NCSHA

Testimony on the National Affordable Housing Trust Fund Act of 2007, H.R. 2895,

Submitted to the

House Committee on Financial Services

by the National Council of State Housing Agencies

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Chairman Frank, Ranking Member Bachus, and members of the Committee, I am Barbara Thompson, executive director of the National Council of State Housing Agencies (NCSHA). Thank you for the opportunity to testify on behalf of NCSHA in support of the Affordable Housing Trust Fund Act of 2007, H.R. 2895.

NCSHA has long advocated for new, flexible, state-run affordable rental production resources to leverage those existing funds states now administer to reach even lower income families. We believe Trust funding, if allocated through the states under rational rules compatible with other federal housing program rules, could answer this need.

We urge the Committee also to consider, either through the Trust Fund or another mechanism, creating a source of long-term operating support for rental properties housing extremely low-income families. This is the largest barrier to their development. Short-term operating subsidies, such as those permitted under this bill, do not overcome it. We encourage the Committee to establish a state-run project-based rental assistance program to support the feasibility and long-term operation of rental housing for extremely low-income families, even if on a limited, demonstration basis to start.

NCSHA represents the Housing Finance Agencies (HFAs) of the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. State HFAs have provided affordable housing to millions of families nationwide.

State HFAs allocate the Low Income Housing Tax Credit (Housing Credit) and issue tax-exempt private activity bonds (Housing Bonds) to finance apartments for low-income renters and low-cost mortgages for lower-income first-time homebuyers in virtually every state. They administer HOME funding in 42 states to provide both rental and homeownership opportunities for low-income families. They operate the Section 8 Housing Choice Voucher program in 22 states and administer Section 8 project-based contracts in 42 states.

NCSHA especially wants to thank you, Mr. Chairman, for your commitment to establishing new, dedicated sources of federal support for affordable housing. We are hopeful this strategy will insulate these funds from budget cutting, to which appropriated housing programs have proven especially vulnerable in recent years.

We are also grateful for the Chairman's recognition of the interdependence of federal housing programs and the importance of facilitating their use together. We applaud your unprecedented effort to reach across jurisdictional lines to Ways and Means Committee Chairman Rangel to work with him to remove barriers to the effective combination of tax-based housing programs, such as the Housing Credit, and HUD and USDA housing programs. We are excited by the opportunity the creation of the Trust Fund presents to ensure at its inception its compatibility with other federal housing programs with which its funds will inevitably be combined to accomplish its goals.

Leveraging Housing Credit and Other Production Resources

NCSHA appreciates the Chairman's interest in concentrating Trust Fund resources on the housing needs of extremely low-income families. Much of the recent housing data supports and states regularly report that we are increasingly challenged to meet the needs of these families with the federal housing programs we have, as successful as many of them are.

One especially successful program is the Housing Credit, the single greatest producer of affordable rental housing. With it, state HFAs and their partners over two decades have produced more than 2 million homes—140,000 more each year—with rents affordable to households with incomes of 60 percent of area median income (AMI) or less. Today, about half of the Housing Credit homes they produce annually are financed with Housing Bonds.

Housing Credit and Bond authority, however, is limited. Though Congress nearly doubled it in 2000 and indexed it for inflation, Credit and Bond authority available to states annually does not begin to meet the demand for it. Housing Credit demand outstrips supply by an average of two to one nationally; in some states it is as high as four to one. Housing competes in all states with other private activity bond-eligible activities, with multifamily and single-family housing each receiving an average of 20 percent of available authority annually, not nearly enough to meet the need.

Congress has further reduced already hopelessly inadequate funding amounts for other housing production programs, like HOME, over the last several years. It has cut HOME funding by more than 12 percent since FY 2004.

Even with the resources available to them, our most successful and productive affordable housing production programs struggle to reach our most needy families. Take the Housing Credit, for example. In allocating the Credit, state HFAs are required by law and motivated by mission to give preference to those properties serving the lowest income households and to those serving low-income households for the longest time, and they do. But, the maximum Housing Credit amounts the law allows often are not sufficient to produce housing with rents affordable to very low-income and especially, extremely low-income households.

States must combine other housing subsidies with the Housing Credit to reduce and sometimes eliminate mortgage debt on a property, so its operation can be sustained with lower rents. Even then, the rents necessary to support a property's operation are often unaffordable to extremely low-income families, making rental assistance necessary.

In 2005, more than 75 percent of the developments to which states allocated Housing Credit were supported by other federal housing subsidies. But, as those subsidies have become increasingly scarce, states report it has become more and more difficult to target Housing Credit properties to very and extremely low-income families.

A decade ago, the General Accounting Office (GAO) found Housing Credit properties were serving households with an average income of 37 percent of AMI; GAO acknowledged that many of these properties were supported by other federal and state housing assistance. Of the Housing Credit properties supported by other forms of assistance, GAO reported an average income of 25 percent of AMI.

Though we lack more recent, comprehensive data, we know that in 2005, 42 states allocated some portion of their Housing Credit to homes for very low-income households; 13 of these states dedicated more than half of their Housing Credit to housing such households. Twenty-nine states allocated some portion of their Credit that year to housing extremely low-income households.

Yet, states report it is ever more difficult to target Housing Credit properties to these income levels, as the additional subsidies necessary to their feasibility and operation are in increasingly short supply. With Housing Trust funding, states could extend the reach of the Housing Credit and other production resources they administer to more very low and extremely low-income households.

Maximizing Trust Fund Results

NCSHA is concerned that the Housing Trust bill as written will severely limit its results. To bring the full force of scarce Trust funds to bear on our most urgent housing problems, we urge the Committee to:

- Allocate Housing Trust funds through the states, as they can most effectively and efficiently leverage them with Housing Credit and other production resources they administer and direct them to the greatest relative needs within their jurisdictions;

- Eliminate overly complex and unnecessary rules that limit state flexibility, are barriers to the combination of Trust funds with other housing resources, and add time and cost to development and compliance; and

- Make the match requirement sufficiently flexible that it does not deny jurisdictions funding that they want and need.

<u>State Administration</u>

Mr. Chairman, we commend you and this Committee for entrusting the administration of the GSE affordable housing grant fund to the states. We urge you to maintain your commitment to state administration of these funds and extend it to all funds distributed through the Housing Trust.

States have a proven system and strong track record of effectively and fairly allocating housing resources. They have long successfully administered the Housing Credit under the same kind of allocation system the Trust bill seeks to emulate.

States are the only point where all major federal and state housing resources—the Housing Credit, Bonds, HOME funds, vouchers, Federal Home Loan Banks advances, FHA insurance, and state-provided housing funds and credits—can be accessed in one place. States can most efficiently and effectively leverage these resources to maximize their results. "One-stop shopping" would also significantly reduce the costs incurred by developers in seeking and assembling resources from multiples sources.

States are uniquely situated to assess housing needs across their jurisdictions and apply limited resources to those they and their affordable housing partners judge most serious, in amounts sufficient to make a difference. States are also in a strong position to evaluate employment, education, transportation, services, and other opportunities that often cut across local jurisdictional lines, yet must be considered in creating healthy and sustainable communities.

States have the ability to bring together various state agencies and resources. They have partnered, for example, with welfare agencies to use Temporary Assistance to Needy Families to provide housing assistance to families transitioning from welfare to work and with state health and human services agencies to obtain Medicaid waivers to cover the cost of services in assisted living.

States do not do this work alone. They creatively partner with local governments, nonprofits, the private sector, resident and community groups, and service providers to identify and address the diverse housing challenges they confront.

<u>Limited and Compatible Rules</u>

NCSHA encourages the Committee to focus the Housing Trust legislation on its goals and limit the requirements it imposes on fund administrators in pursuit of them. We also urge you to ensure that Housing Trust rules are compatible with the Housing Credit and other major production program rules, as the Trust will need to work with these programs to accomplish its goals.

The Housing Trust bill as written is laden with complex rules and requirements that are overly prescriptive, will make it difficult to combine Trust funds with other resources, and will add time and cost to development and compliance oversight. To administer these rules, program administrators will have to identify, collect, measure, quantify, record, store, and report data on numerous housing demographics and characteristics. Taken as a whole, these requirements will impose an enormous burden on program administrators and users alike.

We urge you to vastly streamline and simplify the Trust Fund requirements. For example, we recommend you pare back the bill's selection criteria to a limited number of broad national objectives, such as the Housing Credit law provides. Empower the states and their partners to determine how to best respond to their unique and varied housing needs with the resources available to them.

NCSHA is also troubled by the bill's rent-setting provisions. Limiting rent to 30 percent of a tenant's income rather than 30 percent of a percentage of AMI, such as 30 percent of 50 percent of AMI for very low-income families and 30 percent of 30 percent of AMI for extremely low-income families, will make it very difficult for states to underwrite developments, as they will not be able to predict property income. This will complicate state efforts to combine Housing Trust funds with the Housing Credit and to ensure compliance with both sets of program income and rent rules.

A Flexible Match

NCSHA understands the Chairman's interest in motivating through the bill's match requirement increased housing contributions by states. We ask, though, that the Committee recognize that resources are scarce at the state level, and states already must match HOME and some McKinney-Vento homeless assistance funds.

If you must require a match, we urge you to reduce it to 25 percent, as HOME requires. We also suggest you weigh federal and non-federal contributions equally, since a significant investment of other federal resources will often be necessary to achieve the deep income targeting the Trust requires.

Thank you for the opportunity to share our views. NCSHA and state HFAs look forward to working with you to ensure the Trust Fund lives up to its potential.