty-year old healthcare mortgage insurance programs of sections 232 and 242 of the National Housing Act to make them more consistent with today's method of delivering healthcare and assisted living services for the elderly, sick, injured and disabled.

On the single family side, H.R. 3995 makes permanent the FHA downpayment simplification calculation; eliminates the cap on FHA adjustable-rate mortgages; establishes risk-based capital levels for the Mutual Mortgage Insurance Fund and a uniform national loan limit for HECM. In addition, the bill would make changes to the FHA program to tighten requirement and administration of the 203(k) FHA program.

Again, we look forward to hearing from the Administration experts on our first panel today on the Administration's response to the provisions included in HR 3995 and also from the private sector experts on our second panel. With that I would like to turn to the Ranking Minority Member, Mr. Frank.

Julia Carson
Member of Congress

Congresswoman Julia Carson
10^{th} District, Indiana
Opening Statement
Third Hearing on H.R. 3995, the Housing Affordability for America Act of 2002
April 24, 2002

Madame Chairwoman, I would like to thank you for the work you have done in convening the recent hearings on the dearth of housing available to low-income Americans. I would also like to thank all the witnesses for their attendance. I look forward to their testimony.

Madame Chairwoman, a fundamental measure of a good society is how it responds to the needs of its poor. For too long, the need to increase the stock of affordable housing, to provide for low and middle-income Americans, has gone unrecognized and unmet. The measure before us today, coupled with the Administrations budget proposals, put us in a position to respond to those needs. It is crucial that we get our response right.

Decent housing is a principal factor in building a good life for oneself and ones family. Because of this, we rightly call the lack of decent, affordable housing across America a crisis. The Administration has emphasized and dedicated enormous resources to helping people realize the dream of homeownership. For a large portion of homeless people and families residing in dilapidated housing, the solution does not simply lie in being given shelter or a place to live. These people are often victims of problems far more wide-ranging than that, such as unemployment, addiction, family crisis, poor health, or simply social marginalization. Such people are at a clear disadvantage in the housing market.

While there can be no doubt that many will benefit from downpayment assistance, it is not an adequate solution to the complex housing needs of most low-income Americans.

I have learned a great deal from the hearings this subcommittee has held regarding the lack of affordable housing, and how to solve it. I have learned that there is a great willingness on the part of public and private housing organizations to work with the government to try something new to address this problem. I have learned that homeless and marginalized American families are hopeful that the U.S. Congress is aware of their plight, and are waiting for a bold housing policy to rescue them from this crisis.

I applaud Chairwoman Roukema for bringing this measure before the subcommittee, but based on the hearings so far I think a bolder attempt is warranted. Committing new resources to extremely low-income families and people, not relying on Section 8 recaptures, is warranted. Perhaps H.R. 3995 can serve as the base of a bolder bill.

As Democrats and Republicans, we will support whatever we believe will best respond to the need of American families for affordable housing, but we must make sure we don't put the interests of our parties before the needs of poor Americans.

Congressman Felix J. Grucci, Jr.
Subcommittee on Housing and Community Opportunity
Hearing on the Housing Affordability for America Act of 2002 (HR 3995)
April 24, 2002

Thank you Madame Chairwoman.

I would like to thank you for holding a very informative series of hearings on the Housing Affordability for America Act of 2002. As this Committee knows well, America's housing needs are growing and changes in the system are overdue. HR 3995 creates a pathway to homeownership and affordable housing that every community throughout America needs.

Today, communities throughout the nation face major challenges. Some communities are forced to stop adding names to wait lists, as they are already years long. Other communities are closing housing facilities that have been mismanaged and neglected. Other communities, such as several that I represent, have very little, if any, affordable housing opportunities. Even affordable rents in some communities are not affordable to the low and moderate-income family. By providing flexibility to tenants and Public Housing Authorities, HR 3995 betters existing programs and makes them more effective for those that need them most.

While America has reached new levels of homeownership, we must work harder to ensure that every family has access to this aspect of the American Dream. I believe that HR 3995 will open more doors to homeownership by helping to provide a foundation for families looking at becoming first-time homeowners.

As we will hear today, the Administration also has several good proposals to increase homeownership in America. Among them is the American Dream Downpayment Fund, which would assist first-time low-income homebuyers with down payments. Too often, down payments are the final obstacle that restricts low and moderate-income0 families from purchasing their first home. By providing some relief to these families, they will be able to make the dream of homeownership a reality.

The Administration has also proposed allowing low-income families to put up to a year's worth of their Section 8 rental voucher toward a home down payment. I have long advocated that Section 8 housing should be a stepping stone to homeownership. Among other things, it allows low-income families to use affordable housing as a foundation for financial growth and saving.

I look forward to the opportunity today and in the months ahead to review two important proposals – HR 3995 and the President's proposed Fiscal Year 2003 Department of Housing and Urban Development Budget. Both of these proposals share a vision of increasing homeownership and affordable rental options, while bettering existing programs by increasing flexibility, empowering local authorities to have more control over the administration of the programs and increasing the scope of programs that assist the elderly, homeless and disabled populations.

As a cosponsor of the Housing Affordability for America Act, I believe that we have a solid plan to address the diverse housing issues Americans face. While the President and Secretary Martinez may not agree with every provision within 3995, I believe we can work together to ensure that our common goals and principles are not lost.

I look forward to your testimony and to hope to continue our dialogue on these important issues.

Thank you.

April 24, 2002
Congressman Steve Israel
Questions for HUD Panel
Subcommittee on Housing and Community Opportunity
Committee on Financial Services
Day 3 of Hearings on HR 3995,
The Housing Affordability for America Act of 2002

I have three questions for the panel that concern some improvements I believe could be made to HR 3995. I would appreciate hearing HUD's views on the following issues *before* the Committee begins marking up the bill.

1. I believe HUD should be doing more to serve people with disabilities. Right now, it appears that there is no central designated office in HUD that serves people with disabilities. I understand that the Deputy Assistant Secretary for Special Needs' portfolio includes families with children, homeless, and a host of other populations - but apparently NOT the specific needs of the specific population of people with disabilities. Where can a disabled woman from New York call with specific questions about how HUD programs can address her needs as a disabled person?

2. How does the VETS office work at HUD? Would this be an appropriate model for a new disabilities office within HUD? I understand that there is a staff member at HUDVET who specifically answers disabled veterans' questions. My goal is that there be a place in HUD where a disabled person can call and get information on all of the services available, without having to be bounced from office to office. It appears that HUD has the critical pieces in place to do this, but there is no leadership making it happen. What do you think is the best way to proceed?

3. I have a concern about what HUD accepts as proof of disability. I have heard of cases where HUD has not accepted as proof of disability a letter from the VA stating that the individual is receiving a VA pension. The VA has regulations that define "total disability," and these regulations parallel Social Security's definition. Therefore, if a veteran comes to a HUD property bearing a letter from the VA that says the vet is totally disabled, I think that should be accepted as proof of disability. What are your standards on proof of disability?

Mr. Miller's opening statement.

Housing and Community Opportunity Subcommittee Hearing on H.R. 3995, the "Housing Affordability for America Act of 2002" Wednesday, April 24, 2002

Chairwoman Roukema, thank you for holding today's hearing on H.R. 3995 and the Administration's views.

H.R. 3995 provides a number of changes to our housing programs and is the first major housing bill in a number of years. Understanding how these proposed changes will impact individuals in search of affordable housing, Public Housing Authorities, nonprofit organizations dedicated to providing housing, and private sector builders is paramount to this effort.

Today, we turn our attention to the Administration's views. Given the U.S. Department of Housing and Urban Development's crucial role of implementing the public housing programs, their insight on this bill is also crucial.

Although I look forward to hearing the testimony today, I would like to quickly compliment the Administration on its goal to expand homeownership opportunities through the American Dream Downpayment Fund. Although Section 8 Vouchers and other housing program put a roof over the heads of those in need, homeownership creates personal wealth and freedom.

Again, I look forward to today's testimony and opportunities to work with this Administration to make the American dream of homeownership a reality for more individuals.

Statement of Congresswoman Waters
Affordable Housing Issues
APRIL 24, 2002

Good morning, I would like to thank you for calling this hearing and the witnesses for coming to speak to us today about affordable housing issues.

We are in a housing crisis. The economic expansion of the past few years has been accompanied by skyrocketing home prices and rents. There is a severe shortage of affordable housing, and in many areas, any type of housing. Now, with the recession, the affordable housing crisis, has become, for many, a calamity.

In my home state of California, about half of renter households pay much more than the recommended 30 percent of their income toward shelter. However, 91% of low-income renter households, with annual incomes under $15,000, spend more than 30% of their income toward rent. These low-income households outnumber low cost rental units by a ratio of more than 2-to-1, both statewide and in Los Angeles County. Statewide, there is a shortfall of almost 600,000 affordable units.

About two-thirds (66%) of senior renter households pay more than 30 percent of their income toward shelter. 85% of low-income senior renters pay more than 30 percent toward rent. And with the aging of our population, these percentages will soon translate into much higher numbers.

Furthermore, the rising tide of the recent economy has failed to lift all boats, and now that the tide has turned, the situation has worsened. Household incomes of renters in my state have failed to keep pace with inflation, falling significantly between 1989 and 1999 in inflation adjusted terms. The inflation adjusted income of poor renters fell nearly 14%, and the median income for renters with children fell 11%.

Overcrowding and substandard housing conditions continue to be a severe problem, particularly in Los Angeles County.

We also need to look at some new issues that arise due to today's tight housing market.
Fair Market Rents are currently set at the 40^{th} percentile rather than the 45th. With the current tight rental market, it is difficult to even locate a unit for a Section 8 participant.

Furthermore, the availability of these units is shrinking. A growing share of HUD-subsidized units are at risk of loss. Owners of 1.4 million private rental units can prepay their mortgages at the end of expiring use periods or opt out of programs when their subsidy contracts end. Landlords with properties in the most desirable areas and in the best condition are the most likely to opt out and to take advantage of higher prevailing rents.

For example, as of the end of 1999, roughly 90,000 units had been lost from the affordable stock because of mortgage prepayments or opt outs. If the past is any guide, as many as 10-15 percent of the 1.2 million units with contracts expiring by 2004 may also opt out. If rent increases continue to outpace inflation, the share may go even higher.

Even though demand for public housing is strong, 60,577 of 86,000 seriously distressed units are slated for demolition. By the end of 1999, over 27,600 units had been torn down. Despite HUD's replacement goal of 45 percent, only 7,273 units have been built or rehabbed thus far.

We need to step up to the plate and help solve these problems, before they become outrageous, and that time is now. I am certain that the witnesses will have some valuable suggestions, and I look forward to hearing their testimony.

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Congress Should Ensure HUDís Expeditious Implementation of Rehabilitation Grants Authorized by the 1997 Multifamily Assisted Housing Reform and Affordability Act

Summary. HUD now has $300-$400 million in already appropriated but unused affordable housing funds that result from prepaid or terminated Section 236 interest subsidy contracts. More than four years ago, in Section 531 of MAHRAA (Pub.L. 105-65), Congress directed that these idle funds be used for rehabilitation for eligible projects. Despite its inclusion in the FY ë01 and ë02 budgets, HUD has still not implemented this rehabilitation grant/loan program. OMB estimates the current amount that should be made available at $300 million for 2002 and another $100 million for 2003. Congress should require that HUD provide these funds as intended.

Background. In 1968, Congress created the Section 236 program, combining 40-year FHA mortgage insurance with subsidized interest payments to the lender to finance the creation of affordable housing. The subsidy lowered the effective interest rate to the owner to 1%. The difference between the market mortgage rate and the 1% mortgage was the ìInterest Reduction Paymentî (IRP). Many tenants received the benefits of this subsidy by paying HUD-approved budget-based ìbasicî rents. Eventually, many Section 236 projects also received additional project-based Section 8 assistance payments, permitting more affordable income-based rents for lower-income tenants. Nearly 600,000 apartments were produced under the Section 236 program.

Many owners can now prepay the subsidized mortgage, thereby eliminating the affordability restrictions, resulting in the loss of thousands of units every year. Yet these prepayments and other terminations (e.g., foreclosures) also create funds that can be used to preserve other properties in the stock.

A significant feature of the Section 236 program was that the entire stream of IRP funds required for the full 40-year mortgage term was appropriated at project inception, thereby creating a revenue source available to the project for the next 40 years. Every time a Section 236 mortgage is prepaid or terminated, the budget authority for the remaining IRP stream is made available to HUD. That recaptured IRP forms a ìpoolî of money, estimated to total $400 million by 2003. In late 1999, HUD had developed a draft Notice to make this IRP Pool fund available, but it was never issued.

These funds can provide important new incentives, coupled with new use restrictions, to preserve and improve properties still at risk of conversion to market-rate. Despite the 1997 MAHRAA authorization, HUD has not yet made these funds available to eligible projects.

Next Steps Needed:

Congress must require that HUD and OMB take immediate action to issue the IRP Pool Notice making these funds available;
The policy should provide loans as well as grants, to permit leveraging of Low- Income Housing Tax Credit equity, contrary to the FY ë02 Administration budget proposal;
Congress should make no further changes to the program until operation permits assessment of its efficiency in achieving preservation goals.

IRP Pool: $300 Million Available to Preserve and Improve
HUD Assisted Housing

Background

When an owner prepays a Section 236 mortgage, the ìInterest Reduction Paymentî (IRP) is returned to HUD. When this occurs, HUD ìrecapturesî the funds.
Over $300 million of IRP Recaptures are apparently available at HUD per its own budget proposal.
If this money is not expended as Congress intended, it could get rescinded or used for purposes other than preservation.

Law

Title V of the FYí98 HUD Appropriations Act allows HUD to use this ìrecaptured IRPî for rehabilitation of HUD assisted housing.
HUDís proposed FYí03 budget identifies the $300 million.

Next Steps Needed:

Congress must require that HUD and OMB take immediate action to issue the IRP Pool Notice
HUD should permit the funds to be provided as loans as well as grants to permit their use in low income housing tax credit transactions.

STATEMENT OF JOHN C. WEICHER
Assistant Secretary for Housing/FHA Commissioner
U.S. Department of Housing and Urban Development

BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

April 24, 2002

Thank you for the opportunity to testify on behalf of the Department of Housing and Urban Development and the Office of Housing-Federal Housing Administration (FHA), concerning the "Housing Affordability for America Act of 2002." The bill covers a very wide range of programs and activities across the Department, including many different programs within the Office of Housing. We have carefully reviewed each provision contained in the bill, and I am grateful for this opportunity to provide you with our thoughts on the sections of this important piece of legislation. Because you have also addressed a number of specific questions about FHA programs in your letter of invitation, I will combine my answers to those questions with comments on the corresponding sections of the bill. I have organized my comments by program area.

FHA Single-Family Insurance Programs

To begin with FHA's basic Section 203(b) home mortgage insurance program and the Mutual Mortgage Insurance (MMI) Fund: as you know, the President and the Secretary have made promoting homeownership, especially for minority households, a cornerstone of domestic policy. We are very proud of FHA's success in promoting homeownership. About 80 percent of our home purchase mortgages serve first-time homebuyers and about 35 percent serve minority households. The national homeownership rate, and the minority homeownership rate, both set new records last year.

The MMI Fund was determined to have an economic value of $18.5 billion at the end of FY2001, with a capital ratio of 3.75%. FHA's volume of business this year is running substantially in excess of expectations. Indeed, through the first six months of the year we have insured over $81 billion of single-family mortgages. We are assessing the need to seek an increase in our current commitment limitation of $160 billion for the MMI Fund for the current fiscal year. Having been personally involved in developing the legislation that put FHA on an actuarially sound basis some 12 years ago – as was Chairwoman Roukema and Ranking Member Frank - I am very pleased to report this information to you.

Of course, the MMI Fund has attracted a number of proposals to spend the reserves, for example to divert funds into a new "National Housing Trust Fund" for purposes well beyond the homeownership goals of the Mutual Mortgage Insurance Fund. We think these proposals are ill-advised, and they misconstrue the nature of the MMI Fund's net worth. Net worth includes the estimated present value of future losses and future premium income, as well as current reserves.

Establishing the MMI Fund on an actuarially sound basis was a fundamental goal of the Cranston-Gonzalez National Affordable Housing Act of 1990. That was intended to forestall the need for any taxpayer bailout of the FHA, as had just been required for the savings and loan industry. The MMI Fund was specifically required to operate with a separate reserve against potential losses. The Cranston-Gonzalez legislation provided that funds would be available to meet any contingency, so that general revenues in the

Treasury would never be needed to meet FHA obligations. To achieve this objective, FHA suspended the payment of distributive shares to borrowers and raised insurance premiums substantially.

Since 1990, FHA has gradually built up its reserves year by year. This annual surplus has been counted in the overall Federal budget as an offsetting receipt, and has helped reduce the deficit. Because this revenue was previously counted as a receipt, any legislation that proposes to expend it will be counted as new spending, just as if funds were being appropriated directly out of the Treasury. Using these funds for other purposes will result in a substantial budget outlay. Moreover, using the MMI Fund reserves will vitiate FHA's ability to meet the basic goal of the Cranston-Gonzalez Act of making the MMI Fund actuarially sound.

FHA was able to reduce single-family premiums substantially last year, and make homeownership more affordable for more families, in line with our fundamental public policy purpose. The "Housing Affordability for America Act of 2002" contains several provisions that would improve FHA's ability to operate our core single-family home mortgage insurance programs. Section 221 would make permanent a pilot designed to streamline and simplify the FHA downpayment program. Secretary Martinez supported this proposal during his testimony before the House Appropriations Subcommittee last month. This downpayment simplification calculation has proven to be a successful program modification. The procedure reduces the number of steps involved in the calculation of the FHA single-family mortgage amounts, and thereby has eliminated the confusion experienced by many buyers, brokers, and lenders. Further, this existing statutory authority has reduced the costs associated with closing an FHA insured mortgage. Ultimately, the simplification has increased homeownership opportunities for low- and moderate-income families. The Department appreciates the efforts by Rep. Bob Ney and other Members of this Committee in supporting the permanent extension of this provision.

Similarly, Section 227 should facilitate the Department's ability to effectuate another legislative priority. During the FY2002 budget process, the Department requested and received authority to insure hybrid Adjustable Rate Mortgages (ARMs). Our work to implement that authority is continuing. The Department's position is that FHA's hybrid ARM should approximate the conventional hybrid ARM and its benefits as closely as possible, subject to preserving sound underwriting policies and protections for FHA borrowers and the MMI Fund. Section 227 supports that end by allowing the Department greater flexibility in the design of regulations that will govern the initial rate adjustment at the end of the fixed rate period.

Sections 229-231 are consistent with recent Department actions to strengthen our Section 203(k) rehabilitation mortgage insurance program and our nonprofit partnerships. In 1996, the Office of Housing issued Mortgagee Letter 96-59, placing a moratorium on investor participation in the 203(k) program. Investors have not been allowed to participate in the program since the issuance of this Mortgagee Letter. The moratorium still stands. We have no plans to modify the Letter and have no objection to Section 229.

Similarly, Section 230 regarding rehabilitation loan advances is also consistent with Departmental action. FHA Mortgagee Letter 00-25 states, "mortgagees are fully responsible for authorizing draw inspections, managing the rehabilitation escrow account, and approving the associated draws for the account." The Letter also requires consultants to be chosen from the FHA 203(k) Consultant Roster and permits consultants to perform the inspections on the mortgagee's behalf. The Department has a number of technical questions regarding this provision and looks forward to working with the Committee to ensure that mortgagees are held appropriately responsible.

Section 231 would require participating nonprofits to be approved 501(c)(3) organizations and certify annually to the Department its understanding of HUD guidelines. In January 2002, the Office of Housing issued Mortgagee Letter 02-01, establishing new requirements for nonprofits seeking FHA-approval. Nonprofits must now have, among other requirements, two years 501(c)(3) IRS tax-exempt status and a minimum of two consecutive years – within the last 5 years – of housing development experience. Approved nonprofits have until September 30, 2002 to demonstrate their compliance with the new requirements. The Office of Housing supports Section 231 to strengthen its existing guidance. It will help us prevent a recurrence of the 1998-1999 Section 203(k) fraud problem in New York City, where a number of nonprofits purchased small multi-unit buildings in Harlem and Brooklyn, intending to have them rehabilitated for owner-occupancy. The knowledgeable and experienced Commissioner of New York City's Department of Housing Preservation and Development said that she had never heard of 25 of the nonprofits that bought these homes; she had only heard of two. This fraud will cost U.S. taxpayers some $268 million and will cost the citizens of New York City another $125 million.

Sections 222-224 contain proposals to provide special opportunities for teachers and public safety officers. Section 223 would give the Secretary authority to discount HUD-owned, single-family properties by 50% to qualified teachers and public safety officers. The Department certainly does not object to such a program; indeed, the Secretary already has this authority and has exercised it. The Department's Officer/Teacher Next Door Program currently allows teachers and police officers to purchase homes at a 50% discount in designated revitalization areas, subject to a three-year owner occupancy requirement. In connection with such programs, however, we do want to highlight for the Committee the management challenges and program administration difficulties inherent in these efforts. During a Fiscal Year 2001 audit of the program, the Office of the Inspector General uncovered a significant number of violations of the program rules by officer participants. In May 2001, the Department temporarily suspended sales under the program and instituted enhanced management controls. A recent IG audit of sales closed after the program resumed in August 2001 did not identify any new program violations. The Department is currently working on a proposed rule to include these program controls.

Sections 222 and 224 both aim to reduce downpayment requirements for public safety officers, while Section 222 also includes teachers among those who will benefit.

In regard to both provisions, it is important to note that the Office of Housing has recently made significant changes to its programs to reduce downpayment costs substantially for all buyers of FHA insured properties. These changes include the reduction of upfront insurance premium rates by 33 percent, along with the Downpayment Simplification previously mentioned. One observation the Department would make with regard to Sections 222-224 is that a number of other occupational groups have expressed a similar interest in reduced downpayments.

I would also mention that the Department's Office of Policy Development and Research is in the process of studying the impact of programs that reduce downpayment requirements for selected populations, as required by Congress. We believe that it would be prudent to wait until the results of this study are available before making any commitment to such an initiative.

The Administration appreciates the importance of providing opportunities for low-income families to receive downpayment assistance. We are committed to expanding homeownership opportunities. The Department is prepared to implement the American Dream Downpayment Fund proposed by the President and funded by Congress last year. The American Dream Downpayment Fund will reduce the barrier that downpayments frequently pose to homeownership, for all low- and moderate-income families. On behalf of the Administration, I want to thank Rep. Mike Rogers and other Members of Congress for introducing H.R. 4446 to authorize this program.

Section 228, which would establish a uniform national loan limit for Home Equity Conversion Mortgages (HECMs), also concerns an issue that is currently part of an internal analysis by the Office of Policy Development and Research. As mandated by the "American Homeownership and Economic Opportunity Act of 2000," the Department is conducting an actuarial analysis on the impact of this provision. We will provide the Subcommittee with comments and recommendations when this study has been finalized.

FHA Single-Family REO

The bill also contains several provisions concerning FHA's single-family inventory of foreclosed homes, and the Committee has asked about our Real Estate Owned (REO) activities. Since the introduction of the Management and Marketing contracts in March of 1999, the Department has greatly improved its REO disposition. As of March 2002, the inventory of HUD-owned homes is at its lowest level since 1996 - 28,270, compared to a March 1999 inventory of 41,747. Moreover, the inventory has been stable during the recession, instead of rising as has been typical in the past. Currently, properties remain in inventory an average of 183 days, compared to 221 days in March 1999, and losses per claim have been reduced from 39 cents to 29 cents on the dollar. The loss rate is at its lowest point in at least 20 years.

FHA sold 66,415 single-family homes during FY 2001. About 60 percent of these sales were to owner-occupants, helping serve FHA's basic purpose of promoting homeownership. Another 30 percent are sales to investors, and the remainder – slightly less than 10 percent - goes to local governments and nonprofit organizations.

FHA currently offers discounts to HUD-approved nonprofit organizations on the purchase of REO. Properties newly acquired by HUD are offered initially to governmental entities and nonprofits organizations on a limited competitive basis, which excludes investors and owner occupants, for up to 5 days. For specific properties on which governmental entities and nonprofits organizations express an interest to purchase, HUD offers them these properties on a limited competitive basis for up to another 10 days. After these periods, FHA opens bids on properties to the general public, but nonprofit groups and governmental entities may bid and still receive sales discounts. These discounts are factored into a sale after the highest bids are calculated.

HUD properties are appraised and initially listed for sale on the Internet and through multiple listing services at the "as-is" value established by the appraiser. Properties sold to a nonprofit are discounted by 10%, unless the property is located in a FHA-designated "revitalization area," in which case the discount is 30%.

FHA has two primary initiatives underway associated with its property disposition program. We have begun a major review of our Asset Control Area (ACA) program, following a report of program deficiencies by the HUD Office of Inspector General in a recent audit. We are planning to build stronger controls into the ACA program. During that review, which will take four to six months, we will let current ACA agreements expire. Our ACA partners can, however, continue to rehabilitate and sell the properties they have already acquired from HUD, and we believe that most, if not all, ACA partners have an inventory of properties that will not be exhausted during the review.

A second initiative is HUD's Accelerated Claims Demonstration Program. This program, created by Section 601 of the FY1999 Appropriations Act and announced in a Federal Register Notice on February 5th, will enable HUD to buy seriously defaulted loans that cannot be addressed through FHA's loss mitigation program and sell these loans to the private sector for management, including more extensive mitigation than FHA can provide. This program is expected to begin in the fourth quarter of this fiscal year. Considering both of these initiatives, it does not appear that additional statutory authority related to property disposition is required at this time.

Partly for these reasons, we see no need for Section 225 of this bill, which would require HUD to use the Department of Agriculture's Rural Housing Services Center as an additional resource for servicing single-family, HUD-held mortgages. We believe that this requirement is unnecessary and indeed would be counterproductive. Presently, HUD's National Servicing Center (NSC) in Oklahoma services four types of secretary-held loans, each with unique characteristics and servicing requirements. In particular, NSC services 963 reverse equity loans. For this loan type, the Department makes monthly payments to the borrowers rather than receiving income from them. The daily payment process is complex and time sensitive. Additionally, NSC services second mortgages generated through loss mitigation advances and discounted sales to officers and teachers in HUD's Officer/Teacher Next Door programs. Because these mortgages carry no interest and require no monthly payments, servicing activity is generally limited to processing subordinations and payoffs. All of these mortgage types are unique to HUD. The Rural Housing Service has no similar programs and no experience in servicing such loans. NSC is doing an excellent job managing their unique mortgage servicing requirements. It is unclear that there is a benefit or need to outsource the servicing of these loans.

FHA Multifamily Insurance Programs

As the members of this Subcommittee know, FHA's basic multifamily insurance program is Section 221(d)(4). This program has required a credit subsidy since Federal Credit Reform was enacted in 1990. Three times in the last eight years, the program was closed down because the available credit subsidy was exhausted. To prevent further closures and place the program on a break-even basis, the Department raised the premium from 50 basis points to 80 basis points for FY 2002. Many in the industry, and some Members of Congress, were concerned that the program would be hamstrung by this increase. That has not happened. Already in this fiscal year, FHA has insured over $1.5 billion worth of Section 221(d)(4) projects – more than we insured in all of last year. Moreover, with the 25 percent increase in mortgage limits that was proposed by the Secretary and enacted by Congress, we are seeing applications from high-cost metropolitan area that have not participated in the program in years – Philadelphia, Newark, Baltimore, here in Washington, the Twin Cities, and Seattle.

In addition, we have conducted the first systematic re-analysis of the premium and credit subsidy since Credit Reform was enacted. We have concluded that Section 221(d)(4) can be operated on a break-even basis at a much lower premium – 57 basis points. The President's Budget contains an announcement of this premium reduction, effective in October, at the beginning of FY 2003. We are also reducing either the premium or the credit subsidy for nearly every other multifamily program.

This summary of FHA's multifamily mortgage insurance programs provides background for consideration of Sections 201 and 202 in the legislation. They address the question of who should be served by the programs. FHA multifamily mortgage insurance generally serves moderate-income renters. Most of the projects that FHA insures are affordable to families in the lower half of the income distribution, and almost half are in underserved areas. These are important markets; these families and these communities need FHA.

Section 201 proposes to index the FHA multifamily mortgage limits. As members of this Subcommittee certainly know, Congress approved indexing the mortgage limits in the Section 203(b) single-family mortgage insurance program several years ago. This provision has enabled FHA to keep pace with inflation and changing economic conditions as it serves young, first-time homebuyers. Indexing the multifamily limits should likewise prove to be more responsive to market conditions and to the needs of families seeking moderately priced rental housing. Clearly, annual adjustments provide a better way to compensate for increased costs than by providing periodic dollar increases. When Congress raised the limits last year by 25 percent, at the request of Secretary Martinez, this was the first increase since 1992, and represented a delayed catch-up for the inflation that occurred between 1992 and 2001; during those years, FHA was progressively less able to serve moderate-income renters.

Section 202 proposes to increase the maximum mortgage limits in areas with very high housing costs by 30 percent above the amounts allowed under current law. It also proposes to increase the amount by which the Secretary, on a case-by-case basis, may increase the maximum mortgage amount. The Department would prefer to analyze the data resulting from our experience with the new limits that Congress enacted last year and the future effects of the indexing contained in Section 201 before evaluating the need for additional high housing cost authority.

FHA Insurance for Nursing Homes and Hospitals

The Housing Affordability for America Act of 2002 contains several provisions relating to FHA's insurance programs for nursing homes and hospitals. Section 206 seeks to provide a more flexible procedure with respect to the Certificate of Need (CON) for hospitals, which is somewhat similar to an Administration proposal that was not enacted last year. There is a technical problem with the language of Section 206 as drafted. The Section states that HUD should work "in conjunction with" the Department of Health and Human Services (HHS). HUD currently has a contractual agreement with HHS with respect to Section 242, the hospital mortgage insurance program. Under this agreement, both HHS salaries and expenses are paid from the FHA General Insurance Fund. This agreement has worked well for several years. Because of the agreement, the language should be modified to read "in consultation with," to avoid any contractual disputes between HUD and HHS in the future. There is no similar agreement between HUD and HHS with respect to the Section 232 nursing homes mortgage insurance program, and we do not believe that the language is necessary or desirable for that program. HUD operates the nursing home program effectively without formal participation by HHS.

Sections 203-205 amend the definition of the FHA health care and assisted living programs so as to take FHA into new lines of business. Sections 203 and 204 change the definitions in Section 232 and Section 242, respectively, to include community health centers, medical practice facilities, and group practice facilities, and Section 205 permits insurance to refinance these facilities. These provisions raise a number of questions and require additional analysis before the Department can provide a definitive position. The language creates an overlap between Section 232 and Section 242, as well as Title XI, so that these new lines of business can be insured under either program. The programs are now managed separately within the Office of Housing, and the overlap could possibly complicate our ability to run both programs. More fundamentally, these proposals would appear to require FHA to undertake new insurance activities on unfamiliar products, beyond our current expertise and capacity. FHA primarily insures financing for housing.

To expand our portfolio to include businesses that provide no shelter could have long-term consequences to the FHA General Insurance (GI) Fund. We are now experiencing an increasing number of claims in the Section 232 nursing home program, and we have some 17 hospitals on our "Problem Watch List." It is particularly relevant that the expansion of nursing homes into new business activities during the 1990s led to a significant number of defaults and bankruptcies.

Programs for the Elderly and Disabled

Section 301 addresses part of a well-known policy concern. It would authorize the use of uncommitted, unobligated Assisted Living Conversion Program funds in the Section 202 program for use in a modernization demonstration program for Section 236 elderly housing. The Section 236 elderly housing portfolio is a fraction of the Section 236 program - about 90,000 units, less than one-third of the units in the entire Section 236 portfolio of over 330,000 units nationwide. The elderly housing projects are generally in good physical condition; only 25 projects out of 556 have REAC physical inspection scores of less than 60, less than 5 percent of the inventory. We certainly recognize that there is some need for capital improvements among the entire older insured subsidized FHA multifamily portfolio. We have been working with the multifamily industry over the last two years, in an effort to modernize and restructure the Section 236 housing portfolio. The work is being conducted within the framework of preserving these projects for continued use within the affordable multifamily housing stock. The general restructuring technique involves a sale of the project to a new owner who physically modernizes the project and maintains its affordability for the term of the mortgage plus five years, generally a total of 15 years. In most cases, the financing technique utilizes new mortgages supported by the continuation of Section 8 rental assistance and the remaining Section 236 interest reduction payments. The owner's capital is provided through the Low Income Housing Tax Credit (LIHTC). To date, we have succeeded in restructuring over 100 of these projects. We do not believe that Section 301 is necessary for this effort. We also are concerned that the Section 202 Assisted Living Conversion program might be adversely affected. The program has not yet reached the scale envisioned in past appropriations, and the unexpended funds have been carried forward. But it is our experience that new programs do take time to get underway, and we do not believe it is prudent to anticipate that Section 202 Assisted Living Conversion funds would be available.

With regard to Section 303, as you know, the President and the Secretary are strongly committed to ensuring that religious organizations have the same opportunities as any other participant in the Section 202/811 programs, which are our largest programs in terms of participation by faith-based organizations. These organizations now can be sponsors of these projects, and certainly religious organizations have been very active in the Section 202 program since its creation in 1959. In recent years, they have accounted for approximately 40% of the funding that Congress appropriates for these programs. We therefore applaud the purposes of Section 303 and will work with the Committee in consideration of issues that relate to HUD's current practices in this area.

Other Provisions

The Housing Impact Analysis proposed in Title VIII was proposed by President Bush during the campaign two years ago. It is an effort to create a system to monitor the aggregate effects of all rules on the cost and availability of housing. We believe that it is in the interest of consumers, especially moderate-income families seeking to become homeowners or to find decent affordable rental housing, to ensure that regulations are demonstrably required to protect health and safety, and that the costs and consequences of regulation for affordable housing are recognized and balanced against other important public purposes.

Section 902 establishes a single office within the Department to coordinate counseling activities. This sounds desirable, but may be counterproductive, in our judgment. It might undermine the ability of the various offices to establish requirements, standards, and performance measures that meet the unique needs of their programs and clients. HUD's various program areas each provide counseling, generally for different purposes and typically to different clienteles. Recently, FHA revised the standards and performance measures related to the 1,400 HUD-approved housing counseling agencies participating in this program. We see no need for another office within the Department to repeat this process. As you know, the Administration has requested $35 million for a new categorical counseling program, nearly doubling the current level of funding and removing the program from the HOME block grant. We urge you to support that proposal, and we believe it will be easier and quicker to provide the funds to counseling agencies if we can operate the new program on the basis of the standards we have recently established.

Finally, the Administration supports Section 908 to simplify current law pertaining to subsidy layering. The provision permits housing credit agencies to certify to compliance with the Department's subsidy layering requirements concerning the combination of HUD and other governmental assistance with the Low Income Housing Tax Credit. The housing credit agency will simply certify that it has made the subsidy layering determination already required by Section 42 of the Tax Code. This provision is consistent with the Secretary's efforts to streamline the delivery of HUD's programs and support the production of affordable housing through the use of FHA mortgage insurance and the Low Income Housing Tax Credit Program.

Conclusion

Thank you again for the opportunity to testify on the "Housing Affordability for America Act of 2002." I would be happy to answer any questions that the Subcommittee may have.

STATEMENT OF ROY A. BERNARDI
Assistant Secretary
Office of Community Planning and Development
U.S. Department of Housing and Urban Development

BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

April 24, 2002

Thank you for the opportunity to testify on the Housing Affordability for America Act of 2002. Madam Chairwoman, the efforts you and others have made to bring the need for affordable housing to the attention of Congress through legislation such as HR 3995 are very much appreciated. I would like to thank you for your demonstrated leadership, resolute voice, and compassion for the less fortunate among us. Your contributions will be sorely missed when your career in Congress draws to a close.

HR 3995 proposes some significant changes to many programs in the Office of Community Planning and Development, and to the HOME Investment Partnerships program in particular. I will address those related to HOME first.

HOME Investment Partnerships Program

The HOME Program has a demonstrated record of success in developing "deep-targeted" affordable housing with over 40 percent of all HOME-assisted rental units produced serving extremely low-income families. We believe that reforms to the HOME Program should build on the notable success the program has already achieved. We are concerned that the proposed *Production and Preservation Program*, as currently structured, and the other significant changes proposed for the HOME Program itself, particularly in regard to rent level determinations, would not help to achieve the worthy objectives of HR 3995, of providing affordable housing for extremely low-income families. We believe that some of the bill's provisions would have unintended consequences.

The creation of a new *Production and Preservation Program* within HOME that has different requirements in such areas as rent determination, tenant contribution to rent, match, income targeting, commitment of funds, and even in the definition of who is low- or very low-income, could create significant compatibility issues with the basic HOME program and with other Federal programs, resulting in serious implementation problems. Unless these conflicting requirements are reconciled, the implementation problems will remain and projects will be delayed or found infeasible if the new program is made part of HOME or potentially if it is developed as a separate, stand-alone program.

We would urge the Committee to reconsider its proposed changes to the way in which HOME Program rents are determined. The effort made in HR 3995 to remedy lagging housing development "in certain rural counties" is understandable. However, these changes - abandoning the Fair Market Rent (FMR) standard and adopting the greater of the State or area median income as a floor for determining rents – could actually increase rents generally across the country while not ensuring that those who are the targeted beneficiaries of the legislation, extremely low- and very low-income families, will be able to afford those higher rents. For example:

- 86% of the population of metro areas and 100% of all non-metropolitan areas will have increases in maximum rent;
- Average increases in maximum rent will be 32% (or $200) for the country as a whole;

- 63% of the increases in maximum rent will be more than 20%;
- 37% of the increases in maximum rent will be more than 40%;
- The largest increases in maximum rent will be in areas with the **least** need for affordable housing.

Some specific local examples of increases in maximum rent are contained in the following table:

Metro Area/County	2-Bedrm FY2002 FMR	Current High HOME Rent (Monthly)	Proposed High HOME Rent (Monthly)	Monthly Rent Increase
Modoc County, CA	503	503	867	364
Gilpin County, CO	678	678	1,173	495
Stamford-Norwalk, CT	1,384	1,202	1,667	465
Cedar Rapids, IA	520	520	959	439
Adams County, IL	395	395	951	556
Decatur, IL	475	475	951	476
Duluth-Superior, MN-WI	487	487	921	434
Utica-Rome, NY	495	495	882	387
Kendall County, TX	473	473	911	438
Roanoke, VA	500	500	913	413
Washington, DC-MD-VA	943	943	1,316	373

Finally, abandoning the FMR standard would make it more difficult to use housing vouchers in HOME-assisted projects and would place many HOME units out of reach of voucher holders. At the same time, the HOME program could become less attractive to developers in areas with the most affordability problems (i.e., high rent to income ratio areas), and more attractive in areas with the least affordability problems (i.e., low rent to income ratio areas) and high vacancy rates. For the U.S. as a whole:

- Approximately 39 percent of the rental stock is located in markets where the FMR currently sets the maximum limit for HOME rents. Prevailing rents are quite low relative to income in these areas and the rental vacancy rate is 12 percent;
- In markets where rents are high relative to incomes and the FMR does not now act as a cap on HOME rents, the vacancy rate is 5 percent.

HUD is eager to work with this Committee to build on its efforts and those of the Millennial Housing Commission whose report is due in May, to expand affordable housing opportunities. We are also confident that solutions to identified impediments to affordable housing development in certain rural counties can be addressed with specific adjustments to the existing HOME Program rent structure.

Many changes have already been made over the ten years that the HOME Program has been in operation in an effort to streamline the program and improve its effectiveness. The production results and the ongoing feedback we receive from housing providers would indicate that this effort has been largely successful. Indeed, one of the hallmarks of this program and an important reason for its success has been the close and continuing communication between the administrators at HUD and recipients of HOME funds and their representatives and associations. We are receptive to further improvements to the program.

Homeless Assistance Programs

Madam Chairwoman, I would now like to address the provisions of the bill dealing with HUD's McKinney-Vento Act homeless assistance programs. On an overall basis, the homeless assistance provisions of the bill are carefully crafted and correctly recognize the important elements of current law that should be retained.

Specifically, we support the goals of reauthorization for the Supportive Housing, Shelter Plus Care, Section 8 Moderate Rehabilitation Single Room Occupancy (SRO) and the Emergency Shelter Grants programs. However, the Department will be proposing a consolidation of these programs into one that is needs-based and performance-driven. This consolidation will ensure community-level planning and decision-making. And, it will retain the fundamental components of our Continuum of Care strategy to address homelessness. We further support the provisions of the bill reauthorizing the Interagency Council on the Homeless. We are working to draft legislation to transfer the Emergency Food and Shelter Program from Federal Emergency Management Agency (FEMA) to HUD.

The Department fully supports Section 604 of the bill that continues the current requirement that at least 30 percent of appropriated funds be targeted for permanent housing projects. Similarly, we support the removal of the unrealistic caps on the use of Supportive Housing Program funding for acquisition, rehabilitation and new construction. These caps have increasingly worked to restrain our grantees' ability to generate new and rehabilitated permanent housing units for homeless individuals and families.

The Department notes bill language proposing the transfer of the costs of renewing expiring Shelter Plus Care projects and projects funded under the Permanent Housing component of the Supportive Housing Program to the Housing Certificate Fund (HCF). The Department looked at these renewals in the 2003 budget process and determined that it is preferable to address them as part of consolidated homeless funding.

Housing Opportunities for Persons with AIDS

HUD supports Section 904 of the bill that would reauthorize the Housing Opportunities for Persons with AIDS (HOPWA) program. HOPWA is the only Federal program solely dedicated to providing housing assistance to persons with HIV/AIDS and their families.

Housing provided under this program provides a basis for helping people at the lowest income levels access appropriate care and acts as a base to help maintain difficult therapies and medical regimens.

Community Development Block Grant

I would like to make several other comments on provisions of HR 3995 that would affect HUD's basic Community Development Block Grant (CDBG) program.

Section 902 (Housing Counseling programs) would require the Secretary to designate a single office within the Department to "establish, coordinate, and administrate all requirements, standards, and performance measures under programs and laws administered by the Department that relate to housing counseling, homeownership, counseling . . ." This section also specifies that the CDBG eligible activity under section 105(a)(20) of the Housing and Community Development Act of 1974 (HCD Act) be covered by this provision. Section 105(a)(20) of the HCD Act authorizes grantees to use CDBG funds to carry out housing services, such as housing counseling. Housing counseling is an important component of the Department's rental housing and homeownership programs. However, we would caution against adopting a "one size fits all" approach that would take away the local discretion of program design and implementation from CDBG grantees, which is the cornerstone of the CDBG program. Recently, FHA revised the standards and performance measures related to the 1400 HUD-approved housing counseling agencies participating in this program. We see no need for another office within the Department to repeat this process. As you know, the Administration has requested $35 million for a new categorical counseling program, nearly doubling the current level of funding and removing the program from the HOME block grant. We urge you to support that proposal, and we believe it will be easier and quicker to provide the funds to counseling agencies if we can operate the new program on the basis of the standards we have recently established.

Section 905 concerns the funding eligibility for secular activities carried out by religious organizations. HUD supports the involvement of faith-based organizations in our programs.

Section 906 would add a new eligibility category to the CDBG program to authorize the construction of tornado or storm-safe shelters in manufactured housing parks. This change would expand this otherwise eligible public facility to serve residents of private manufactured housing parks and HUD supports it. However, subparagraph (b) of Section 906 would authorize a set-aside from the CDBG program for fiscal year 2002 for this purpose. The Department does not support further set-asides within the CDBG appropriation.

HUD supports Section 907 of the bill that would amend Section 105(a)(13) of the HCD Act to allow the use of CDBG funds to administer renewal communities. HUD believes that such support of the Renewal Communities program will foster needed job creation and revitalization in distressed communities.

Self-Help Homeownership Opportunities Program

HUD supports the reauthorization of the Self-Help Homeownership Opportunities Program (SHOP), which has been instrumental in helping many low-income families become homeowners. The President's request to triple funding to $65 million for SHOP in FY 2003 reflects this program's popularity and success.

Thank you again for this opportunity, and I would be happy to answer any questions that you may have.

STATEMENT OF MICHAEL LIU
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BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

April 24, 2002

I am Michael Liu, Assistant Secretary for Public and Indian Housing at the U.S. Department of Housing and Urban Development. In that position I have responsibility for administration of the public housing, voucher and Native American housing programs. Accordingly, I will limit my testimony to Titles IV, V and VI of the bill, which concern those programs.

First, Congresswoman Roukema, thank you and your cosponsors for developing and introducing the Housing Affordability for America Act of 2002. The bill contains many proposals that will allow us to do our jobs better, of providing the most effective low-income housing assistance possible with the funds available. The reauthorizations for two of our critical programs, HOPE VI and Native American Block Grants, are critical measures in themselves. The bill contains several measures to achieve our common goal of assuring that the voucher funds Congress appropriates can be fully used. The bill also contains the Administration's Public Housing Reinvestment Initiative, which holds great promise as a means of improving the Nation's public housing communities.

Title IV, Section 8 Rental Housing Assistance Program

Section 401 of the bill proposes a new thrifty production voucher program. This program is patterned after the current project-based voucher program, but assumes that the capital for production will be found from other programs or sources and provides for a reduced subsidy designed to cover only operating costs.

HUD generally supports additional tools that may help public housing authorities (PHAs) meet their communities' housing needs, and in that context will work with the Committee to develop a means of offering vouchers that can be combined easily with capital subsidies. The current proposal seems rather complex and differs from the project-based voucher program in ways that may not be necessary, such as waiting list administration, development location requirements and several others. I look forward to further discussions on this matter.

The bill contains several initiatives designed directly or indirectly to increase the successful use of appropriated voucher program funds, including an increase in the amount families can expend as their share of rent when initially leasing any unit (section 402), authorization for PHAs to use up to five percent of program monthly assistance payment funds (as opposed to administrative fees) for efforts to help families obtain and remain in suitable housing (section 403) and an authorization to provide increased administrative fees for high-performing PHAs in the voucher program (section 405). These proposals would augment steps HUD and Congress already have taken or are taking to accomplish this goal, including increased flexibility for PHAs to set payment standards; increased fair market rents to the 50^{th} percentile of rentals for units in satisfactory condition in some areas; initiation of the Section 8 Management Assessment Program (SEMAP), a management report card with consequences; training of PHA staff; award of new incremental vouchers only to PHAs with high usage of current resources;

and reallocation of vouchers from PHAs that have not been able to use them to PHAs that need and can use them.

HUD supports the direction of these new proposals, but has suggestions. HUD supports the increase in allowable family rent to forty percent of gross income but believes PHAs also need flexibility to address compelling situations—for example, where a family already in the program would like to move to a significantly less expensive unit, but cannot do so because the family still would be paying more than the limit.

HUD would consider allowing the use of some program funds to help increase voucher utilization for PHAs that are effectively using their administrative fees solely for the section 8 program. However, at the proposed maximum limit of 5 percent, this could translate into $500 million, which would affect the administration of the core program. Any such authorization should be substantially narrower and structured to include appropriate oversight. With respect to administrative fees, HUD recommends that it be given broader authority not just to provide a bonus for high performers, but also to restructure the fees to promote performance in general and the accomplishment of specific program priorities, such as families' movement to self-sufficiency and homeownership.

The bill contains several provisions regarding enhanced vouchers. HUD supports clarification of the obligation of owners to take enhanced vouchers in projects where tenants are eligible for them (section 406). With respect to the same section's protections for overhoused families, HUD recommends that such families be treated in the same manner as overhoused families are treated now in the voucher program (basically, the enhanced voucher families could choose to stay in the oversized unit, but would be subsidized at the level they would receive if they were in a unit of appropriate size at the property).

The bill also contains a provision to provide for higher contract rents upon the renewal of moderate rehabilitation contracts (section 408). HUD agrees that the current-law restriction of such rents to the lower of comparable rents, current rents plus an operating cost adjustment or fair market rents is unnecessarily restrictive. The bill's proposed solution, however, will pose administrative challenges for PHAs not accustomed to evaluating budget-based rents and may go further than is needed to preserve assisted units.

You asked me to discuss the future impact of Section 8 contract renewals on the HUD budget. Renewals for both tenant-based and project-based Section 8 rose from $14.3 billion in fiscal 2001 to a requested $16.9 billion for fiscal 2003, and are projected to increase to over $20 billion in several more years. This is a result of the program serving more families, some program changes that have increased per-unit costs, such as increases in fair market rents, and conversion over time of all contracts to one-year contracts, so that all contracts must have new budget authority each year.

Title V, Public Housing

I am excited that Title V contains the Administration's Public Housing Reinvestment Initiative (section 505), because that initiative can provide a new and effective means of improving public housing. Recent HUD studies indicate that the backlog of public housing capital needs is in the $20 billion range and that new needs accrue at about two billion dollars annually. Strides have been made in recent years in public housing communities, but appropriations for the Capital Fund at two to three billion dollars annually will allow only slow progress. The Public Housing Reinvestment Initiative provides a means of addressing this problem sooner with the dollars available.

The Public Housing Reinvestment Initiative allows PHAs that choose to participate to trade their public housing subsidies for project-based vouchers on a property-by-property basis. PHAs then could borrow money for capital improvements on the same individual property basis now used for Section 8 developments and multifamily housing generally. In addition to leveraging private capital, this action is likely to lead to more accountable property and financial management because management must be done at the individual property level. Tenants generally would be protected in the same manner as in public housing. PHAs could use the project-based vouchers on current sites, or on replacement sites where appropriate.

The Public Housing Reinvestment Initiative can be a powerful tool for the prompt rehabilitation of housing that otherwise would languish for years. For example, a development's capital needs of four million dollars that otherwise would be impossible to address from available Capital Fund moneys can be addressed with debt service payments on a seven percent, thirty-year loan of about $335,000 per year. PHAs could undertake individual transactions as long as the monthly expenses for operations, debt service and a capital replacement reserve did not exceed the lower of market rents or the applicable Section 8 payment standard. If the approvable rent levels were too low to finance all the necessary capital work—for example, if the PHA only could raise $20,000 per unit at approvable rent levels but the development needed $30,000 per unit in capital work—the PHA could choose to supplement the project-based vouchers with an up-front contribution from the Capital Fund or other sources.

The bill contains a proposal to suspend the PHA Plan requirement for three years for the smallest PHAs up to 100 units (section 504). Current law requires annual PHA Plans with eighteen listed elements, but also allows HUD to streamline PHA Plans for small, high-performing and Section 8-only PHAs. The extent to which the PHA Plan requirement has resulted in useful strategic planning has varied greatly from locality to locality. In many localities, the Resident Advisory Board participation requirement has resulted in better access for public housing residents and Section 8 families to make their views known to PHA decision-makers.

The usefulness of the PHA Plan relative to the PHAs' ability to carry it out with limited staff resources, however, appears to drop dramatically for small PHAs. HUD has provided some streamling of PHA Plan requirements for these PHAs, but I believe we need to go further and HUD is developing a regulation that will accomplish this. The bill's proposal is certainly along these lines, although we may be able to accomplish the necessary streamlining through regulation without disturbing the current resident and public process to the same extent. I want to thank Congressman Bereuter's for his leadership on this issue.

While HUD has differentiated between small and larger PHAs in PHA Plan processing, it has not done this to enough of an extent in its other programs. Small PHAs with 250 or fewer units constitute 75 percent of all PHAs, but operate only fifteen percent of the units. From a risk management standpoint, it is unnecessary to impose the same regulatory burdens on these PHAs as on larger ones. The new regulation I have mentioned will recognize that in several program areas.

The bill would require HUD to develop and test a third-party system for public housing performance evaluation, through an outside contractor (section 503). This year, HUD has implemented a binding public housing management assessment that contains an independent inspection of physical conditions. However, experience with the Public Housing Assessment System (PHAS) during its extended advisory period raised so many questions regarding the adequacy of its physical inspection and finance components that HUD substantially simplified and in some respects had to pare back these components prior to implementation.

HUD is committed to working with public housing groups toward how best to revise the system. It may be that a third-party system could accomplish the same tasks better and provide a broader assessment that would be more readily recognized and accepted as appropriate by all parties concerned. The work being done by others such as public housing industry groups and private companies to develop such systems is promising, and HUD may be able to take account of this work and the views of resident representatives and others to develop an improved system expeditiously.

Section 501 of the bill would allow HUD to waive the requirement that PHAs have a resident on the board of commissioners in particular States, where reasonable efforts are being made to take the necessary legislative or regulatory action so that this can occur. Congress has recognized problems in the implementation of the resident on the board requirement in several States, has exempted housing authorities in three States from the requirement for fiscal 2002 and has required HUD to provide a report by May 30, 2002 regarding the impediments to its implementation and related matters. Thus, further legislative action seems appropriate. The proposed legislation, however, would allow for permanent waivers and would not result in having residents on boards of commissioners promptly in the affected States. A better solution may be to provide for appointment by the chief executive officer of the PHA's jurisdiction of an additional board member to fulfill the resident on the board requirement, for a temporary period such as three years. This would give the noncompliant States more time to complete any necessary actions so that residents could be appointed to PHA boards as federal law requires, but the relief would be temporary and promptly would result in residents serving on boards of commissioners.

The bill provides for a two-year reauthorization of HOPE VI and for measures to ensure that a broader group of communities in terms of size and location have a realistic possibility of receiving a HOPE VI award. HUD supports both reauthorization and the general effort to promote broad program participation. More discussion of concepts in regard to reauthorization of HOPE VI will be constructive. A report on HOPE VI lessons learned is due to Congress on June 15, 2002.

Title VII, Native American Housing

Title VII reauthorizes both the Native American Block Grant Program and its related loan guarantee program. HUD believes that these programs continue to hold much promise and supports the reauthorization of both programs.

I look forward to working closely with the Committee as you continue to develop this important legislation for the improvement of the voucher, public housing and Native American housing programs. Please call on me and my staff for any assistance we can provide.

Question for Assistant Secretary Liu from Rep. Melvin Watt

Question: 1) According to your written testimony, the U.S. Department of Housing & Urban Development (HUD) is preparing to issue a report to Congress on June 15 on lessons that it has learned about the HOPE VI program. Unfortunately, I expect H.R. 3995, the "Housing Affordability for America Act of 2002," will be considered by the Financial Services Committee before June 15. Since H.R. 3995 would reauthorize the HOPE VI program for two years, I think it would be extremely helpful for Committee members to be able to review HUD's report before the Subcommittee and full Committee consider the bill. Would HUD be willing to share with Committee members a preliminary or draft analysis of its findings about the HOPE VI program to allow members to take this important analysis into consideration before the Committee considers H.R. 3995?

Answer: The Department believes that it can and will address many policy concerns about HOPE VI which will be evident through the FY 2002 NOFA. The Department plans to publish the FY 2002 HOPE VI NOFA by the end of May 2002. However, the HUD Reform Act prevents the Department from revealing the content of the NOFA with Congress before it is published. The FY 2002 NOFA will serve as a good basis from which to view reauthorization. As you mention, HUD is required to present to Congress a report by June 15, 2002 on lessons learned from HOPE VI. We hope to have that report delivered to Congress before that date.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

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MORTGAGE FINANCING

Actuarial Soundness of the Federal Housing Administration's Mutual Mortgage Insurance Fund

Statement of Thomas J. McCool, Managing Director
Financial Markets and Community Investment

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GAO-02-671T

Madam Chairman and Members of the Subcommittee:

We are here today to discuss H.R. 3995, the Housing Affordability for America Act of 2002, which amends certain laws concerning housing and community opportunity. Among other things, the act would establish risk-based capital requirements for the Mutual Mortgage Insurance Fund (Fund) of the Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA). Through the Fund, FHA operates a single-family insurance program that helps millions of Americans buy homes. The Fund, which is financed through insurance premiums, operates without cost to the American taxpayer. The Fund's estimated economic value increased dramatically in 1999, prompting proposals to spend some of the Fund's current resources or reduce net cash flows into the Fund. Concerned about the adequacy of the minimum 2-percent requirement set in current law and about proposals to spend what some were calling excess reserves, you asked us to determine the conditions under which an estimated capital ratio of 2 percent would be adequate to maintain the Fund's financial health. We first presented the results of this analysis last year and suggested ways to better evaluate the financial health of the Fund.[1] My testimony today is based on that work and focuses on Section 226 of H.R. 3995. I will (1) briefly describe what the Fund represents, (2) discuss the results of our analysis of the adequacy of a 2-percent minimum requirement, and (3) explain how the current measures of financial soundness could be improved.

In summary:

- The economic value of the Fund consists of current capital resources—primarily nonmarketable Treasury securities—plus estimates of the net present value of future cash flows from the existing portfolio. Deriving estimates of the value of future cash flows requires professional judgment and, in practice, relies on complex economic models. Last year, we reported that the Fund had an economic value of about $15.8 billion at the end of fiscal year 1999. This estimate implies a capital ratio of 3.20 percent of the unamortized insurance-in-force—a ratio that exceeds the minimum required capital ratio of 2 percent that Congress set in 1990.

[1] U.S. General Accounting Office, *Mortgage Financing: FHA's Fund Has Grown, but Options for Drawing on the Fund Have Uncertain Outcomes*, GAO-01-460 (Washington, D.C.: Feb. 28, 2001).

- Given the economic value of the Fund and the state of the economy at the end of fiscal year 1999, we concluded in our report that a 2-percent capital ratio appeared sufficient to withstand moderately severe economic downturns that could lead to worse-than-expected loan performance. In other words, under the economic scenarios that we developed to represent the regional and national economic downturns the nation experienced between 1975 and 1999, the estimated capital ratio fell by only slightly less than 0.4 percentage points. Some more severe downturns that we analyzed also did not cause the estimated capital ratio to decline by as much as 2 percentage points. However, in the three most severe scenarios, an economic value of 2 percent of insurance-in-force would not have been adequate. Nonetheless, because of the nature of such analysis, we urged caution in concluding that the estimated value of the Fund today implies that the Fund would necessarily withstand any particular economic scenario under all circumstances.

- Determining an appropriate capital ratio depends in part on the level of risk Congress wishes the Fund to withstand. While a 2-percent capital ratio appears to permit the Fund to withstand worse-than-expected loan performance that we estimated would occur under most of the scenarios we tested last year, a 2-percent capital ratio would not be sufficient for the Fund to withstand the most severe scenarios we tested. Whether the same is true today depends on the level of the Fund today, any changes in how loans perform, and the way the Fund is managed in the future. For these reasons, we believe that maintaining a static 2-percent minimum capital ratio requirement would not mean that the Fund would always be able to withstand most of the scenarios we tested or any particular level of risk that the Congress wishes the Fund to withstand. FHA faces two principal risks: the failure of borrowers to perform, or credit risk, and the risk of managerial shortcomings, or operational risk. Section 226 of H.R. 3995 seeks to use risk-based concepts to better assess the financial health of the Fund. By defining the risk that the Fund must withstand, H.R. 3995 will clarify what is meant by actuarial soundness and help FHA manage the Fund to achieve that goal.

Background

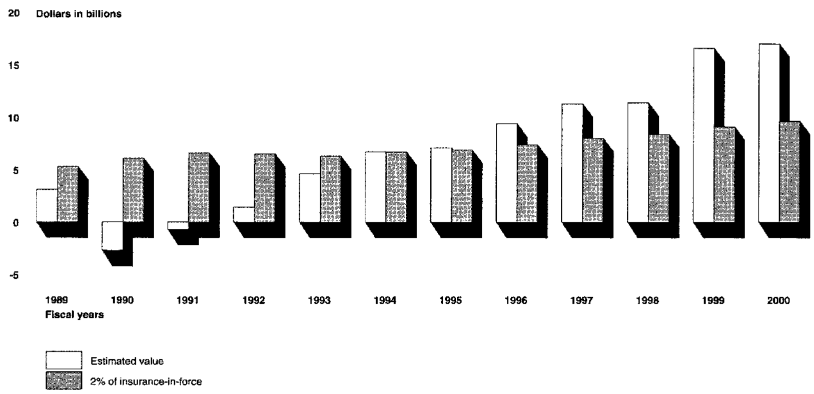
Before I describe what the Fund represents, let me provide a brief history of the Fund's financial health.

Since 1990 the financial health of the Fund has been assessed by measuring the Fund's economic value—its capital resources plus the net present value of future cash flows—and the related capital ratio (the economic value as a percent of the Fund's insurance-in-force). For most of its history, the Fund has been relatively healthy; however, in fiscal year

1990 the Fund was estimated to have a negative economic value, and its future was in doubt. To help place the Fund on a financially sound basis, Congress enacted legislation in November 1990 that required the secretary of HUD to, among other things, take steps to achieve a capital ratio of 2 percent by November 2000 and to maintain or exceed that ratio at all times thereafter. The legislation also required the secretary to raise insurance premiums and suspend the rebates, called distributive shares, that FHA borrowers had been eligible to receive under certain circumstances.

The 1990 FHA reforms required that an independent contractor conduct an annual actuarial review of the Fund. Using expected economic conditions, these reviews have shown that during the 1990s, the estimated economic value of the Fund grew substantially. As figure 1 shows, by the end of fiscal year 1995, the Fund had attained an estimated economic value that slightly exceeded the amount required for a 2-percent capital ratio. Since that time, the estimated economic value of the Fund has continued to grow and has always exceeded the amount required for a 2-percent capital ratio. In the most recent review, Deloitte & Touche (Deloitte) estimated the Fund's economic value at about $18.5 billion at the end of fiscal year 2001. This sum represents about 3.75 percent of the Fund's insurance-in-force—well above the required minimum of 2 percent.

Figure 1: Comparison of Estimated Economic Value and 2 Percent of Insurance-in-Force, 1989-2000



Source: GAO analysis of Price Waterhouse (now PricewaterhouseCoopers) and Deloitte & Touche data.

The Fund's Capital Ratio Exceeds 3 Percent

The economic value of the Fund consists of current capital resources and the net present value of future cash flows. Current capital resources are largely composes of nonmarketable Treasury securities. Cash flows into the Fund from premiums and the sale of foreclosed properties; cash flows out of the Fund to pay claims on foreclosed mortgages, premium refunds, and administrative expenses. Estimating the net present value of future cash flows is a complex exercise that requires extensive professional actuarial judgment

At the end of fiscal year 1999, the Fund had capital resources of $14.3 billion. Using our models and forecasts of likely values of key economic variables, we estimated that the Fund had a net present value of future cash flows of $1.5 billion at that time. Thus we arrived at an estimated economic value of $15.8 billion and a capital ratio of 3.20 percent. Given the inherent uncertainty of these estimates and the professional judgments involved, these numbers are comparable to those of Deloitte at the end of 1999, when Deloitte estimated that under expected economic conditions the economic value was $16.6 billion and the capital ratio was 3.66 percent. More recently, Deloitte estimated that under expected economic conditions, the capital value was $18.5 billion at the end of fiscal year 2001 and the capital ratio was 3.75 percent.

The Fund's economic value principally reflects the large amount of capital resources that the Fund has accrued. Because current capital resources are the result of previous cash flows, the robust economy and higher premium rates of most of the 1990s accounted for the accumulation of these substantial capital resources. Good economic times that are accompanied by relatively low interest rates and relatively high levels of employment are usually associated with high levels of mortgage activity and relatively low levels of foreclosure; therefore, cash inflows have been high relative to outflows during this period.

The estimated value of future cash flows also contributed to the strength of the Fund at the end of fiscal 1999. As a result of relatively low interest rates and the robust economy, FHA insured a relatively large number of mortgages in fiscal years 1998 and 1999, and these loans made up a large portion of FHA's insurance-in-force. Because of low interest rates, and because forecasts of economic variables for the near future showed house prices rising and unemployment and interest rates remaining fairly stable, our models predicted that these new loans would have low levels of foreclosure and prepayment. At the same time, we estimated that many FHA-insured homebuyers would continue to pay FHA annual insurance premiums.[2] Thus, our models predicted that cash flowing into the Fund from mortgages already in FHA's portfolio at the end of fiscal year 1999 would be more than sufficient to cover the cash outflows associated with these loans.

[2] Most borrowers with FHA-insured loans who received them prior to September 1983 were required to pay an annual insurance premium for the life of the loan. In addition, most borrowers who received FHA-insured loans after June 1991 and before January 2001 were required to pay an annual insurance premium for up to the life of the loan, depending on loan type and the initial loan-to-value ratio. Borrowers who received FHA-insured loans between September 1983 and June 1991 were not required to pay annual mortgage insurance premiums.

The future cash flows are estimates based on a number of assumptions about the future, including predictions of mortgage foreclosures and the likelihood that those holding FHA-insured mortgages will prepay their loans. These predictions are based on statistical models that estimate past relationships between foreclosures and prepayments and certain economic variables, such as changes in house prices. To the extent that these relationships are different in the future, the actual foreclosures and prepayments will differ from the estimates.

The Actuarial Soundness of the Fund Depends on the Risks That Congress Wants the Fund to Withstand

Although our estimates and Deloitte's estimates of the Fund's capital ratio under expected economic conditions are well above the required minimum of 2 percent, we cannot conclude on the basis of these estimates alone that the Fund is actuarially sound. Instead, we believe that determining actuarial soundness requires, at a minimum, measuring the Fund's ability to withstand certain worse-than-expected conditions. According to our estimates, worse-than-expected loan performance that could be brought on by moderately severe economic conditions would not have caused the estimated value of the fund at the end of fiscal year 1999 to decline by more than 2 percent of insurance-in-force. Some more severe scenarios that we analyzed also did not cause the estimated capital ratio to decline by as much as 2 percentage points. However, the most severe economic scenarios could result in such poor loan performance that the estimated value of the fund at the end of fiscal year 1999 could decline by more than 2 percent of insurance-in-force.

To help determine the Fund's ability to withstand certain worse-than-expected conditions, we generated economic scenarios that were based on economic events in the last 25 years and other scenarios that could lead to worse-than-expected loan performance in the future. Under each of these scenarios, we used our models to estimate the economic value of the Fund and the related capital ratio (table 1). Most of the individual scenarios we looked at, by themselves, had only a small impact on the capital ratio. For example, the worst historical scenario we tested—one based on the 1981-82 national recession—lowered the capital ratio by less than 0.4 percentage points—about 20 percent of the required 2-percent minimum capital ratio. To see how the economic value of the Fund would change as the extent of adversity increased, we extended regional scenarios that were based on historical economic downturns experienced in three states—the west south central downturn, based on Louisiana in the late 1980s; the New England downturn, based on Massachusetts in the late 1980s and early 1990s; and the Pacific downturn, based on California in the 1990s—to the nation as a whole.[3] When we extended the west south central and Pacific downturns, the estimated capital ratio was about 1 percentage point lower than in the base case. However, our models estimate that extending the New England downturn to the country as a whole would reduce the capital ratio by almost 2.4 percentage points. In another scenario, we specify that interest rates fall substantially, inducing refinancing, and then a recession sets in, leading to increased foreclosures. The estimated capital ratio in this case fell substantially—by over 1.8 percentage points.

In one other scenario, the capital ratio fell by over 2 percentage points. In that scenario we assumed that for mortgages originated in 1989 through 1999, the foreclosure rates in 2000 through 2004 would equal the foreclosure rates from 1986 through 1990 for mortgages originated in the 10-year period prior to 1986.

Table 1: Capital Ratios Under Expected and More Severe Economic Scenarios in Selected Locations

Scenario	Description	Capital ratio for scenarios in one region (percent)	Capital ratio for national scenarios (percent)
Expected economic conditions	Unemployment and interest rates vary as DRI forecasts; house price growth is adjusted for constant quality and slower growth.a	NA	3.20
Historical regional downturns			
West south central downturn	House prices and unemployment rates change as they did in Louisiana from 1986 through 1990.	3.06	2.31
New England downturn	House prices and unemployment rates change as they did in Massachusetts from 1988 through 1992.	3.14	0.81
Pacific downturn	House prices and unemployment rates change as they did in California from 1991 through 1995.	2.89	2.16

[3] The west south central region is comprised of Arkansas, Louisiana, Oklahoma, and Texas. The Pacific region is comprised of Alaska, California, Hawaii, Oregon, and Washington. The New England region is comprised of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.

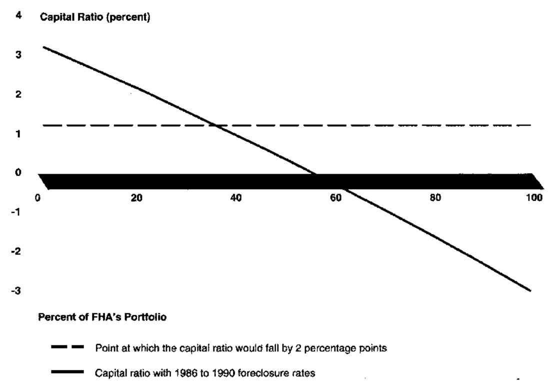
Scenario	Description	Capital ratio for scenarios in one region (percent)	Capital ratio for national scenarios (percent)
Other national scenarios			
1981-82 Recession	For each state, house prices, unemployment rates, and interest rates change as they did from 1981 through 1985.	NA	2.81
Induced refinancing, followed by a recession	Mortgage interest rates fall, inducing borrowers to refinance, and then a recession sets in, with a rising unemployment rate and falling house prices.	NA	1.37
Rising interest rate scenario	Mortgage and other interest rates from 2000 through 2004 are higher than under expected economic conditions.	NA	3.36
Scenario with foreclosure rates from the 1980s	Foreclosure rates in 2000 through 2004 equal foreclosure rates from 1986 to 1990 for mortgages originated in most recent 10-year period.	NA	0.92

[a]Standard and Poor's DRI is a private economic forecasting company.

Source: GAO analysis.

Because none of our economic scenarios generated foreclosure rates as high as those experienced in the west south central states in the late 1980s, we applied these rates directly to our models, assuming that for the next 5 years foreclosure rates in most cases would be equivalent to those experienced by these states in 1986 through 1990. Then we varied the proportion of FHA's portfolio experiencing these foreclosure rates. As figure 2 shows, if about 36 percent of the portfolio experiences these rates, the estimated capital ratio would be 2 percentage points lower than the expected case. And if 55 percent of the portfolio experienced these rates, the economic value of the Fund would fall to zero.

Figure 2: Capital Ratios Resulting from Applying the Average 1986-90 Foreclosure Rates in the West South Central Census Division to Varying Proportions of FHA's Insurance Portfolio in 2000-2004



Note: West south central mortgages made up 9 percent of FHA's portfolio in 1999. This analysis does not change foreclosure rates for streamline refinanced or adjustable rate mortgages, as little information is available on these products for the 10-year period prior to 1986. The west south central Census division includes Arkansas, Louisiana, Oklahoma, and Texas.

Source: GAO analysis.

As we have stated in the past, considerable uncertainty is associated with any estimate of the economic value of the Fund because of uncertainty about the performance of FHA's loan portfolio over the life of the existing loans, which in some cases can be 30 years. We believe that our models make good use of historical experience in identifying the key factors that influence loan foreclosures and prepayments and estimating the relationships between those factors and loan performance. In addition, we have relied on reasonable and in some cases conservative forecasts of economic variables, such as the rate of house price appreciation and the unemployment rate, in finding that the Fund's economic value in fiscal year 1999 appeared higher than what would have been necessary to withstand many adverse economic scenarios.

Nonetheless, several additional factors lead us to believe that Congress and others should apply caution in concluding that the estimated value of the Fund today implies that the Fund could withstand the economic scenarios that we examined under all circumstances. Our estimates and those of others are valid only under a certain set of conditions, including that loans FHA insured in recent years and loans it insured in the more distant past have a similar response to economic conditions, and that cash inflows associated with future loans at least offset cash outflows associated with those loans. Some specific factors beyond those incorporated in our models that could determine the extent to which the Fund will be able to withstand adverse economic conditions include the performance of recent loans, changes in FHA's insurance program, and the impact of future loans.

Measures of Actuarial Soundness Should Be Based on a Defined Level of Risk

As a result of the 1990 housing reforms, the Fund must meet not only the minimum capital ratio requirement but also operational goals, before the secretary of HUD can take certain actions that might reduce the value of the Fund. These goals include meeting the mortgage credit needs of certain homebuyers while maintaining an adequate capital ratio, minimizing risk, and avoiding adverse selection. However, the legislation does not specify the economic conditions that the Fund should withstand. We believe that actuarial soundness depends on a variety of factors that could vary over time and that the degree of risk the Fund is expected to be able to withstand must be specified. Therefore, setting a minimum or target capital ratio will not guarantee that the Fund will be actuarially sound over time. For example, if the Fund comprised primarily seasoned loans with known characteristics, a capital ratio below the current 2-percent minimum might be adequate. But under conditions such as those that prevail today, when the Fund is composed of many new loans, a 2-percent ratio might be inadequate if recent and future loans perform considerably worse than expected.

Price Waterhouse (now PricewaterhouseCoopers) concluded in 1989 that for the Fund to be actuarially sound, it should have capital resources that could withstand losses from reasonably adverse, but not catastrophic, economic downturns. The Price Waterhouse report did not clearly distinguish adverse from catastrophic downturns; however, it said that private mortgage insurers are required to hold contingency reserves to protect against catastrophic losses. One rating agency requires that private mortgage insurers have enough capital on hand to withstand the severe losses that would occur if the loans they insure across the entire nation performed as poorly as those in the west south central states in the 1980s.

There are reasons why the capital standards for FHA might differ from those imposed on private mortgage insurers. FHA is expected to meet a public purpose, increasing the number of Americans who can afford to own their own homes and helping to cushion the impact of economic downturns on housing markets and the building trades. In contrast, private insurers tend to cease insuring new business when mortgage markets go bad. Ultimately, if the Fund were to exhaust its resources, it could rely on the taxpayer, while private insurers would cease to exist.

We believe that to evaluate the actuarial soundness of the Mutual Mortgage Insurance Fund, one or more scenarios that the Fund is expected to withstand need to be specified, as a single, static capital ratio does not measure actuarial soundness. Once the scenarios are specified, it would be appropriate to calculate the economic value of the Fund or the capital ratio under the scenarios. As long as the scenarios result in a positive estimated economic value, the Fund could be said to be actuarially sound. However, it might be appropriate to leave a cushion to account for the factors not captured by the model, especially those related to managing the Fund and the inherent uncertainty attached to any forecast.

Our view is that Section 226 of H.R. 3995 will permit FHA to develop capital standards that more adequately reflect the risks the Fund faces. It recognizes that FHA faces two principal risks: credit risk and operational risk. By establishing what it calls a "minimum risk-based capital ratio" that is based upon economic scenarios that could adversely affect defaults and prepayments, the act would more fully capture the credit risk the Fund faces. By establishing a 1 percent "minimum basic capital ratio," the act recognizes the unknown risk, such as operational risk, the Fund faces. Overall, Section 226 of H.R. 3995 seeks to provide a method for determining whether the Fund has capital adequate to cover its credit risk under defined conditions and provides a cushion to cover continuing operational risk. By defining the level of risk that the Fund must withstand, Section 226 will clarify what is meant by actuarial soundness and help FHA manage the Fund to achieve that goal.

Madam Chairman, this concludes my statement. We would be pleased to respond to any questions that you or Members of the Subcommittee may have.

Contact and Acknowledgments

For further information regarding this testimony, please contact Thomas J. McCool at (202) 512-8678. Individuals making key contributions to this testimony included Nancy Barry, Jay Cherlow, and Mathew Scire. Our work was conducted in accordance with generally accepted government auditing standards.

Related GAO Products

Mortgage Financing: Actuarial Soundness of the Federal Housing Administration's Mutual Mortgage Insurance Fund (GAO-01-527T, Mar. 20, 2001).

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The Premier Association of Real Estate Finance

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Statement

by

John Courson

President

Central Pacific Mortgage Company

on behalf of the

Mortgage Bankers Association of America

before the

House Financial Services Committee

Subcommittee on Housing and Community Opportunity

hearing on

"HOUSING AFFORDABILITY FOR AMERICA ACT OF 2002"

on

Wednesday, April 24, 2002

Madame Chairwoman, and Members of the Subcommittee, my name is John Courson, and I am President of Central Pacific Mortgage Company in Folsom, California. I am appearing before you today in my capacity as Chairman-elect of the Mortgage Bankers Association of America (MBA)[1]. MBA is grateful for the opportunity to present our views to your subcommittee today on H.R. 3995, the "Housing Affordability for America Act of 2002."

We applaud the Chair and Vice-Chair of the Subcommittee on Housing and Community Opportunity for sponsoring this legislation. MBA believes that this bill will play an important role in efforts to increase Americans' access to affordable housing, both for those families buying their first home and those who are living in rental housing. MBA has endorsed H.R. 3995, and we look forward to working with you and other Members of the Subcommittee as this the bill moves through the Congress.

I have over 40 years of mortgage banking experience, spanning all areas of loan origination and branch production. Since taking over the leadership at Central Pacific Mortgage (CPM) ten years ago, the company has grown from a handful of branches to over 90. Prior to joining CPM, I served as President of Fundamental Mortgage Corporation and President and Chief Executive Officer of Westwood Mortgage, both of Dallas, Texas.

I am currently a member of MBA's Board of Directors. I have also served as president of the California and Michigan Mortgage Bankers Associations, and as a director of the Texas Mortgage Bankers Association.

Importance of FHA as a Source of Credit for Affordable Housing

MBA strongly supports the Federal Housing Administration's (FHA) single family and multifamily mortgage insurance programs. FHA single family mortgage insurance has operated successfully for over 65 years working with private sector partners, such as mortgage lenders, builders, real estate agents, and community organizations to expand homeownership opportunities. In fact, MBA's members originate over 80 percent of all FHA mortgages. Over the past six decades, this public/private partnership has enabled 25 million families to realize the dream of homeownership. In addition, FHA multifamily insurance programs have enabled private sector partners to produce thousands of rental housing units throughout the country.

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[1] **MBA is the national association representing the real estate finance industry. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand home ownership prospects through increased affordability; and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters excellence and technical know-how among real estate finance professionals through a wide range of educational programs and technical publications. Its membership of approximately 2,900 companies includes all elements of real estate finance; mortgage companies, mortgage brokers, commercial banks, thrifts, life insurance companies and others in the mortgage-lending field. For additional information visit MBA's web site: www.mbaa.org.**

In the single family market, lenders generally require mortgage insurance on all homes purchased with less than a twenty percent downpayment. This is because borrowers with loans that are greater than eighty percent of the value of their home are at greater risk of default. If a borrower defaults on an insured loan, the lender may foreclose on the loan and file a claim for reimbursement of any losses with the mortgage insurance company. FHA, as an alternative to private mortgage insurance, offers more flexible guidelines and allows borrowers who wouldn't necessarily qualify for conventional loans the ability to purchase homes. For example, FHA would permit a borrower to carry more debt than a private mortgage insurer would permit. FHA also permits lower down payments; permits closing costs to be included in the mortgage; and allows borrowers to rely on gifts to pay their downpayment. For these benefits, FHA borrowers are charged an insurance premium to cover the costs that FHA incurs in paying insurance claims, and this premium is included with the borrower's monthly mortgage payments.

MBA wishes to see every effort made to provide decent, safe, and affordable housing for all Americans. The FHA program is a major contributor to the realization of this goal as it promotes homeownership among a variety of income levels. Homeownership, in turn, has been shown to promote investment and participation in one's community. FHA largely serves young first-time homebuyers, borrowers who can only make low downpayments, households in urban areas, minority homebuyers, and lower income borrowers. In FY2001, first-time homebuyers comprised 79.8 percent of FHA's borrowers. In FY2001, 40 percent of FHA borrowers were minorities. Because of the population it serves, MBA supports maintaining a strong, flexible, and fiscally sound FHA program.

FHA's single family mortgage insurance program is self-sustaining. Insurance premiums and property sales pay for all costs incurred in the administration of the program, leaving sufficient reserves to pay estimated future losses. The FHA single family insurance fund is in excellent financial condition. Deloitte and Touche's most recent financial audit of the fund indicates that FHA's capital ratio, the primary indicator of FHA's fiscal health, exceeds congressionally-mandated standards today, and is projected to do so in the future under a variety of economic scenarios.

FHA insurance has always been available to creditworthy borrowers, in both good as well as challenging economic times. Particular parts of the country have experienced depression or near-depression periods over the last 15 to 20 years, during which FHA continued to insure mortgages in all states, even when other mortgage insurers and investors abandoned these areas.

MBA Views on H.R. 3995

MBA strongly supports most provisions of H.R. 3995, and would like to offer some suggestions for improvement in other provisions. The following represents our views on specific provisions in the bill.

Title II – Housing Affordability for America Act, Single Family FHA Program

Section 221 – Downpayment Simplification

The bill provides for the permanent extension of the downpayment simplification formula for FHA single family mortgages. The formula to calculate the necessary minimum downpayment for FHA mortgages was first implemented by the Congress as a pilot program in just a few states in 1996. This pilot program was deemed successful and temporarily expanded to all states in 1998. The program was extended again in 2000. By all accounts, the program has been successful in making the downpayment calculation more understandable for homebuyers and real estate agents, easier to calculate for lenders, and has made the amount of cash needed for a downpayment more affordable for homebuyers. A permanent extension of the downpayment calculation is needed so that we do not revert back to the pre-1996 calculation that was complex and required more cash for downpayments. In fact, we estimate that as many as 300,000 borrowers may be shut out of homeownership if this downpayment calculation is not extended. Therefore, MBA very strongly supports the provisions in this legislation that will make the FHA downpayment simplification calculation permanent.

Section 222-Reduced Downpayments for Teachers and Public Safety Officers

The bill will reduce the downpayment to a minimum of one percent (from the normal minimum of three percent) for teachers and public safety officers using an FHA-insured mortgage to buy a home in the area where they work. Under the provisions of H.R. 3995, the home would have to be their primary residence and they would have to occupy it for at least three years. MBA strongly supports concept and the goals of this program.

Municipal employees and teachers contribute to the health, safety, and vitality of the communities they serve. However, many of these teachers, fire fighters, and policemen cannot afford to purchase homes in the communities in which they work. This program would provide valuable assistance to hard-working, dedicated public servants, especially young entry-level workers, to enable them to purchase a home.

With regard to this section of the legislation, we recommend that the legislation simply reduce the upfront insurance premium that is paid on these loans, instead of setting up the complex deferral and refund structure for the upfront premium contained in Section 222(b). The current Section 222(b) is needlessly complex and will present an administrative burden for the Department of Housing and Urban Development (HUD) to administer. Instead, we believe that the same objective can be accomplished by merely reducing the upfront insurance premium to be charged to these borrowers (similar to the method that is proposed in Section 224 of the legislation) to an amount that is less than the current 1.5% that all borrowers pay now. Reducing the upfront premium will simplify the administration of this program for HUD and still result in savings for the homebuyer.

Section 223-Community Partners Next Door Program

The bill will permit teachers and public safety officers to purchase, at a 50 percent discount off the listing price, HUD foreclosed homes located in the neighborhoods where they work and where the neighborhoods need revitalization. The property would have to be intended as their primary residence and they would have to occupy the home for at least three years. HUD foreclosed properties in depressed neighborhoods often are sold to investors who have little motivation to fix them up. Selling these homes at a discount to individuals and families who want to live in the community where they work is good public policy. MBA supports these provisions.

Section 224-Public Safety Officer Home Ownership in High Crime Areas

This provision establishes a three-year pilot program that would allow a public safety officer to purchase a home as a primary residence for no downpayment if the home is located in a high crime neighborhood, and the officer agrees to occupy the home for three years. For the reasons previously stated above, MBA supports this pilot program.

Section 226-Risk Based Capital Levels for MMI Fund

This section establishes a new risk-based formula for establishing the capital ratio of the Mutual Mortgage Insurance Fund (MMIF). The new formula would be the sum of: one percent of the unamortized insurance in force, plus an amount that would permit the MMI Fund to withstand defaults and prepayments associated with a broad range of adverse economic circumstances, including: historical regional and national experience in which insured mortgages experienced high rates of default and prepayment; events that may plausibly occur in the future, notwithstanding that such events may not have occurred in the past, which could result in high rates of defaults or prepayments, or both; and, circumstances under which multiple such events occur simultaneously or in rapid succession.

The risk-based capital level would be established by HUD after consulting with the Office of Management and Budget (OMB), the Congressional Budget Office (CBO) and the Comptroller General of the U.S. Every three years, the economic assumptions would be reviewed and modified accordingly.

MBA supports a strong and actuarially sound MMI Fund. Current statutes already require an annual actuarial study of the MMI Fund to assure its financial soundness and requires that it meet a statutorily mandated capital ratio of 2%.

We believe that the proposed risk-based capital formula is unnecessary, costly, and overly burdensome for the agencies to administer. The capital ratio of the MMIF has steadily grown since 1989, when the Congress established minimum capital ratio requirements because of the poor financial health of the Fund. HUD has been able to increase the net worth of the MMI Fund to over 2 percent since 1995, and now to an estimated 3.75% in 2001.

Further, the proposed risk-based capital requirement could undermine FHA's ability to bolster depressed housing markets. By making it more expensive to insure loans in areas temporarily experiencing economic hardship, FHA's ability to act as a counter-cyclical force would be diminished – an outcome that is at odds with FHA's historical mission of being the insurer of last resort in all markets at all times. The end result would be deeper housing recessions in those areas that need help the most.

At the very least, the proposed legislation should include a cap on the capital ratio that can be mandated by HUD, in order that increases in FHA insurance premiums do not make FHA loans unaffordable. Also, this section should be amended to use the amount of the amortized insurance in force instead of the unamortized amount of insurance in force. Using the amortized amount of insurance represents the real current amount of Fund liabilities. Using the unamortized amount of insurance does not take into account the payments being made each month by FHA borrowers to pay off their mortgages.

Section 227-Hybrid Adjustable Rate Mortgages

The FHA Adjustable Rate Mortgage (ARM) has been a valuable tool for expanding homeownership opportunities. The conventional mortgage industry has found ARMs to be a method of financing homes for those families whose entry into homeownership would be difficult at higher interest rates. ARMs allow families to buy homes at lower interest rates, and therefore lower monthly payments. Then, as a family's income grows, it is easier to make the monthly mortgage payment. Last year, FHA hybrid ARMs were signed into law, providing an even greater number of mortgage products for FHA borrowers. However, the current statute limits the first interest rate adjustment on the 5/1 ARM to a maximum of one percent, which does not provide adequate pricing flexibility for lenders to be able to offer this product. MBA strongly supports the technical change in Section 227 to the hybrid adjustable rate mortgage that will enable lenders to offer 5/1 hybrid ARMS at lower interest rates and allow more families to qualify for FHA hybrid ARMs.

Section 228-Uniform National Loan Limit for Home Equity Conversion Mortgages

MBA strongly supports a uniform nationwide loan limit for FHA Home Equity Conversion Mortgages (HECMs). A HECM can be used by seniors who are "house rich" but "cash poor" to convert the equity in their home into monthly cash payments. FHA loan limits for "forward" or traditional mortgages vary by county, depending upon housing costs in the area. Presently, the maximum loan limit for an FHA-insured loan in a high cost area is 87 percent of the Fannie Mae/Freddie Mac conforming limit. In this way, the FHA program is focused on serving primarily low- and moderate-income families who would not qualify for conventional financing and private mortgage insurance. This approach for calculating loan limits, however, does not make sense for HECMs.

Because the county-by-county FHA loan limits also apply to reverse mortgages, some unintended inequities result. For example, under current law, a senior living in Des Moines with a home worth $175,000 can get a reverse mortgage for only $144,336 (the

FHA loan limit in Des Moines) while a senior living in Los Angeles with a home worth $175,000 can get a reverse mortgage for the full $175,000 because the loan limit in Los Angeles is $237,500. There should be no disparate treatment of seniors in this fashion. There is no rationale for having county-by-county FHA loan limits for reverse mortgages, because this is a program that serves seniors who already own their homes and there is only a budding conventional market for reverse mortgages.

Section 229-Prohibition of Investors and Nonprofit Owners Under [Section 203k] Rehabilitation Loan Program

This section bans investors and nonprofit lenders as borrowers under the Section 203k Rehabilitation Mortgage Insurance Program. Since 1996, by administrative direction, HUD has banned private investors from the Section 203k program and the program has suffered from recent abuses by nonprofits. However, MBA does not support the statutory ban of investors and nonprofits from the Section 203k program. Section 203k is the only mortgage insurance program that FHA still has in operation that can be used for the rehabilitation of single family properties to revitalize neighborhoods. Often, private investors are the first to enter a neighborhood and begin revitalization efforts in hopes for a subsequent profitable return on their investments. Therefore, MBA does not support eliminating this method of revitalization. For several years, MBA has proposed to HUD a series of strong controls that could be placed on the Section 203k program to allow private investors to resume use of the program. With proper safeguards in place, such as a limit on the number of mortgages that an investor may have at any one time and lower loan-to-value ratios for investor loans, we believe that the 203k program can be a successful and effective tool for neighborhood revitalization.

Title II – FHA Multifamily Programs

Section 201 – Indexing of multifamily mortgage limits

MBA strongly supports this section of the bill. This provision amends the National Housing Act and requires the Secretary of HUD to index the multifamily mortgage limits each year to the annual construction cost indexes of the Bureau of the Census of the Department of Commerce. In many areas of the country, where land and construction costs are particularly high, new production has slowed significantly or ceased. The FY2002 VA-HUD Appropriations Act provided for a 25 percent increase in the multifamily loan limits, which addressed problems resulting from increased costs over the last decade. This provision will further help to address the issue of feasibility for new projects in these high cost areas by addressing future cost increases.

Section 202 – High cost areas

This section establishes an additional mechanism for addressing the need for new construction or substantial rehabilitation in extremely high cost areas of the country by increasing the maximum high cost percentage from 110 percent to 140 percent in any geographic area. It also provides the Secretary of HUD discretion to increase that amount to 170 percent on a project-by-project basis. MBA strongly supports providing the Secretary with additional authority to increase the maximum mortgage limits in extremely high cost areas. While we support the 170 percent authority provided in the bill, we note that in some cities, such as Boston, New York and San Francisco, the 170 percent will still be inadequate. We recommend that the Secretary be given discretionary authority to go to the same limits in other high cost areas as established in the statute for Alaska and Hawaii.

Title IX - Other Housing Programs

Section 901 – GNMA guaranty fee

MBA strongly supports this section of the bill. Although Ginnie Mae performs a critical role in the mortgage market, with approximately $600 billion of Ginnie Mae mortgage-backed securities (MBS) currently outstanding, the agency often has been marginalized in the government's budget process and housing finance policy. Individuals and factions that misunderstand Ginnie Mae's function, or are interested only in the generation of additional revenue for the government, have repeatedly proposed the sale (i.e. privatization) of Ginnie Mae. Such was the case in 1998, when "raising revenue" was placed before housing needs, and a 3 basis point increase in the Ginnie Mae guarantee fee (for single-family pools) was signed into law, effective in FY2004.

A guaranty fee increase of even 3 basis points would decrease homeownership opportunities for thousands of families annually. The increased cost of $30 million or more per year would penalize families who are in need of government programs to buy a home. There is no financial basis for a guarantee fee increase because Ginnie Mae is currently operating at a profit, and has done so throughout its existence.

Section 908 – Subsidy Layering Review

MBA strongly supports this section of the bill. Currently, HUD must conduct a separate subsidy layering review of each FHA-insured loan that also includes low-income housing tax credits. This provision would streamline and expedite the process by having FHA rely on the state finance agency's subsidy layering determination.

Madame Chairwoman, thank you for the opportunity to share our views on this important legislation. FHA and Ginnie Mae offer essential programs to millions of families as they work to achieve homeownership or find affordable rental housing. MBA is eager to work with you and your subcommittee to achieve our common goal of providing safe, decent, and affordable housing through a sound and efficient Federal Housing Administration and Government National Mortgage Association.

STATEMENT
OF
THE NATIONAL ASSOCIATION OF REALTORS®

BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

PRESENTED
BY
MARTIN EDWARDS, JR.
PRESIDENT, NATIONAL ASSOCIATION OF REALTORS®

APRIL 24, 2002

STATEMENT OF THE
NATIONAL ASSOCIATION OF REALTORS
BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
APRIL 24, 2002

INTRODUCTION

Madam Chairwoman and members of the Subcommittee, my name is Martin Edwards, Jr.. I am President of the NATIONAL ASSOCIATION OF REALTORS® and a REALTOR® from Memphis, Tennessee. On behalf of the more than 800,000 members of the NATIONAL ASSOCIATION OF REALTORS® I am pleased to appear before you today to testify regarding H.R.3995, The Housing Affordability for America Act of 2002.

The NATIONAL ASSOCIATION OF REALTORS® represents a wide variety of housing industry professionals committed to the development and preservation of the nation's housing stock and making it available to the widest range of potential homebuyers. The Association has a long tradition of support for innovative and effective Federal housing programs and we work diligently with the Subcommittee and the Congress to fashion housing policies that ensure Federal housing programs meet their mission responsibly and efficiently.

Madam Chairwoman, the NATIONAL ASSOCIATION OF REALTORS® commends you for your leadership in fashioning comprehensive legislation reducing barriers to affordable housing and stimulating needed housing opportunities for American families. The NATIONAL ASSOCIATION OF REALTORS® believes the time is appropriate to comprehensively address our nation's affordable housing crisis as a national priority.

Real estate has long been one of the pillars of American prosperity, providing the capital that makes it possible for families to build, own or rent their homes; providing the strong tax base that allows communities to thrive; and providing a large portion of wealth offering financial resources and security. Today, a record-breaking 68 percent of Americans now own their own homes. Further, home sales account for 14 percent of gross domestic product. Add in commercial sales and collateral expenses, and the contribution of real estate jumps to nearly 20 percent of gross domestic product.

Prior to the events of September 11, our nation's economy had begun to lag as demonstrated by reductions in employment, a dwindling budget surplus, and declining activities in the manufacturing, retail and technology sectors. Housing was the only major sector of the economy that stood tall, and the strength of the housing market was a key reason the economy did not succumb to recession. Yet, housing did not go unscathed in the aftermath of September 11 as home sales came to a virtual standstill in the days following the terrorist attacks.

In spite of the softening of our nation's economy and the shakeout in the real estate sector that occurred, a combination of low interest rates, positive demographic trends, job growth and growing consumer confidence collectively have managed to ensure real estate is fundamentally sound and positioned to produce another record year for existing home sales.

THE NEED FOR AFFORDABLE AND INCREASED HOUSING OPPORTUNITIES

Madam Chairwoman, this is also why we believe the timing is appropriate and uniquely important for the Subcommittee to address initiatives and policies that stimulate housing opportunities for American families unserved and underserved by existing Federal programs. As a cornerstone of the U.S. economy, no other industry touches so many people in so many ways. Very simply, housing is essential to our national economy. Not only does it account for 14 percent of our Gross Domestic Product, but between 15- to 24-cents of every dollar in realized capital gains from home sales go into goods and services and/or savings. Further, 40 percent of disposable income is spent on housing-related goods and services.

It is no coincidence that once people obtain the American dream of homeownership, they are in a position to reap favorable financial rewards. This is because homeownership is the primary source of a household's net worth and the fundamental first step toward accumulating personal wealth. Last year, at the urging of Federal Reserve Chairman Alan Greenspan, NAR examined the wealth effect of housing and determined that home equity is the largest source of wealth for 3 out 4 homeowners. Additionally, our research determined that gains realized by homeowners from the sale of their homes average $30,000 - $35,000, and between 76 and 85 percent of those gains are reinvested for the next home purchase.

Clearly, homeownership is a cornerstone of our democratic system and continues to be a strong personal and social priority in the United States. As we look forward, change is on the horizon that challenges Congress, the Administration and the real estate industry to step forward and collectively produce favorable and responsible public policies that continue to promote homeownership, provide real estate investment opportunities and protect the free market system to further America's growth and prosperity.

For example, our U.S. population will continue to expand, reaching 310 million by 2010 and 340 million by 2020, supporting strong housing demand. In each year of this new decade, we anticipate between 1.1 million and 2.1 million new households will form. Baby Boomers, born between 1946 and 1964, will be the prime market for trade-up, upscale and vacation homes. Their children will be the main source of future homeownership growth, particularly as they begin looking for starter homes after 2010. In fact, we expect 7.6 million people between the age of 25-34, and 6.7 million aged 35-44, will represent the greatest growth in homeownership through 2010. Because of the expected increases in population, we believe homeownership will surpass 70 percent by 2010.

But, the biggest source of household growth in this decade will come from minorities and immigrants. Very simply, minorities will account for 64 percent of all new households. Between 1993 and 2000, minorities accounted for 44 percent of homeownership growth while accounting for 25 percent of all households.

By 2010, African-Americans will account for 19 percent of household growth; Hispanics will account for 38 percent; and other non-white minorities will account for 37 percent. The creation of these additional households will require more home construction as well as favorable economic conditions to lure potential homebuyers. The real estate industry and our federal policymakers have a responsibility and obligation to ensure these groups are not ignored in their quests for housing opportunities.

Madam Chairwoman and Subcommittee members, this is why I am committed to leading REALTORS® across America to ensuring that our industry is positioned to expand and deliver broader housing opportunities benefiting all Americans. And, Madam Chairwoman, this is why the NATIONAL ASSOCIATION OF REALTORS® applauds your leadership and hard work for crafting an important and comprehensive bill that will help so many Americans obtain needed housing.

As you well know, our nation continues to experience a growing crisis in housing affordability and ownership. Moreover, the number of working families with worst-case housing needs has increased sharply. The stock of rental units that are affordable and available is declining rapidly. And home sales prices in some cities are rising far faster than the U.S. average, shutting more and more potential homebuyers in those areas out of the market. Yet, this doesn't truly tell the full and complete story. Consider the following:

- One out of every seven American families – 13 million families – has critical housing needs;
- More than 7.5 million renters nationwide face critical housing needs, either living in substandard properties or paying more than 50 percent of their income towards housing;
- Six million families – nearly half of those with critical housing needs – earn at least some, if not all, of their income from working;
- Most of these people earn less than half of the median income for their area. They don't receive government assistance, and they pay more than half of their income for housing or live in bad conditions;
- In 24 states, a household with two full-time minimum wage earners cannot afford a 2-bedroom apartment without spending more than 30 percent of their income;
- Many who lack decent affordable housing are not what most of us would consider poor. Among those hardest hit are schoolteachers, police officers and municipal workers;
- Our nation's housing shortage is a major contributor of sprawl, forcing people to move farther and farther away from the urban core to find homes they can afford; and,
- Nationwide, the inventory of affordable homes has shrunk to the lowest level in a decade;
- Statistics show that the waiting list for public housing has grown to approximately 1 million households with wait times as long as 10 years in some cities, while the average wait for a rental voucher in some cities is five years;
- Finally, there are approximately 270,000 disabled households on waiting lists for federal housing assistance.

Clearly, those of us involved in the process of helping people achieve the American dream of homeownership can and must find more ways to encourage innovation and inspire investment in housing. REALTORS®, particularly, are in a unique position to parlay the need for affordable housing, both in the rental and homeownership sectors of the market, into something tangible, concrete and livable. In late 2001 the NATIONAL ASSOCIATION OF REALTORS® began work on a comprehensive housing opportunities initiative to identify and pursue ways to stimulate affordable housing, improve access to housing and close the homeownership gap.

Last Fall I appointed a special Presidential Advisory Group charged with developing a new, long-term initiative to raise awareness of today's housing needs crisis. NAR's Housing Opportunities PAG was comprised of REALTORS® from across the nation, from large cities to rural areas, and from various market segments who are experienced in all facets of affordable housing and housing opportunity issues.

Madam Chairwoman and Subcommittee members, our findings underscore that our nation's housing crisis is one that is well established and fed by an area's economic, demographic and regulatory characteristics. Most disheartening is that this crisis is an issue that will not go away on its own. Without reasonable housing opportunities families are stressed to the breaking point, neighborhoods decline, jobs go unfilled and the quality of life suffers for all of us.

NAR's blueprint to help address the critical housing needs confronting communities throughout the nation will encompass research; training and business development; legislative, regulatory and programmatic advocacy at all levels of government; coalition; communication; and the development of a living Web page to serve as a clearinghouse of information related to affordable housing opportunities.

The NATIONAL ASSOCIATION OF REALTORS® is unwavering in its commitment to assure that every American has the opportunity to attain a decent, safe and affordable home, and we commend you and the Subcommittee for your leadership in developing a creative approach that improves housing opportunities.

I now welcome the opportunity to address the specific provisions under Title II of H.R.3995 The Housing Affordability for America Act of 2002.

<u>Subtitle A - Multifamily Housing</u>

Section 201 - Indexing of Multifamily Mortgage Limits

The health of our housing and mortgage finance markets can be traced to the past, embodied in federal interventions and large-scale programs that have met the housing needs of a wide range of income groups from low-income to middle-income families. The federal government and particularly the FHA multifamily programs have served as the principal source of subsidy for both renters and housing providers.

It is important to note that, between 1965 and 1975, over 600,000 units of affordable housing were built under HUD's Section 221(d)(3) and Section 236 programs. In conjunction with the Section

202 elderly program, this was the first time the private sector was invited to participate in the production of low- and moderate-income housing, previously the sole domain of public housing authorities. In exchange for participating in these programs, the profit motivated investors were required to make the units available to low- and moderate-income households at HUD-approved rents throughout the term of the mortgage -- principally 40-year terms.

Until the energy crisis of the 70's followed by national tax policy changes and program policy modifications that produced unintended consequences in the supply and availability of housing, FHA multifamily programs were largely successful and quite instrumental in carrying out an important societal responsibility of our national government. Unfortunately, the policy changes of the 70's and 80's not only threatened the viability of the FHA multifamily programs but contributed to the flight of owners and developers, slowing new production of affordable rental housing to a trickle. Exacerbating the dwindling stock of housing was, and continues to be, critical demand for affordable units fueled today by millions of working families unable to find decent, affordable homes in the communities where they work.

Madam Chairwoman and members of the Subcommittee, the NATIONAL ASSOCIATION OF REALTORS® applauds you for your immediate and decisive leadership last year in approving a 25 percent increase in the FHA multifamily loan limits. You responded to the call of the Coalition for Affordable Rental Housing, of which NAR is a founding member, to increase the multifamily limits as an important first step in solving the affordable rental housing problem. The mortgage insurance limits had not been raised since 1992 and were a principal reason why the FHA multifamily programs were not keeping pace with the increased costs of building new rental housing affordable to low- and moderate-income working families.

While we believe it is too early to assess the immediate impact of the policy change, NAR is confident that the increases will help offset the rise in land, construction and other costs that have occurred since 1992. The new limits are a timely and appropriate response by Congress towards solving the affordable housing crisis addressing our nation because it is extremely expensive and difficult to build multifamily projects in today's economy.

But, increasing the multifamily loan limits is just the first step toward increasing the production of affordable FHA multifamily housing. Section 201 of your bill -- indexing the FHA multifamily loan limits -- is a necessary second step if we are to make sure the FHA insurance program keeps pace with the costs associated with financing our nation's rental housing needs. The NATIONAL ASSOCIATION OF REALTORS® strongly supports this provision of H.R.3995 to ensure the FHA multifamily loan limits are not outpaced by inflation and growing construction costs. We believe that indexing the limits to the annual construction cost index of the Bureau of the Census will enable the FHA multifamily loan limits to increase automatically on an annual basis, as costs increase.

Section 202 - High Cost Areas

For reasons similar to the aforementioned, the NATIONAL ASSOCIATION OF REALTORS® strongly supports this provision of H.R.3995. Despite the enactment last year of a 25 percent increase in the FHA multifamily loan limit, many of our nation's cities' urgent need for affordable rental housing will go unmet because they face very high construction costs. The increase granted last year is quite frankly insufficient to assist cities such as Chicago and Los Angeles where the estimated cost of a multifamily unit is a staggering 221 percent of the FHA Section 221(d)(4) basic loan amount. Allowing the maximum high-cost percentage to be increased in high-cost housing markets of our country will make the FHA multifamily program beneficial in many of our nation's worst-case housing markets. Additionally, granting the Secretary the discretion to increase the limits further on a case-by-case basis extends program flexibility, lessening statutory delays or burdens and enhancing administrative efficiency.

Subtitle B - Single Family Housing

Section 221 – Downpayment Simplification

The proposed legislation provides for the permanent extension of the downpayment simplification calculation for FHA mortgages. The NATIONAL ASSOCIATION OF REALTORS® strongly supports this provision. The FHA downpayment simplification calculation is a three-step process utilized to determine an FHA borrower's downpayment amount. The simplified calculation was begun as a pilot program in 1996 in Hawaii and Alaska and proved so easy and successful that it was extended nationwide in 1998, albeit temporarily to September 30, 2000. In 2000 the calculation was re-extended 27 months, to December 31, 2002.

The simplified calculation has become an invaluable tool in helping many Americans achieve the dream of homeownership. Not only has it eliminated cumbersome and unnecessary formulas for determining the proper downpayment for FHA loans, it has also helped to lower the size of the downpayment making homebuying more affordable. If the simplified calculation is not made permanent or further extended, the calculation reverts to its "old formula", a complex and cumbersome five-step process. Your provision is a sound, common-sense policy that is consistent with the objectives of the Subcommittee to improve the effective and efficient operation of federal mortgage programs benefiting American families.

Section 222 – Reduced Downpayment Requirement for FHA Loans for Teachers and Public Safety Officers

The NATIONAL ASSOCIATION OF REALTORS® is a strong supporter of this provision because it will make homeownership easier and more affordable for many deserving American families when enacted by Congress. The provision is a good, sound approach to stimulate housing opportunities and help to sustain the momentum in our nation's housing boom. Very simply, the bill will open the prospect of homeownership to large numbers of public safety employees and educators who now can find little or nothing affordable in the communities where they work.

Madam Chairwoman, the ability to afford a home remains the most challenging hurdle for many homebuyers. Under existing FHA rules, a home buyer generally must be able to contribute at least 3 percent of the cost of the property with his or her own funds. As an example, on a $150,000 house a buyer would need a down payment of $4,500 in cash and would need an additional two percent for closing costs, prepaid expenses, and title insurance totaling approximately $7,500 needed for settlement.

Under Section 222 of H.R.3995 the one percent down payment requirement would sharply reduce what beneficiaries of the program would need to bring to the settlement table. On a $150,000 property, the down payment for a participant in the program would be $1,500. The legislation also defers and reduces the current up-front mortgage insurance premium of 1.50 percent, or $2,250, of the loan amount by 20 percent per year during the period of homeownership, completely disappearing after the fifth anniversary of the closing. The resulting savings is approximately $5,250!

We believe the change in down payment requirements under H.R.3995 would allow almost 6,000 teachers and public safety officers to become homeowners who were previously precluded by cost from the homebuying market thereby stimulating affordable homeownership opportunities and strengthening the social fabric of neighborhoods and communities.

Section 223 – Community Partners Next Door Program

The NATIONAL ASSOCIATION OF REALTORS® wholeheartedly supports this provision permitting teachers and public safety officers to purchase HUD foreclosed homes located in the neighborhoods where they work. We applaud you and the Subcommittee for your innovation in furthering the goals of affordable homeownership and community revitalization. HUD homes serve as a viable source of affordable housing opportunities for many families, creating communities of opportunity. Making these homes available at a discount will add an important tool to HUD's property disposition program, enabling the Department to reduce further its inventory of acquired housing stock. The end result is that the availability and supply of affordable housing within communities is responsibly addressed by deserving professionals, contributing to the growth and revitalization of needy communities.

Section 224 – Public Safety Officer Home Ownership in High-Crime Areas

The NATIONAL ASSOCIATION OF REALTORS® strongly supports this provision establishing a three-year pilot program for no downpayment FHA loans to qualified public safety officers who purchase homes in designated high-crime areas. The NATIONAL ASSOCIATION OF REALTORS® has consistently maintained that a safe, healthy environment is essential to maintaining vigorous real estate markets.

Additionally, this provision will improve the efficient and prompt delivery of HUD properties to the sales market reducing burdensome administrative responsibilities for HUD. The longer HUD properties remain in its inventory, the more the Department's holding costs increase and the longer they remain unavailable as homeownership opportunities. We believe this provision will help restore distressed neighborhoods to vibrancy and further strengthen the Mutual Mortgage Insurance Fund (MMIF).

Section 226 – Risk-Based Capital Levels for MMIF

The NATIONAL ASSOCIATION OF REALTORS® is deeply concerned with this section of H.R.3995. The provision requires HUD and the Office of Management and Budget (OMB) to specify criteria for determining when the MMIF is actuarially sound to account for different types of economic conditions under which the MMIF would be expected to meet its commitments without borrowing from the U.S. Treasury. Additionally, the provision establishes a new risk based formula of determining the capital ratio of the MMIF.

The NATIONAL ASSOCIATION OF REALTORS® believes the provision is unnecessary and would be costly and burdensome for HUD/OMB to properly administer. An actuarial study conducted by the accounting firm of Deloitte & Touche determined the MMIF to be in its strongest financial condition since at least 1989, when the first annual independent actuarial study of the MMIF was conducted. The MMIF's capital adequacy ratio for fiscal year 2001 is 3.75 percent, well in excess of the congressionally-mandated minimum of 2.00 percent. This is the seventh consecutive year that the capital ratio has exceeded the two percent mandate. Further, the Deloitte & Touche study also reported that the economic value of the MMIF rose to $18.5 billion, an increase of $1.5 billion from fiscal year 2000.

The vision and leadership of this Subcommittee was the guiding force in authorizing legislation in 1990 mandating that FHA's MMIF achieve a 1.25 percent capital ratio by FY1992 and 2.0 percent by FY2000. The result has been demonstrated financial improvements to the MMIF allowing FHA to better serve its customers and meet the homeownership needs of underserved families and communities under the watchful eye of Congress.

We are concerned that a transfer of authority to the HUD Secretary, the OMB, the Congressional Budget Office and the Comptroller of the Currency would not only "overly-engineer" development of a risk-based capital formula but would also pave the way for selfish or misguided opportunities by FHA's detractors, resulting in policies detrimental to the mission of the FHA single-family insurance program. Specifically, we are concerned that opponents of the FHA program would encourage development of a risk-based capital model that could force increases in FHA premiums, alterations to FHA's insurance coverage, and modifications to its loan-to-value ratios in order to meet a specified risk-based capital level.

Section 227 - Hybrid Adjustable Rate Mortgages

The NATIONAL ASSOCIATION OF REALTORS® strongly supports this provision providing a technical change to hybrid FHA adjustable rate mortgages (ARMs). Last year Congress enacted legislation authorizing creation of a hybrid FHA ARM product. However, the legislation capped the first interest rate adjustment for 3/1 and 5/1 hybrid ARMs at one percent.

The housing industry maintained that a maximum one percent increase in the interest rate at the time of the first rate adjustment for a 5/1 hybrid ARM does not offer sufficient interest rate flexibility for a lender to offer this type of ARM product at a lower interest rate than a traditional 30-year fixed rate mortgage. As a result, FHA borrowers are not afforded the benefit of a hybrid ARM loan that features a starting interest rate lower than a 30-year fixed rate mortgage. Section 227 of the bill addresses this technicality, enabling lenders to offer 3/1 hybrid ARMs at lower interest rates and allows more families to qualify for FHA hybrid ARM loans.

Section 229 – Prohibition of Investor and NonProfit Owners under Rehabilitation Loan Program

The NATIONAL ASSOCIATION OF REALTORS® is concerned with this provision of H.R.3995 which would ban investors and nonprofits as borrowers under the Section 203(k) Rehabilitation Mortgage Insurance Program. The Section 203(k) program is HUD's primary program for the rehabilitation and repair of single-family properties. As such, it has served as an important tool for community and neighborhood revitalization and for expanding homeownership opportunities.

Prior to 1996 investors played a critical role in the development of homeownership opportunities because their involvement and activities contributed significantly to neighborhood revitalization and affordable homeownership opportunities. As the Subcommittee knows, program abuses resulted in the placement of an administrative moratorium by HUD on investor participation in the 203(k) program in 1996. Following the institution of the moratorium, the housing industry unsuccessfully sought to encourage the application of industry-recommended safeguards and quality assurance plans for self-policing program participants.

We believe it is important to note that, by and large, investor participation contributed to the success of the 203(k) program. HUD's Inspector General's recommendation to terminate investor participation stemmed from a report examining 449 loans, 81 percent of which were handled by three problematic lenders out of a population of 1800 lenders in the market. It should also be noted that HUD took immediate punitive action upon the IG's identification against the abusive lenders. We would encourage the Subcommittee to consider the recommendations of the 203(k) industry working group before authorizing the termination of investors from the 203(k) program.

ADDITIONAL PROGRAM IMPROVEMENTS

Madam Chairwoman, the NATIONAL ASSOCIATION OF REALTORS® is an active participant in the FHA single-family mortgage insurance program and we are totally committed to preserving its market viability and financial solvency. The American dream of homeownership promotes family security, community involvement, and creates a solid foundation from which people can build a life. Through its single-family mortgage insurance program, FHA is a proven contributor to these ideals and objectives.

As the Subcommittee knows, the mission of the FHA program is to meet the homeownership needs of all qualified homebuyers who seek to own a home. As a government entity, the FHA program has a public purpose obligation to provide mortgage insurance to American families who choose FHA to meet their homeownership needs. Very simply, FHA has played an enormous role in helping families realize the dream of homeownership at no cost to taxpayers.

Today, the FHA and its Mutual Mortgage Insurance Fund are the healthiest they have been in years. As I have noted previously, the economic value of the Fund is at an all-time high of almost $18.5 billion and the Fund's capital adequacy ratio stands at approximately 3.75 percent, far exceeding the congressional mandate of 2.00 percent. Clearly, this is a record of achievement that is noteworthy and one that is reflected in the increased numbers of FHA purchase money loans to many deserving families. We commend the Subcommittee for its leadership in forging policies that have contributed significantly to FHA's financial safety and soundness and increased homeownership rate.

Given this record of success, it is critical that our national housing policy leaders understand the role and public policy mission of FHA and the need to regularly review FHA's legislative and regulatory policies and standards to ensure the program meets the ever-changing universe of the mortgage marketplace.

I mentioned earlier that record numbers of Americans now own homes and is reflected in a national homeownership rate for all Americans at 68 percent. Despite these gains, though, too many potential homeowners in underserved populations continue to be left out from the American dream of owning a home. The NATIONAL ASSOCIATION OF REALTORS® is committed to addressing this disparity, working with minority real estate organizations and the housing industry to promote homeownership opportunities for minorities.

Last year we honored several outstanding ideas and initiatives promoting minority homeownership through the HOPE Awards, a national awards program honoring non-REALTORS® and partnered with five other real estate organizations representing a broad spectrum of industry professionals. The HOPE Awards – "Home Ownership Participation for Everyone" – was launched to recognize the unsung heroes who are helping minorities overcome barriers to homeownership and is just one way we can demonstrate that we are united in our concern that not all Americans participate equally in homeownership. Following President Bush's State of the Union address in which he called for "broadening homeownership opportunities, especially for minority families", we are working closely with the President to fashion bold and innovative approaches addressing minority homeownership.

To complement these activities, the NATIONAL ASSOCIATION OF REALTORS® advocates improvements to the FHA program to make this financing tool available to more first-time homebuyers, minorities and immigrant families. These improvements include the following:

<u>Lengthen the amortization period for FHA mortgage loans beyond the existing 30-year term</u> -- Currently, the term of the mortgage insured under the FHA single-family mortgage insurance program cannot exceed thirty years. Extending the life of the loan above thirty years would reduce the monthly mortgage payment, allowing more households to qualify for a mortgage and, hence, increase homeownership opportunities. Research conducted by the NATIONAL ASSOCIATION OF REALTORS® has determined that approximately 52 percent of American households currently can qualify to purchase the U.S. median priced home of $139,000 with a 30-year mortgage. This amounts to approximately 54.7 million households. Extending the life of the loan to 35 years would enable almost 54 percent of American households to qualify for a $139,000 home, representing an increase of 1.4 million households. And, extending the life of the loan to 40 years would permit almost 55 percent of households to qualify for homeownership, an increase of 2.6 million households above current levels.

<u>Encourage the use of rental payment history as credit information to improve access to credit in the homebuying process</u> -- With the movement of major lenders to automated processing to streamline the availability of mortgage credit, credit scoring is an emerging issue that will significantly influence

mortgage credit availability and definitions of creditworthiness. Consequently, the types of supporting information to be collected and used for developing appropriate scoring models and predicting borrower creditworthiness is a key factor.

If properly utilized and framed with appropriate consumer safeguards, automated underwriting has the potential of making mortgage credit more widely available at lower costs. However, the challenge is to ensure that automated underwriting does not perpetuate racial disparities in the loan process and to identify loan repayment predictor mechanisms that do not disadvantage special populations. Tracking rental payment history may serve as a useful predictor in determining the creditworthiness of a borrower and, hence, their acceptance for mortgage credit. With the FHA single-family mortgage program stronger than ever, we believe the timing is appropriate for FHA to return to its mission as mortgage finance innovator and take the lead and implement this recommendation as part of its underwriting criteria.

<u>Resume Payment of Distributive Shares to FHA Borrowers</u> – HUD should be directed to resume payment of "distributive" shares to FHA borrowers to provide a source of financial revenue to borrowers. Prior to 1990 FHA borrowers were eligible to receive distributive shares, i.e. portions of an FHA borrower's mortgage insurance premium payment paid into the FHA Fund. Payment of distributive shares was suspended in 1990 to help place the Fund on a financially sound basis. With the Fund healthier than ever, we believe the timing is appropriate to resume these payments to FHA borrowers.

<u>Amend Section 214 of the National Housing Act to add the State of California permitting FHA mortgage limits be adjusted up to 150 percent of the statutory ceiling</u> – The median price of an existing, single-family detached home in California during January 2002 was $285,860, representing a 17.1 percent increase over the $244,110 median for January 2001. The current FHA maximum high-cost mortgage insurance limit is $261,609, meaning that for many working families – teachers, police officers, firefighters – FHA is not a useful homeownership tool.

When Congress authorized Section 214 of the National Housing Act, it did so upon finding that higher costs prevailed in Alaska, Guam, Hawaii and the Virgin Islands because it was not feasible to construct dwellings without sacrificing sound standards of construction, design or livability. As a result, the Secretary of HUD was given authority to prescribe a higher maximum for the principal obligation of mortgages insured covering property in these areas. Because of similar circumstances in the State of California, we believe it is highly appropriate for Congress to add California to the list of areas where the maximum mortgage amount may be adjusted upward.

CONCLUSION

Madam Chairwoman and Members of the Subcommittee, let me once again thank you for providing me this opportunity to testify today on behalf of the NATIONAL ASSOCIATION OF REALTORS®. The NATIONAL ASSOCIATION OF REALTORS® believes the Subcommittee has before it a ripe opportunity to further restore confidence in our citizens and rejuvenate our sagging economy by stimulating housing opportunities and helping deserving American families achieve the dream of owning their own home. I would be pleased to answer any questions or to provide further information for the hearing record.

NAHB
NATIONAL ASSOCIATION
OF HOME BUILDERS

Statement of Kevin Kelly

On behalf of the
National Association of Home Builders

on

The Housing Affordability for America Act of 2002

Washington, D.C.
April 24, 2002

INTRODUCTION

Good afternoon. On behalf of the 205,000 members firms of the National Association of Home Builders, I would like to express our appreciation for being invited to testify on Title II of the Housing Affordability for America Act of 2002. My name is Kevin Kelly, and I am a builder from Wilmington, Delaware. I currently serve as president of Leon N. Weiner & Associates, Inc., a Wilmington-based home building, development and property management firm. The Weiner organization and its affiliates have developed and constructed more than 4,500 homes and 9,000 apartments as well as several hotels, office buildings and retail facilities.

TITLE II

Overall, Title II of the bill contains important provisions that are needed to increase the availability of affordable housing and expand homeownership and rental housing opportunities across the country. I will also comment on several of the provisions in other sections of H.R. 3995, which also have an impact on achieving these important goals.

FHA Multifamily Mortgage Insurance

NAHB is a strong supporter of the FHA multifamily mortgage insurance programs. We have worked with HUD and Congress over the years to bring improvements to the programs, which are critical to addressing the nation's affordable housing needs.

Indexing Of Multifamily Mortgage Limits

NAHB applauds Congress and HUD for increasing the FHA multifamily mortgage loan limits by 25 percent last year. The increase has already assisted in opening up markets previously unable to use the programs because the loan limits were too low. However, NAHB believes that, without an indexation for inflation, any gains realized from the 25 percent increase will be quickly lost.

We strongly support the inclusion of Section 201 of Subtitle A, which requires HUD to index the FHA multifamily mortgage loan limits each year, beginning in 2003, to the annual construction cost index published by the Bureau of the Census of the Department of Commerce. Indexing the loan limits will help stabilize the programs and give builders and lenders the confidence that they will be able to use the programs in their communities every year, even as construction and land costs rise over time.

High-Cost Areas

NAHB also strongly supports Section 202 of Subtitle A, which addresses the needs of high-cost markets where the base loan limits are too low. Currently, the law gives the Secretary of HUD the discretion to increase the base limits by up to 110 percent in geographic areas where construction costs are very high. The Secretary is also able, at his discretion, to approve an increase of up to 140 percent for individual projects in high-cost areas. However, there are a number of high-cost urban markets, such as New York, Boston, San Francisco, Chicago and Los Angeles, where construction costs are significantly higher than in other areas of the country, and the high-cost factors have not been sufficient to allow use of the FHA multifamily mortgage insurance programs. NAHB conducted an analysis of those five high-cost urban areas, which demonstrates that, even with the recent 25 percent increase and current high-cost factors, costs exceed the current limits.

Section 202 of Subtitle A in H.R. 3995 increases the maximum high-cost factor from 110 percent to 140 percent in geographic areas and further provides the Secretary of HUD the discretion to increase the high-cost factor from 140 percent to 170 percent on a project-by-project basis.

NAHB believes that indexing the loan limits to inflation and increasing the high-cost factors together will greatly improve the FHA multifamily mortgage insurance programs. Markets previously unable to use the program would be able to provide much-needed new affordable housing to low- and moderate-income families.

FHA Single Family Mortgage Insurance

NAHB supports the provisions of this important bill that are aimed at improving the FHA single family mortgage insurance programs. These provisions would improve the efficiency of FHA's programs in a number of ways while enabling these programs to make homeownership attainable for more families.

Downpayment Simplification

NAHB supports making the simplified downpayment calculation method permanent. The strength of the Mutual Mortgage Insurance Fund has improved each year since 1998 when this provision was temporarily enacted.

This procedure, commonly referred to as "downpayment simplification," actually offers a simplified method of maximum mortgage calculation. The simplified method results in greater loan-to-value ratio loans than permitted under the previous method of maximum mortgage calculation.

This provision was first implemented as a successful pilot for residents of Alaska and Hawaii, and then was expanded nationally three years ago via a series of temporary extensions. The most recent extension of the authority for the simplified method of calculation is scheduled to terminate on December 31, 2002.

The simplified calculation multiplies a loan-to-value percentage times the lesser of the appraised value or the sale price. By contrast, the former system required that the acquisition cost first be determined, then two calculations were performed: one in which the acquisition cost was multiplied by a tiered series of percentages, and a second in which the appraised value was multiplied by a factor. Under the former system, the maximum mortgage is the lesser of the two products.

Hybrid ARM Adjustments

NAHB supports this change, which will make hybrid adjustable-rate mortgages (ARMs) available at competitive rates and terms for FHA borrowers who otherwise would not be able to obtain funding under conventional hybrid ARM programs. NAHB does not believe that FHA hybrid ARMs constitute a threat to the market for conventional loans since many FHA borrowers are unable to qualify for conventional loans.

The bill shortens the allowable time frame for the first adjustment on FHA-insured hybrid adjustable-rate mortgages (ARMs) to three years from the present five years. The FHA was authorized to offer hybrid ARMs last year, but the adjustment may not exceed one percent, and the first adjustment may not occur before the end of the fifth year.

The limitation in current law on the amount of the initial adjustment and the holding of the initial adjustment period to five years make the FHA-insured hybrid ARM less attractive than conventional hybrid ARMs. This means that, under normal market conditions, lenders will not offer FHA-insured hybrid ARMs due to unfavorable pricing in the secondary market.

Special Provisions for Loans to Teachers and Public Safety Officers

The proposals contained in Sections 222, 223 and 224 provide important homeownership incentives for teachers and public safety officers. In addition, Section 223 will put into place a mechanism for the sale of HUD-owned homes to teachers and public safety officers who otherwise might not be able to attain homeownership. These provisions will contribute to the overall neighborhood stability while facilitating the liquidation of HUD-owned single family homes.

Section 222 reduces downpayment requirements for loans to teachers and public safety officers and authorizes the HUD Secretary to reduce downpayment requirements to one percent of the loan amount for FHA-insured mortgages.

This section allows the loan-to-value ratio of up to 99 percent for FHA-insured loans to teachers and public safety officers as compared to 97 to 98 percent for most other FHA borrowers. It also allows the cash contribution of eligible borrowers to be reduced to one percent of the acquisition price.

Section 222 also exempts eligible borrowers from the up-front mortgage insurance premium unless the borrower ceases to be a teacher or public safety officer or pays the mortgage in full within five years of the home purchase.

The Community Partners Next Door Program in Section 223 requires HUD-owned homes to be sold at a 50 percent discount to a teacher or public safety officer or to a unit of local government or a nonprofit organization for resale to a teacher or public safety officer. The purpose of any sale must be to provide a primary residence for the ultimate homebuyer. This section also requires the HUD Secretary to put regulations in place that prevent "undue profit" upon the sale of homes acquired under this section.

Section 224 directs the HUD Secretary to implement a three-year pilot for zero downpayment loans for public safety officers buying homes in high-crime areas. The mortgage insurance premium for FHA-insured loans made under this program is set at one percent and, like other FHA mortgage insurance programs, can be included in the amount of the loan.

Prohibition on Investor and Nonprofit Participation in the 203(k) Program

Programs such as the 203(k) program can provide opportunities for investors to rehabilitate existing housing in neglected neighborhoods and can provide a stimulus to neighborhood redevelopment. NAHB believes that, if properly regulated and monitored, loans under HUD's 203(k) rehabilitation loan program can and should be extended to investors, particularly loans to home building or remodeling professionals, without undue risk to HUD.

The bill would prohibit investor and nonprofit participation in the 203(k) rehabilitation loan program. In October 1996, in response to reports of 203(k) program abuse, HUD announced that investors were no longer eligible for 203(k) loans. Section 229 would incorporate the investor ban into law while adding a ban for nonprofit program participants.

Penalties for Fraudulent Activities

Sections 232 and 233 add additional protections for HUD from borrowers establishing records of default or defrauding HUD by overstating the value of collateral held for FHA-insured loans. NAHB supports these proposals as a means to reduce risk to the FHA insurance funds.

Servicing of HUD-Owned Loans by Rural Housing Service

Section 225 calls for the Rural Housing Service to service single family loans held by HUD. We believe that the Rural Housing Service servicing center has excess servicing capacity. NAHB supports this proposal to use government resources more effectively.

Risk-based Capital Levels for the Mutual Mortgage Insurance Fund

NAHB does not support the method provided in Section 226 to establish a new formula for determining a minimum adequate capital level for FHA's Mutual Mortgage Insurance Fund (MMIF).

Under current law, the MMIF must maintain a capital ratio of not less than two percent. Section 226 would establish a new capital requirement equal to the sum of a one percent basic capital ratio plus a risk-based capital ratio. The risk-based capital ratio would be set at the level necessary for the MMIF to withstand mortgage defaults associated with a broad range of adverse economic circumstances.

The MMIF is funded entirely by the premiums collected from borrowers using FHA-insured mortgages, and the MMIF has not required taxpayer funds at any point since it was established in 1934. NAHB believes it is important to sustain this admirable record and, therefore, supports efforts to ensure that the MMIF maintains reserves that are sufficient to withstand future periods of economic distress.

However, for the FHA single family mortgage insurance programs to fully meet the mission of expanding homeownership opportunities, it is important that the MMIF capital requirement is set no higher than necessary to cover the claims and expenses related to the mortgages that have been insured. We are concerned that the expansive criteria and cumbersome process proposed for establishing a new, risk-based capital formula will produce a reserve requirement well in excess of the level actually needed to cover FHA's losses and expenses.

We are particularly concerned by the proposed requirement that the risk-based component of capital reflect not only events that have never occurred, but also encompass multiple such occurrences, along with previously experienced events, simultaneously or in rapid succession. It seems very likely that this formula prescription will produce unnecessarily high capital requirements and correspondingly burdensome premiums for FHA borrowers.

OTHER NOTABLE H.R. 3995 PROVISIONS

NAHB would like to comment on several other provisions in H.R. 3995.

Housing Impact Analysis

NAHB strongly supports the provisions under Title VIII, which require most federal agencies to conduct a housing impact analysis for any new proposed and final rule, if that rule will have an economic impact of $100,000,000 or more on housing affordability. This measure will greatly help in reducing the number of regulatory barriers to the production of affordable housing.

Layers of excessive and unnecessary regulation imposed by all levels of government -- federal, state and local -- can add 20 to 35 percent, or thousands of dollars, to the cost of a new home, making it difficult or even impossible for families to achieve homeownership or find affordable rental housing. The housing industry needs sensible, appropriate, and balanced guidelines at all levels of government. NAHB believes the elimination of unnecessary barriers to the production of affordable housing should be a critical element of our national housing policy, and we are pleased to see this provision included in H.R. 3995.

Section 8 Rental Housing Assistance Program

Extension Of Project-Based Section 8 Contract Renewals

NAHB supports Section 408 in Title IV, which amends the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) to revise the criteria for renewing rents for certain expiring project-based Section 8 contracts. Under existing law, when a Section 8 Moderate Rehabilitation project contract is up for renewal, the new rents must be set at the lesser of the existing rent, plus an operating cost adjustment factor; the fair market rent; or comparable market rents. In many cases, owners of Section 8 Moderate Rehabilitation projects who wish to stay in the program have had to reduce existing rents because fair market rents typically are lower. The result is a project that may be forced into financial distress, jeopardizing both the owner's investment and residents' homes. In other instances, owners opt out of the program rather than risk jeopardizing the financial stability of the project. The result is a loss of urgently needed affordable housing.

This provision puts the Section 8 Moderate Rehabilitation projects in the same category of other project-based projects and subject to the same renewal criteria, which generally provides renewals at the lesser of existing rents plus the operating cost adjustment factor or comparable market rents.

For those Section 8 Moderate Rehabilitation projects that are not federally insured and thus ineligible for the mark-to-market program (exception projects), renewal rents would be set at the lesser of existing rents, plus an operating cost adjustment factor, or budget-based rents, removing fair market rents as one of the criteria for determining the new rent.

NAHB believes that these are important provisions that address the inequity in treatment between moderate rehabilitation and other project-based developments when their Section 8 contracts come up for renewal. Section 8 Moderate Rehabilitation projects are an important source of affordable housing, and it is essential that they are not lost as part of the existing affordable housing inventory.

Subsidy Layering Review

NAHB is pleased to see Section 903 of Title IX included in the Act, which will eliminate duplicative requirements related to the subsidy layering review process by clarifying that states have the responsibility for subsidy layering reviews. Under current law, government entities are required to review the amount of subsidy an assisted housing property receives if funding is being provided by multiple government sources. HUD typically carries out the subsidy layering review process whenever federal funds are involved. The IRS requires state housing finance agencies to conduct a subsidy layering review on projects using the low income housing tax credit.

However, HUD is also required to carry out subsidy layering reviews on projects with tax credits if HUD funds are also being used. Some states have agreements with HUD to conduct those reviews, but the other states conduct their own reviews although HUD is also required to conduct the reviews. The result of these duplicative requirements is additional paperwork, reporting and delay and confusion in the tax credit approval process. Section 903 will eliminate the confusion and help smooth the approval process and completion of the project.

Public Housing/State Housing Finance Agencies

Waiver of Resident Commissioner Requirement

The Quality Housing and Work Responsibility Act of 1998 made some substantial changes to the public housing program and also added some new requirements related to how public housing agencies operate. One of these changes was a new requirement that all governing boards of public housing agencies must have at least one member who is directly assisted by the agency. The provision applies to both local public housing (PHA) and state housing finance agencies (HFA), if the agency operates a tenant-based voucher program and has a HAP contract with HUD.

Section 501, Subtitle A of Title V, would allow the Secretary of HUD to waive the resident board requirement for the state HFA and all local public housing agencies until the appropriate state enabling legislation or regulations are changed to require a resident board member.

While NAHB believes it is appropriate to require a resident commissioner at the local level because administration of the Section 8 voucher and public housing programs is typically the PHAs' main focus, we do not support the requirement for state housing finance agencies. Administration of Section 8 vouchers is a small part of HFAs' activities, which generally are focused on administration of the Low Income Housing Tax Credit, HOME, CDBG and tax-exempt bond activities. There is a process already in place that provides residents the opportunity to comment on the implementation of the Section 8 voucher program at the state HFA level, in addition to the input provided by Resident Advisory Boards. We do not believe the addition of a resident commissioner on state HFA boards is necessary to ensure resident input with those provisions already in place.

Section 501 only allows a waiver of the resident commissioner requirement until the states pass enabling legislation requiring the resident commissioner. We recommend that Section 501 be amended to permanently waive the resident commissioner requirement for state housing finance agencies.

HOPE VI Revitalization Program

NAHB supports the provisions in Subtitle B of Title V that reauthorize HOPE VI, reform the program to allow eligibility for smaller public housing agencies, provide for appropriations and extend the program through September 2004. The HOPE VI program is contributing to the revitalization of low-income communities and providing opportunities for public-private partnerships in this effort.

Other Housing Programs

GNMA Guarantee Fee

NAHB supports Section 901 of Title IX, the repeal of the scheduled nine basis point increase in the Government National Mortgage Association (GNMA) guaranty fee. If allowed to become effective, this increase would have unnecessarily increased costs, which would have been passed along, generally to borrowers who could least afford additional mortgage financing costs.

Housing Counseling Programs

NAHB has long supported quality homebuyer education as a tool to help insure that families who achieve homeownership will be able to sustain it. Studies performed by Freddie Mac and the American Homeowner Education & Counseling Institute, of which NAHB is a founding member, show that loans to first-time home buyers who have received homebuyer education perform better than loans to those who have not received this training.

To be most effective, it is important that HUD concentrate and coordinate all of the resources dedicated to home counseling, whether for homeownership or rental housing, in a single office, as provided in Section 902 of Title IX.

HEALTHCARE FINANCING STUDY GROUP
COMMITTEE FOR GOVERNMENT PROGRAMS

STATEMENT OF EDWARD L. SHAPOFF,

VICE PRESIDENT, GOLDMAN, SACHS & CO.,

ON BEHALF OF THE HEALTHCARE FINANCING STUDY GROUP

BEFORE

THE HOUSE COMMITTEE ON FINANCIAL SERVICES,

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

April 24, 2002

Good afternoon Madam Chairwoman and distinguished Members of the Subcommittee; I thank you for the opportunity to testify today in support of H.R. 3995.

I am Edward Shapoff, a Vice President of Goldman, Sachs & Co., and the President of Goldman Sachs Housing and Health Care Funding Company, a Federal Housing Administration ("FHA") approved mortgage lender. I am appearing today on behalf of the Healthcare Financing Study Group ("Study Group"), an association of national and regional investment bankers and municipal bond insurers (Exhibit A) actively engaged in financing the construction and modernization of needed health care and assisted living facilities throughout the United States under the mortgage insurance provisions of the National Housing Act ("Act"). Madam Chairwoman, I have previously had the opportunity to testify before the Senate Subcommittee on Housing and

Transportation on legislation introduced by Senator Rick Santorum (R. PA), which paralleled legislation that had been introduced in the House by Congressman Rick Lazio (R. NY), the former chair of this Subcommittee, to enable present programs to meet the needs of elderly, sick, injured and disabled persons. I was pleased to join Congressman Lazio in speaking in support of those legislative changes before the Senate Subcommittee. We welcome and appreciate your support Chairwoman Roukema, and thank you for including in H.R. 3995 legislative provisions which are so important to America's aging and ill populations.

My remarks today will focus on Sections 203 through 206 of H.R. 3995 that would amend the FHA health care and assisted living programs of the Act to modernize and make them more consistent with today's methods of delivering health care services of the highest quality and most affordable price. These amendments would help to assure that quality, affordable health care is more accessible to rural and urban American communities which have been unable to enjoy the benefits of the Act in its present form, and where conventional financing may not be readily available. I will refer to those four sections of H.R. 3995 collectively as the "Amendments."

The Study Group, whose members have worked with the FHA programs for decades, strongly supports the Amendments to make the health care and assisted living programs more useful in meeting the growing health and housing needs of elderly, sick and disabled Americans in all areas of our country.

As you know, the basic health care sections of the Act (Section 232 for nursing home, intermediate care, board and care, and assisted living facilities, and Section 242 for hospitals and associated facilities) providing mortgage insurance for health care projects were enacted more than thirty years ago, and since their inception have assisted in or enabled the development of more than one hundred thousand nursing home and assisted living units, and three hundred hospital projects in over forty states and Puerto Rico. Thanks to the credit enhancement provided through FHA mortgage insurance, many worthy projects, which might have been unable to obtain affordable construction or modernization financing through conventional private sources, have been successfully completed. In addition, these two sections of the Act have netted hundreds of millions of dollars to the Treasury and the FHA insurance funds from FHA fees and mortgage insurance premiums.

Furthermore, these FHA programs do not compete with private sector financing. Rather, they have tended to foster a sound working relationship between government and private industry. This fact is well illustrated by the active participation of private bond insurance companies (one of which is a member of the Study Group) in bond financed FHA hospital and nursing home projects. Their involvement has materially reduced the cost of financing, thereby helping to assure the repayment of the insured loan and reducing FHA's insurance risk. Debt service savings realized under these programs have also resulted in lower federal and state Medicare and Medicaid reimbursements. At the same time, FHA insurance is available to fill a void left by the conventional private sector which, traditionally, has preferred to lend at reasonable rates only to the very best investment grade credits. That is not to say, however, that all health care projects should or do have free entitlement to FHA credit enhancement. Indeed, few high-risk mortgage insurance applications would survive FHA's rigorous underwriting processes.

The great majority of providers that have enjoyed the benefits of the FHA programs has established a successful history of operations thereafter. When a pattern of successful project operation emerges and is recognized in the financial community, borrowers have often been able to refinance at affordable rates in the private market, and thus leave behind the additional mortgage insurance premiums and programmatic restrictions which FHA has reasonably established for the protection of its insurance funds.

Since their enactment over thirty years ago, Sections 232 and 242 have undergone only a limited number of modifications, with the result that the Act does not entirely reflect or accommodate the changing methodology and regulation of health care and assisted living delivery in the United States today. Two examples are found in the definitions of the types of facilities eligible for mortgage insurance, and in the Certificate of Need ("CON") requirements, and alternative procedures, for the hospital and nursing home programs.

With respect to the former, the narrow definitions of eligible facilities fail to reflect the "continuum of care" now commonly provided, within an individual facility or in a campus environment, for purposes of operational and cost efficiency, and continuity of care. This is a shortcoming that would be corrected by the Amendments of H.R. 3995.

As to the Certificate of Need problem, mortgage insurance under the hospital and nursing home programs of Sections 242 and 232 of the Act is conditioned upon the receipt of state issued CONs. In fact, many states over the last twenty years have eliminated all or part of their CON programs, or the agencies that would normally have issued the certificates. Examples are Arizona, California, Colorado, Iowa, Kansas, New Mexico, Oregon, Texas and Wyoming among others. Because of this and other anachronisms in the FHA programs, otherwise needed projects would be ineligible for low interest rate FHA financing. While the Act contains alternative requirements for states in which CONs are no longer available, the alternative requirements, though well intended, have proven unworkable or difficult to implement, particularly with respect to hospital financing, with the result that FHA loan insurance may be unavailable to assist in meeting healthcare needs in those states. This impediment has made it difficult for FHA to diversify its loan portfolio geographically, and has also made it difficult, if not impossible, for "critical access hospitals," particularly in more sparsely populated rural and western states, to obtain needed financing to modernize facilities which may date back to the mid 1900's. The Amendments would solve this problem as well.

Without in any way intending to slight or diminish the stature of any portion of the Amendments (all of which we support), I would like now to examine in greater detail, and comment further upon, some of the more important areas of the Amendments which I feel are of particular significance to the Subcommittee and to the continued success of the FHA programs:

Sec. 203, Insurance for Integrated Service Facilities Mortgages

Integrated Service Facility. The definition of Integrated Service Facility appears in this section of H.R. 3995. This is a technical amendment to existing law, and recognizes the changes to health care delivery methodology that have occurred over the years. Directed, as it is, toward the needs of our aging population, as well as to the sick, injured, disabled, or infirm, and for the prevention of illness, this new definition provides an FHA insurance authorization for new types of facilities for the same Americans intended to be covered originally by the National Housing Act, and recognizes the need to provide services on the most cost efficient and affordable basis. In addition, the definition includes facilities designed to provide a continuum of care, as determined by FHA, which affords FHA a greater ability to approve worthy, needed projects more suited to today's delivery environment, if the other definitional requirements of Section 203 are met.

Licensure. Another important element of Section 203 is the amendment to the assisted living facility licensure requirement of the Act. Unless a facility is licensed by the state or other political subdivision where the facility is located, the facility will be ineligible for FHA mortgage insurance under current law. In those states or subdivisions where no licensing is required or obtainable, otherwise worthy assisted living projects are precluded from the benefits of FHA mortgage insurance. Section 203 solves this problem by permitting FHA to establish underwriting standards in lieu of licensure under those circumstances.

Sec. 204. Insurance for Mortgages for Integrated Service Facilities Owned in Connection with Hospitals

Definitions. This section updates the thirty-year old Section 242 definition of an eligible "Hospital" to permit recognition of current health care delivery methodology and advances in medical science and technology since the enactment of Section 242 so long ago. The archaic test that denies eligibility to some hospitals treating such illnesses as drug and alcoholic, epileptic, mental and tubercular would be eliminated. Today, some of these afflictions are recognized as acute in nature, and may be reimbursed on that basis in an acute care hospital. Furthermore, since acute care services (operating and emergency rooms, for example) are not permitted under the FHA nursing home program, the Section 242 rules, particularly in a "continuum of care" environment, created a financing void for hospitals providing significant services of the type proscribed in the existing definitions of the Act.

Hospital-Based Integrated Service Facilities. The definition of Integrated Service Facility introduced in Section 203 of H.R. 3995 is incorporated into Section 204 by reference. Such a facility, when owned by a hospital sponsor, will become eligible for FHA insurance under Section 242 of the Act. As hospitals continue to add low cost, non-acute outpatient and ambulatory services, the Act's acute care site oriented provisions artificially limit FHA's ability to provide affordable capital to finance less costly, more efficient hospital-sponsored services. For example, the Act does not currently permit the separate financing of a hospital's non-acute care community health clinics for the care and prevention of illness, or laboratories and offices on sites separate and apart from the primary hospital site. This restriction would be eliminated by the Amendments.

Sec. 205. Insurance for Mortgages for Refinancing Debt of Existing Integrated Service Facilities.

Section 205 adds existing integrated service facilities to the list of projects which may be refinanced under Section 223(f) of the Act, and authorizes the insured loan to include additional costs such as repairs, maintenance, minor improvements, or additional equipment as may be approved by FHA, all of which is consistent with conventional refinancings and considered standard in the lending community. In addition to authorizing the refinancing of high rate long term debt, this section would permit an institution to escape from a cycle of expensive roll-overs of short or intermediate term conventional debt. The ability of existing facilities to refinance high rate uninsured mortgage loans will become even more important in those states which will benefit from the modification of the CON protocols as set forth in Section 206.

Sec. 206. Standards and Need for Health Care Facility Mortgage Insurance.

As I stated earlier, the Certificate of Need requirement of both the nursing home and hospital programs has been an impediment to health care delivery and capital formation in a number of states. Recognizing the evolving nature of regulation in many areas of the country, an earlier amendment to the Act established, for states in which CONs were no longer obtainable, an alternative to the issuance of a CON; the alternate procedure has proven cumbersome, time consuming and difficult to implement.

While the basic CON requirement concept would not be altered, the Amendments would modify the alternate procedure to help assure that states without CON laws or implementing agencies would not be excluded from the FHA programs. The effect of this amendment will be to speed up and modernize the overall application process, relieve the state of unwanted burdens, and reduce costs. In addition, it will more effectively enable FHA to achieve geographic diversification in its insurance portfolio, a goal which has long been sought by FHA.

Conclusion.

In conclusion, Madam Chairwoman and distinguished Members of the Subcommittee, I would like to say that the Study Group supports H.R. 3995, and views it as a singularly important and timely measure for the benefit of the health care delivery system, FHA, and the American people for the following reasons:

1. It will help to assure the availability of **affordable**, low rate capital for projects for the sick, disabled and elderly in all areas of our country, rural as well as urban.
2. It will assist in reducing debt service costs as well as related expenses of state/federal cost based reimbursement.

3. Where reimbursement is based upon services rather than cost, lower debt service overhead will free additional project revenues for maintenance, modernization and the improvement of services.

4. H.R. 3995 will also help to maintain strong community job bases. Health care providers are often the largest neighborhood employers, enjoying strong philanthropic and community support. They may also become magnets for non-health care neighborhood and community improvement and preservation, as well as economic development.

5. The Amendments will assure the availability of low cost financing for new forms of integrated health care facilities (the continuum of care approach) which, to deal with changes in traditional revenue sources, are emerging as a means of providing the highest level of service at the lowest cost.

6. Sections 232 and 242 of the Act will continue to produce substantial revenues to the Treasury through FHA mortgage insurance premiums and fees.

Madam Chairwoman, this concludes my testimony. I thank the Chairwoman and the distinguished Members of the Subcommittee for the opportunity to appear before you today.

EXHIBIT A

HEALTHCARE FINANCING STUDY GROUP MEMBERSHIP

April, 2002

AMBAC Assurance Corporation
American Capital Resource, Inc.
Bank of America
Berkshire Mortgage Finance
Cain Brothers
Cambridge Healthcare Funding
Cambridge Realty Capital Ltd.
Capital Funding, Inc.
Century Health Capital
Charles River Mortgage Co.
CMC Mortgage Services, Inc.
Continental Securities
Goldman Sachs & Co.
Innovative Capital LLC
J.P. Morgan
Lehman Brothers
Merrill Lynch & Co.
Paragon Mortgage Corporation
Prudential Huntoon Paige
Red Capital Group
Reilly Mortgage Group, Inc.
Reznick, Fedder & Silverman
Sims Mortgage Funding, Inc.
Suburban Mortgage Associates, Inc.
TRI Capital Corporation
Wirth & Company Health Care Funding, Inc.
Wyatt & Co.
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STEVE YOUNG
PRESIDENT

JAMES O. PASCO, JR.
EXECUTIVE DIRECTOR

TESTIMONY

Of

Louis P. Cannon
President, D.C. State Lodge
Fraternal Order of Police

On

Sections 222 – 224 of H.R. 3995, the "Housing Affordability for America Act of 2002"

Before the

Committee on Financial Services
Subcommittee on Housing and Community Opportunity
United States House of Representatives

24 April 2002

Good afternoon Madam Chairman, Ranking Member Frank and members of the Subcommittee, and thank you for holding this important hearing. My name is Lou Cannon, and I am an Inspector with the United States Mint Police, and the President of the Fraternal Order of Police District of Columbia Lodge. I am here today on behalf of Steve Young, National President of the Fraternal Order of Police, and the more than 300,000 members of our organization, to offer testimony in support of sections 222 – 224 of H.R. 3995, the "Housing Affordability for America Act of 2002." The legislation currently before this Subcommittee contains a three-pronged approach to increasing homeownership among our nation's police, fire and EMS personnel, and we are extremely grateful for the leadership of Congresswoman Roukema on this issue. I would also like to take this opportunity to thank the other members of the full Committee who have cosponsored this legislation, including Representatives Leach and Green, for their continuing support and efforts.

The Fraternal Order of Police is no stranger to this issue. Since its inception in 1997, our organization has been proud to support and work with the Department of Housing and Urban Development (HUD) on the "Officer Next Door" Program. Through this initiative, HUD makes certain single family homes available to law enforcement officers for $100 down, and at a 50 percent discount off the purchase price. In the 106th Congress, the F.O.P. also supported the inclusion of public safety homeownership assistance language in H.R. 1776, the "American Homeownership and Economic Opportunity Act of 2000." Early in the First Session of this Congress, we were also pleased to join Representatives LaFalce and Leach for the introduction of H.R. 674, the "Homeownership Opportunities for Uniformed Services and Educators (HOUSE) Act," legislation which contains provisions similar to those in Section 222 of H.R. 3995.

As we begin this new millennium, it is more important than ever to find innovative ways to improve the ties between America's law enforcement officers and the communities they serve. And like most Americans, police officers and other public employees work hard to realize the dream of owning their own home. But because these men and women often sacrifice higher paying jobs in the private sector to serve our communities, it is often difficult to make this dream a reality. This legislation will help pave the way to realizing these two goals, making it easier for police officers to purchase homes, and in the process, improving the safety and security of cities across the nation. This is particularly important in those areas which have a lack of affordable housing, an obvious barrier to community revitalization efforts.

While the high cost of housing in many areas does affect officer morale, it also has a noticeable impact on the ability of local governments to recruit and retain public safety personnel, and on the ability of the individual officer to make a difference in his or her community. Most police officers who have chosen to make a career of law enforcement also become involved in the life of the neighborhoods they serve. Through volunteer and community outreach activities, these dedicated public employees give of themselves in a way that is unique compared to other professions. The three programs contained in H.R. 3995 are designed to facilitate these activities, and all represent a tremendous tool for local communities to employ in their efforts to recruit and retain fully trained and qualified personnel.

The first initiative provides for the establishment of reduced down payment requirements under the National Housing Act for mortgage loans to police officers and other public safety personnel to purchase homes within the jurisdiction that employs them. By authorizing 1 percent down FHA mortgage loans, local governments can use this program as an incentive to those who are considering a career in public service. In addition, under this bill the customary 1.5 percent up-front FHA premium is deferred, reduced by 20 percent for each year of public service to the community, and waived entirely after five years of continuous service. This provision will serve to encourage police officers and other public employees to continue to work in their local communities.

The second initiative, contained in Section 223 and entitled the "Community Partners Next Door Program," provides discount and down payment assistance for teachers and public safety officers from fiscal year 2002 through 2006. Specifically, this provision authorizes a 50 percent discount for those police officers, firefighters and EMS personnel purchasing certain homes designated as "eligible assets," and who agree to use the home as their primary residence for at least three years. Under current law, this means that public safety personnel would be eligible to purchase any HUD-owned single family home located in a locally – designated revitalization area. These are neighborhoods that have many vacant properties, and have been selected by the locality for economic development efforts. Like the "Officer Next Door" Program, public safety personnel who purchase one of these eligible properties using an FHA-insured mortgage would also receive a reduced downpayment of only $100. Section 223 further authorizes the sale of these properties to units of local government and non-profit associations, who can then resell or transfer that property directly to the officer; again improving their ability to recruit and retain these vital public servants.

The third and final program under the legislation authorizes the Secretary of Housing and Urban Development to carry out a three-year pilot program to assist Federal, State and local public safety officers purchase homes in locally-designated high crime areas. Like section 223, this provision requires officers to agree to use the home as their primary residence for at least three years. Eligible public safety personnel would then qualify to purchase a home in one of these communities with no downpayment required, using an FHA-insured mortgage loan, and would further be exempt from paying for private mortgage insurance. If the purchase price exceeds the reasonable value of the property, then the downpayment that would be required is the difference between this "reasonable value" and the purchase price.

Choosing to purchase a home in one of these areas does present challenges for the police officers who participate, however, these are essentially no different from the ones which an officer must face in his or her daily work. Those who make a conscious decision to participate in the pilot program authorized by Section 224 will do so because of their desire to play an even greater role in the future of their communities. Like the other two initiatives, this will not only help police officers achieve homeownership, but by purchasing homes in troubled neighborhoods, it will also assist communities begin the process of reclaiming these distressed areas from the effects of crime.

All three of these programs contained in the "Housing Affordability for America Act" are designed to strengthen local communities and assist public safety officers and their families achieve the dream of homeownership. More importantly, they recognize the sacrifices these brave men and women make day after day working to "protect and serve" their fellow citizens, and the even greater role they can play in their communities. This legislation builds on the success of the "Officer Next Door" program by improving community policing efforts in cities across the nation, and will enhance our ability to keep our neighborhoods safe from the scourge of crime and violence.

In light of the positive impact this legislation will have in cities across the nation, I would also like to point out a provision which the F.O.P. believes should be amended during the future markup of H.R. 3995. Under the definition of "public safety officer" found in Section 222, the term is defined as specifically excluding Federal law enforcement officers from participation. Although these officers would qualify for homeownership assistance to purchase property located in high crime areas, they would be ineligible for the other two programs. The current "Officer Next Door" initiative operated by HUD, which is similar to the provisions of Section 223, allows Federal, State and local law enforcement officers to participate. Therefore, we request that the definition in Section 222 be amended to ensure that nothing will affect the participation of Federal law enforcement officers in any program authorized by this legislation.

On behalf of the membership of the Fraternal Order of Police, let me thank you again for affording us the opportunity to testify before the Subcommittee here today. We also thank you, Madam Chairman, for your work on this issue and your commitment to America's Federal, State and local law enforcement officers.

I would be pleased to answer any questions you may have at this time.

TO: MICHAEL LIU, ASSISTANT SECRETARY FOR PUBLIC AND INDIAN HOUSING,
HUD

FR: CONGRESSMAN BARNEY FRANK

RE: QUESTIONS ON 4.24 TESTIMONY ON HR 3995, ROUKEMA OMNIBUS HOUSING BILL

Public Housing

- Once again, the Administration has proposed a large cut, over $400 million to the public housing capital fund. This year, the rationale was that your proposal to allow housing authorities to apply for private financing would obviate the need for most of the capital dollars. If Congress does not authorize your proposal for development based subsidies, will you pledge to restore your proposed cuts to the capital fund?

- Section 505 of H.R. 3995 is paid for with a set-aside within the Public Housing Capital Fund grant program on top of the 15% cut to the Public Housing Capital Fund proposed in this year's HUD budget. HUD proposes to make up for the set-aside and cut by leveraging private funds for modernization through a project-based refinancing initiative. It is our understanding that HUD has not yet fully developed the program, much less tested it to see if it will be successful in leveraging private funds. What evidence does HUD have that banks will actually participate in such a program under terms that will not put public housing units at risk? Given that the housing of low income families, elderly and disabled are at stake, wouldn't it be more prudent for the Department to experiment with this type of financing at a few sites as a demonstration before it proposes significant reductions to the Capital Fund?

- Section 505 and the proposed cut in the Capital Fund will undermine already authorized and successful efforts by some housing authorities to secure private investment that have leveraged hundreds of millions of dollars for public housing repairs. The Chicago Housing Authority, the District of Columbia Housing Authority, and the Housing Authority of Kansas City among others have successfully used this program. These transactions are based on a pledge of future Capital Fund monies as a repayment source, subject to Congressional appropriations, and do not require a mortgage on the property. Banks and investors view the reduction proposed in your budget as increasing the risk involved in these transactions, making them more difficult and costly. Why are you undercutting a successful model for leveraging private funds in favor of one that has not been proven?

- The potential for loss of units from the public housing inventory from this proposal is enormous. A third of the family public housing units in the conversion program could be given to unassisted families when they become vacant. The Secretary could increase that limit up to 100 percent. This is a potential loss, over time, of about 600,000 units. Even if fewer than the potential maximum number of units were lost, it is likely that the units lost would be concentrated in the public housing developments in the better locations and in the better condition. What happens to the tenants on the waiting lists for these units, sometimes waiting for years, when the units are bumped out of the program?

- It appears that financing under this proposal would be entirely dependent on the private sector without any federal back-up, such as FHA mortgage insurance or a federal guarantee of tax-exempt bonds. Private lenders would have the right to foreclose on public housing developments in the event of a default and to convert the units to other uses. To offset this possibility a nationwide loan loss reserve would be funded with a percentage of the funds available from the conversion. With no experience with this program, the reserve is likely to be either under or over funded. Wouldn't it be more efficient to provide a federal back-up to the financing, together with an assurance that the housing will continue to remain in the public housing program even after a default?

HOPE VI

- The HOPE VI program does not require 1 for 1 replacement of it public housing units. In an effort to decrease density and deconcentrate poverty, many HOPE VI developments result in a significant loss of hard public housing units. While those units that are not replaced receive Section 8 vouchers, in many of the larger urban areas where HOPE VI is taking place, Section 8 vouchers are difficult to utilize given the tight market conditions. So HOPE VI in many cases reduces affordable housing stock thereby worsening the already difficult affordable housing crisis in many regions. What is the administration's stance regarding this concern? Yesterday, this subcommittee heard testimony that the only way to provide one for one replacement of public housing units demolished through the HOPE VI program is to provide adequate funding so that public housing authorities could buy more land and build more housing. Would the administration support the new production of public housing to build back the units lost by HOPE VI? Aren't substantial additional resources needed for any proposed solution?

- Given the success of the HOPE VI program in creating mixed-income communities and revitalizing neighborhoods and given HR 3995's emphasis on grants being awarded to smaller housing authorities, is a 2 year extension of the program sufficient to meet the significant demand for the program?

Question for Michael Liu, Assistant Secretary for Public and Indian Housing, from the Honorable Michael E. Capuano

Assistant Secretary Liu: Section 501 of H.R. 3995 gives HUD the authority to waive the requirement that a resident serve on a public housing authority board if the Secretary "determines that reasonable efforts have been made" to appoint a resident member. Does the department support this waiver authority?

In Massachusetts, state law has required that PHA boards have one resident representative since 1967. Unfortunately, HUD has interpreted the recently enacted federal resident commission requirement to mean that a *federally assisted* tenant must serve on the PHA board. Massachusetts has a significant stock of state-supported public housing, and in a number of jurisdictions, a resident who lives in a state-assisted unit serves as the Resident Commissioner. HUD's argument against this arrangement has been that although many of these PHAs have far fewer federal units than state units, the proper oversight of federal funds requires a federally assisted tenant to serve on the board.

If the Department supports the waiver authority in Section 501 of the bill, HUD would be allowing PHAs to have no resident representation at all. Not only will this disenfranchise the residents, but HUD's stated goal of providing effective oversight of federal housing funding will not be met. Please comment on this issue.

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