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"H.R. 2895, the National Affordable Housing Trust Fund Act"

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Chairman Frank, Ranking Member Bachus, distinguished members of the Financial Services Committee, thank you for inviting HUD to testify on H.R. 2895, the National Affordable Housing Trust Fund Act. It is a pleasure to be with you this morning.

H.R. 2895 would establish a new federal housing program – the National Affordable Housing Trust Fund – to be administered by the Department of Housing and Urban Development, for the purpose of providing funding for the construction, rehabilitation, and preservation of affordable housing for low-income and very low-income families. This new program would be funded by revenue derived from two separate bills pending before Congress that also propose separate affordable housing funds: H.R. 1427, the Federal Housing Finance Reform Act (GSE Reform), and H.R. 1852, the Expanding American Homeownership Act (FHA Modernization).

First, while the legislation purports to create a "permanently appropriated fund, with dedicated sources of funding… without supplanting existing housing appropriations," a closer study of H.R. 2895 demonstrates it would do precisely the opposite. While H.R. 2895 establishes the parameters for how the Fund's resources are spent, Section 2 of the bill establishes that the "deposits" to the Fund are to be found in the two bills mentioned above: H.R. 1427 and H.R. 1852. H.R. 1427 would indeed derive contributions outside of the regular appropriations process, but that is not the case with H.R. 1852.

Mr. Chairman, the Administration shares your strong commitment to providing families with safe, decent, and affordable housing. We believe, however, that while the intent of your legislation is laudable, there are existing tools in the federal arsenal that would better achieve our shared goals. The Administration also made clear in the Statement of Administration Policy on H.R. 1427 that we would not support any provisions that would divert funds from this bill to a new, separate housing trust fund. The Administration also expressed concern that Section 140 could create an undue and counterproductive reliance on Fannie Mae and Freddie Mac by tying the potentially unlimited growth of their affordable housing funds to the annual amount of their mortgage business.

We still have those concerns, but now they are compounded by the provisions in H.R. 2895 that also seek to derive revenue from the FHA Modernization bill. Section 29 of the FHA Modernization bill explicitly authorizes appropriations equal to the sum of the "net increase… [in] the negative credit subsidy for the mortgage insurance programs." What that means is that this source of funding would not be "dedicated," but rather subject to the regular appropriations process and all its competing demands and offsets.

As you may know, FHA receipts are already credited toward HUD appropriations. Any new program that attempts to access this revenue, whether explicitly or implicitly, would disrupt and needlessly complicate the appropriations process. By authorizing a new program, Congress would be creating competition with other discretionary programs. Any deposits to the Trust Fund would have to be offset. Under H.R. 2895, we could find ourselves in the position where the Affordable Housing Trust Fund is funded, but other, higher priority programs are cut. There's no free lunch here. We would essentially be robbing Peter to pay Paul.

Section 29 of that bill could also create an incentive for FHA to charge higher premiums than is safe and prudent. With a Trust Fund dependent on a certain level of FHA receipts, policy makers could feel pressured to hit certain revenue targets. Rather than working to ensure that FHA's traditional borrowers – low-income and first-time homebuyers – are being charged the lowest possible premium, FHA might find itself forced to charge higher premiums to finance unrelated programs through the housing fund. For an agency that prides itself on being one of the most consumer-friendly financial instruments in the housing sector, that would be an unfortunate change. It's yet another example of the way in which this legislation would rob Peter to pay Paul.

In addition, it would be a mistake to tie authorization levels to FHA's negative credit subsidy. FHA receipts have no relationship to affordable housing needs and are likely to fluctuate from year to year in ways that bear little relation to any potential program funding needs. In fact, there may be a negative correlation between the two– that is, when there is a housing slump, FHA receipts would likely go down.

Similarly, FHA receipts are historically unpredictable. I can think of no better example to illustrate this point than FHA's current solvency. Our budget forecasts that, absent a congressional appropriation, a mortgage premium increase, or modernization along the lines proposed by the Administration, FHA's MMI Fund is slated to go into the red in Fiscal Year 2008.

I want to shift focus now and remind the members of the Committee that HUD already has a number of programs aimed at providing affordable rental housing and homeownership opportunities for low-income families. Just last Tuesday, I testified before Chairwoman Waters' subcommittee about HUD's work in preserving the affordable housing occupied by the 14,000 residents of the Starrett City development in Brooklyn, New York.

In my testimony, I discussed the importance of HUD's Mark-to-Market program, which has preserved over 125,000 units to date. With the 5-year reauthorization passed by Congress earlier this year, and signed into law by the President, we expect to preserve an additional 50,000 units.

In addition to preserving existing affordable housing projects, the Department is committed to increasing the supply of new affordable housing. The majority of affordable housing projects built today are financed, in part, with Low-Income Housing Tax Credits. The Department has begun an initiative to identify and address ways in which HUD's financing programs – FHA, Section 202, and Section 811 – can work more effectively and efficiently with the Tax Credit Program. We are streamlining our subsidy layering and processing procedures to improve the timing of HUD approvals and better meet Tax Credit program deadlines.

HUD is also committed to funding the HOME Investment Partnerships Program – the largest federal block grant to state and local governments designed exclusively to create affordable housing for low-income households. Each year, HOME allocates approximately $2 billion in grants. These grants allow communities – often in partnership with local nonprofit groups – to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people.

Since 1992, more than 600 communities have completed building almost 762,000 affordable housing units, including more than 319,000 for new homebuyers. In addition, more than 160,000 tenants have received direct rental assistance. Our FY 08 budget requests $1.97 billion, a $50 million increase over the FY 07 request.

The American Dream Downpayment Initiative is another successful HUD program that is up for reauthorization this year. ADDI helps first-time homebuyers overcome the biggest hurdle to homeownership: downpayment and closing costs. HUD recently submitted to Congress legislation that would reauthorize and fund this program at $200 million a year through FY 2011. We hope this Committee continues its support for this program, which has helped nearly 24,000 low-income families purchase their first home.

I mention all of the above programs because in addition to duplicating many of the services they provide, the National Affordable Housing Trust Fund under consideration today would actually compete with our existing efforts for scarce resources.

As this Committee looks for ways to address the issue of affordable housing, one way we can immediately help millions of people without any additional costs to taxpayers is through FHA Modernization. By raising loan limits, allowing FHA to price premiums according to risk, eliminating the statutory 3-percent minimum downpayment requirement, making it easier for FHA to insure mortgages on condominiums, and lifting the statutory cap on reverse mortgages (HECMs), Congress and the Administration can go a long way toward ensuring that hard-working, credit-worthy borrowers who cannot qualify for prime financing have the opportunity to obtain mortgages on reasonable terms at a cost they can afford. Congress passed such legislation last year by a resounding vote of 415 to 7, and I urge this new Congress to follow suit.

Thank you for inviting the Department to testify today.