Statement by Sen. John Kerry (D-Mass.) on the Introduction of S 875, the Community Development Homeownership Tax Credit Act

Mr. KERRY: Mr. President, owning your own home is the foundation of the American dream. It encourages personal responsibility, improves child development, provides economic security and gives families a greater stake in the development of their communities. Communities where homeownership rates are highest have lower crime rates, better schools and provide a better quality of life for families to raise their children.

However, too many low- and moderate-income families living in urban and rural areas across our nation have not been able to share in the dream and benefits of homeownership due to the lack of available housing or the high cost of what housing is available.

Today, I am introducing the Community Development Homeownership Tax Credit Act, along with Senators Santorum, Sarbanes, Allard, Daschle, Kennedy, Stabenow and Clinton to encourage the construction and substantial rehabilitation of 500,000 homes over the next ten years for low- and moderate-income families in economically distressed areas.

The bill will increase the supply of affordable homes for sale in inner-cities, rural areas and low- and moderate-income neighborhoods across the United States. It will bridge the gap that exists today between the cost of developing-affordable housing and the price at which these homes can be sold in many low-income neighborhoods by providing investors with a tax credit of up to 50 percent of the cost of home construction or rehabilitation.

By facing the mounting challenge of producing affordable housing, I strongly believe we can help provide critically needed economic development low- and moderate-income communities across our country and provide an important stimulus in the development of our nation's economy. The production of new homes provided in this legislation will create both construction and construction-related jobs which will both increase economic growth and lower the unemployment rate. New Economic activity can revitalize many inner-city neighborhoods and rural areas where unemployment and crime have been a fact of life for too long.

Buying a new home also leads to the purchase of new appliances and furnishings. Average new homebuyers spend almost $5,000 on appliances and furnishings during the first year of living in their new home. This will help stimulate the manufacturing section of our economy. It is clear that building new homes creates jobs and moves our economy forward.

Over the past decade, we have made substantial progress in increasing the homeownership rate in the United States. In 2000, the U.S. homeownership rate reached a record high of 67.1 percent with some 71 million U.S. households owning their own home. However, many working families have been struggling to find an affordable home in our nation's cities. Over the past two generations, many families have moved out of cities and into the suburbs, which has depressed the development of housing in the inner-city. In 1999, the homeownership rate in the central-city areas was 50.4 percent, this is more than 20 percent lower than the suburban homeownership rate of 73.6 percent.

Working families with low- and moderate-income have also had difficulties buying a home. Currently, 83.3 percent of households with family income higher than the median family income are homeowners, while only 52.4 percent of households with family income below the median income are homeowners.

Too many communities face a lack of available homes because developers are concerned that the new houses may not be sold for the cost of construction. Many properties or sites that could be developed into affordable homes now sit vacant, and neighborhoods remain undeveloped because the gap between development costs and market prices has not been filled. The lack of affordable single-family homes affects many urban and rural areas where a majority of residents earn less than the median income.

Today, too many minority families face barriers in their attempts to reach the American Dream of homeownership. According to Census data for the fourth quarter of 2002, non-Hispanic whites have a 74.8 percent homeownership rate, while minority groups have just a 55.4 percent homeownership rate. African Americans have only a 47.5 percent homeownership rate, and Hispanics have a 49.5 percent homeownership rate in the same study. The gap between white and African American homeownership rates has been approximately 25 percent to 30 percent for most of the last century. These numbers are simply unacceptable.

Despite our efforts at the federal level to promote homeownership, many minorities also face higher than average denial rates for mortgage applications. A recent study by the University of Massachusetts shows that racial and ethnic lending disparities continue in Boston. For example, African Americans were 2.73 times as likely as whites to be denied in their mortgage applications. Latinos were 2.25 times as likely as whites to be denied in their mortgage applications. Finally, Asians were 1.55 times as likely as whites to be denied in their mortgage applications.

Along with a lack of available homes in urban and rural areas, our nation is also facing an affordable rental housing crisis. Thousands of low-income families with children, the disabled, and the elderly are finding it difficult to obtain or afford privately owned affordable rental housing units. Recent changes in the housing market have limited the availability of affordable housing across the country, while the growth in our economy in the last decade has dramatically increased the cost of the housing that remains. Constructing new housing will help many families move out of rental housing and help increase the number of available rental housing units and help ease the affordable housing crisis we now face.

The story of Benjamin and Rita Okafor shows how working families in Massachusetts have great difficulty obtaining a decent home of their own. For many years, the Okafor's and their two young children were forced to live in a one-bedroom apartment. Benjamin Okafor, who worked full time as a cab driver in Boston, spent days and months looking for a bigger apartment for his family. However, the lack of affordable housing in the Boston area made it impossible for him to find anything appropriate. When his wife Rita became pregnant with their third child, the Okafor's knew something had to change in their living situation. Luckily, Ben was accepted into the Habitat for Humanity program and worked 300 sweat equity hours constructing a house. In August 2000, the Okafor family moved into a new home of their own in Dorchester. Ben says that this new home gives them the hope and stability they need. Yet, there are still far too many working families living a substandard housing and many more families that desperately need assistance to become homeowners. A new tax incentive for developers to build affordable homes in distressed areas will help working families like the Okafor's to afford a home for the first time.

The benefits of owning a home can bring families financial rewards and personal satisfaction with a deep sense of security. Real estate values have historically risen over time. Homeowners may deduct mortgage interest and property taxes as an expense against income. Real estate has generally been seen as marketable, allowing for property to be sold at a predictable price to a dependable group of available buyers.

We know that owning a home instead of renting leads to a better quality of life for its residents, but we are now learning more and more about the impact homeownership has on the cognitive and behavioral outcomes for children. A recent study by Ohio State University shows that children of families who own their home have fewer behavioral problems and are able to learn more effectively. Specifically, a child's cognitive abilities are 9 percent higher in math and 7 percent higher in reading for children living in their own homes. The study also shows that these children also experienced up to 3 percent lower behavioral problems than other children. This study proves that the national goal of homeownership has an added benefit of helping America's children learn and behave better, which helps our schools produce better citizens and will help our economy develop in the long term.

The Community Development Tax Credit Act, which I am introducing today, bridges the gap between development costs and market value to enable the development of new or refurbished homes in urban and rural areas to blossom. The tax credit would be available to developers or investors that build or substantially rehabilitate homes for sale to low- or moderate-income buyers in low-income areas. The credit would generate equity investment sufficient to cover the gap between the cost of development and the price at which the home can be sold to an eligible buyer.

The tax credit volume would be limited to $1.75 per capita for each State and allocated by the States themselves. Credits would be claimed over 5 years, starting when homes are sold. I believe this legislation will result in approximately 50,000 homes built or refurbished annually, assuming about $40,000 per home.

The maximum tax credit equals 50 percent of the cost of construction, substantial rehabilitation, and building acquisition. The eligible cost may not exceed the Federal Housing Administration single-family mortgage limits. The minimum rehabilitation costs is $25,000. Eligible building acquisition costs are limited to one-half of rehabilitation costs. States will allocate only the level of tax credits necessary for financial feasibility of individual projects. Ten percent of the available credit will be set aside for nonprofit organizations.

The eligible areas for the tax credit are defined as Census Tracts with median income below 80 percent of the area or state median. Rural areas that are currently eligible for USDA housing programs will be eligible for the tax credit. Indian tribal lands will be eligible for the tax credit.

State-identified areas of chronic economic distress will also be eligible for tax credit, subject to disapproval by the Department of Housing and Urban Development.

Those eligible to buy homes built or refurbished using the tax credit include: individuals with incomes up to 80 percent of the area or state median and up to 100 percent of area median income in low-income/high-poverty Census Tracts.

Individual states will write plans to allocate the available tax credits using the following selection criteria: contribution of the development to community stability and revitalization; community and local government support; need for homeownership development in the area; sponsor capability; and the long-term sustainability of the project as owner-occupied residences. Then individual developers along with investors can apply to the state to be awarded a tax credit for developing a property in a low- or moderate-income area. If chosen by the state, investors can start to claim the tax credit as the homes are sold to eligible buyers. They can continue to claim the tax credit for five years. Investors are not subject to recapture. If the home owner sells the residence within five years, a scale would determine the percentage of the gain that would be recaptured by the Federal Government. In the first two years, 100 percent of the gain and 80, 70 and 60 percent in the third, fourth, and fifth years, respectively, would be recaptured.

The Community Development Homeownership Tax Credit Act that I am introducing today will positively affect the lives for approximately 500,000 families over the next 10 years, help resolve the affordable rental housing crisis we face, and help create jobs and grow our economy. I ask all of my colleagues to help expand the foundation of the American Dream by supporting this new tax incentive to encourage the construction and rehabilitation of homes for low- and moderate-income families in economically distressed areas.

This legislation is supported by the U.S. Conference of Mayors, Fannie Mae, Freddie Mac, the Enterprise Foundation, Local Initiatives Support Coalition, Mortgage Bankers Association of America, National Association of Home Builders, National Low Income Housing Coalition, National Association of Local Housing Finance Agencies, National Association of Realtors, National Council of La Raza, National Hispanic Housing Conference, Habitat for Humanity International and others.