Testimony of Kevin Kelly

President, Leon N. Weiner & Associates, Inc.

On Behalf of the

National Association of Home Builders

Before the

House Financial Services Committee

Subcommittee on Housing and Insurance

Hearing on

"The Future of Housing in America: Federal Housing Reforms that Create Housing Opportunity"

October 21, 2015

Introduction

Chairman Luetkemeyer, Ranking Member Cleaver and members of the Subcommittee, I am pleased to appear before you today on behalf of the National Association of Home Builders (NAHB) to share our support of H.R. 3700, the *Housing Opportunity Through Modernization Act of 2015*, which provides common sense bipartisan fixes to important affordable housing programs. My name is Kevin Kelly, and I am a multifamily builder/developer from Wilmington, Delaware, and NAHB's Immediate Past Chairman.

NAHB represents over 140,000 members who are involved in building single-family and multifamily housing, remodeling, and other aspects of residential and light commercial construction. NAHB's members construct approximately 80 percent of all new housing in America each year, and many of our builders rely on the programs of the Department of Housing and Urban Development (HUD), (primarily those involving the Federal Housing Administration, FHA) and the U.S. Department of Agriculture's Rural Housing Service (RHS) to help provide decent, safe, and affordable single-family and multifamily housing to many of our fellow citizens.

Background

All families deserve a decent, safe and affordable place to call home. We strongly support sensible policies to facilitate homeownership, increase the supply of quality rental housing and provide rental assistance to low-income households. This bill makes reasonable changes to HUD and RHS programs to advance those goals.

Even though most families still aspire to buy a home of their own, this dream is more difficult to achieve today than in the past. Most newly formed households are just beginning their careers and do not have large downpayments or high credit scores. Restrictive underwriting standards have placed mortgages even further out of reach for such families. Student debt responsibilities and lower starting salaries and wages compound the challenges facing younger individuals making it even more difficult for them to transition to homeownership without access to affordable opportunities.

In addition to normal underlying housing demand, NAHB estimates that two million households did not form during the recession, and they represent additional pent up demand that will come to the housing market as the economy improves and hiring returns to more normal levels. Many of these individuals either did not form an independent household or they returned to live with their parents, relatives or friends after losing their job or experiencing a significant reduction in income. NAHB expects these individuals to be in the market to rent an apartment or buy a home as the economy expands.

In the multifamily housing business, affordability is a serious problem for families hoping to rent a quality apartment. An estimated one in four working renter households spends more than half of their income on housing. Similarly, NAHB's own research shows that rents are rising faster than the rate of inflation and wage growth. And even though the need for rental assistance is high, only about one in four families who qualify for federal rental assistance actually receive such assistance.

This legislation, as well as the request by Rep. Hensarling, Chairman of the House Financial Services Committee, for public input into HUD and RHS programs, comes at a time when both demand for housing and affordability concerns are increasing. NAHB will address many of the broader HUD and RHS issues and concerns in our response to Chairman Hensarling, however, this bill is the first step in addressing many of the vital program changes that NAHB has long supported.

While much work remains to be done on the larger issues of affordability and housing finance reform, NAHB commends this effort to move bipartisan, consensus proposals to improve affordable housing programs administered by HUD and RHS. In fact, a number of the provisions I will highlight in my testimony have been included in various NAHB-supported housing bills from previous Congresses. NAHB looks forward to working with the Subcommittee to advance H.R. 3700.

Title I- Section 8 Rental Assistance and Public Housing

NAHB has long-supported the Section 8 Housing Choice Voucher (HCV) and Project-Based Rental Assistance (PBRA) Programs. Over the years, these programs have been saddled with too many inefficient and duplicative regulations and requirements. NAHB supports the common sense approach in Title I to reduce the overlapping and redundant procedures that have made the Section 8 programs unnecessarily burdensome for tenants, private owners and public housing agencies.

The HCV program is the federal government's major program for assisting very low-income families, the elderly and persons with disabilities to afford decent, safe, and sanitary housing in the private market. The HCV program currently provides rental assistance to about 2.2 million households. The program serves the most economically vulnerable families in the country; many families assisted by the program formerly experienced worst-case housing needs and, without the benefit of this program, would be at immediate risk of homelessness. Of the families currently receiving HCV assistance, 76 percent are extremely low-income, with incomes at or below 30 percent of the area median income, 36 percent have a disabled head of household, and 24 percent are elderly. The average gross income of voucher families is $13,138.

The HCV program is administered locally by approximately 2,300 Public Housing Agencies (PHAs). A family that is issued a housing voucher is responsible for finding a suitable housing unit of the family's choice, including single-family homes, townhouses, and apartments, provided that the owner agrees to rent under the program (provided the rental unit passes a Housing Quality Standards (HQS) inspection performed by the PHA).

Participating families may subsequently choose to move to another unit, neighborhood or community without losing their rental assistance. HCVs can also be leveraged to build or rehabilitate additional affordable housing, which is a necessity in today’s tight rental markets.

We applaud Section 101, which streamlines inspection requirements in the HCV Program. Two very important provisions will assist voucher holders in tight rental markets by allowing them to move into their units more quickly. The general requirement that units must be inspected prior to initial payment is modified in two ways to facilitate speedier occupancy.

First, H.R. 3700 gives PHAs discretion to make initial subsidy payments to owners when a unit does not pass the initial inspection, so long as the failure was due to a "non-life threatening condition." All such defects must be corrected within 30 days of initial occupancy.

Second, a PHA may allow a family to occupy a unit prior to inspection if the property has met housing quality and safety standards during the previous 24 months under a federal housing program inspection standard that is at least as stringent as the voucher program's HQS. These provisions will also remove some of the disincentives to participate in the HCV Program for owners who would have to leave their units vacant and lose rental income while waiting for the PHAs to complete inspections.

Section 102 would allow income recertification for families on fixed incomes to occur every three years rather than annually, as current law requires. This relief would apply to public housing, Section 8 PBRA and HCV residents whose income does not vary much from year-to-year. Eligible families must have at least 90 percent of their income as fixed income, which includes Supplemental Security Income, Social Security, pension payments or other periodic payments that are the substantially the same amount from year to year. If the resident self-certifies that the sources of income have not changed since the previous year, the owner or PHA will adjust the previous year's income by an inflation factor. This will reduce the administrative burdens of housing providers and tenants alike, particularly for elderly or disabled residents.

Additionally, we support Section 106, which helps facilitate the use of project-based vouchers in Low Income Housing Tax Credit projects by allowing public housing agencies to extend the contract term for Project-Based Vouchers from 15 to 20 years.

Section 107 includes important language that will protect HCV residents from displacement due to fluctuations in the Fair Market Rent (FMRs). The subsidies PHAs pay to housing providers who rent to HCV residents are determined by the payment standard. PHAs set their payment standards at 90 percent to 110 percent of FMRs for that area. When an FMR increases, the allowable range for the payment standard also increases.

Likewise, when the FMR falls, the allowable range of the payment standard is reduced. The bill includes an important "hold harmless provision" for families that might otherwise lose their housing as a result of a decrease in the FMRs and payment standards. This section provides that a public housing agency will not be required to reduce any payment standard for a unit based on the fair market rent determination if the family occupying the unit before the analysis continues to reside in the unit.

Title II- Rural Housing

NAHB also supports the vital changes Title II brings to Rural Housing programs.

The Rural Housing Service (RHS) Section 502 Single Family Housing Loan Guarantee Program provides well underwritten loans to low-and moderate-income individuals and families without having to make a downpayment because they may borrow up to 100 percent of the appraised value of the home. Since a common barrier to owning a home for many is the lack of funds to make a downpayment, this program makes the possibility of owning a home a reality for many Americans in rural communities.

Section 201 provides direct endorsement authority for the RHS Section 502 Single Family Guaranteed Loan Program. This change brings RHS's program current with other government loan programs, while providing efficiencies for home buyers, lenders and RHS. These efficiencies are particularly important to attract participants to lend in rural markets.

NAHB also believes it is essential to have a reliable platform to finance preservation of existing multifamily units. Therefore, we welcome Section 202, which would authorize a Multifamily Housing Revitalization Program for properties financed under RHS Section 515 and farm labor housing programs. To ensure that these properties have sufficient resources to provide safe and affordable housing for low-income residents and farm laborers, H.R. 3700 allows the agency to reduce or eliminate interest on the loans, defer loan payments, subordinate, reduce or re-amortize loan debt and provide other financial assistance such as advances, payments and incentives (including the ability of owners to obtain reasonable returns on investment). Moreover, funding for the revitalization program may be used for the Section 542 Rural Housing Voucher Program. When a property leaves the RHS portfolio and coverts to market-rate, the lower rents and Rural Rental Assistance subsidies are no longer available to the tenants. The Rural Housing Voucher Program protects low-income households from displacement when a Section 515 mortgage loan is prepaid.

There continues to be an overwhelming need for affordable housing in rural areas throughout the country. Neither the private nor the public sector can produce affordable rural housing independently of the other. NAHB urges the Subcommittee to consider changes to the Rural Housing Voucher Program that would allow vouchers to be available for residents when a Section 515 mortgage expires. Under current law, when a Section 515 mortgage expires, Section 521 Rental Assistance (RA) also expires. The voucher program is available to residents of projects where the mortgage is prepaid, but eligibility needs to be expanded to cover residents in those properties that will be impacted by expiring mortgages. NAHB supports RHS' efforts to extend or defer the pay-off date for expiring Section 514 and 515 mortgages for owners agreeing to the extensions. NAHB would also strongly support a decoupling of RA contracts, which would allow the RA contract to continue after payment in full.

Title III- FHA Mortgage Insurance for Condominiums

Title III Section 301 would lessen the current FHA mortgage requirements for condominiums by streamlining project certification requirements, altering commercial space requirements to better align with public policy, aligning FHA standards that apply to transfer fees to industry standards and reducing owner-occupancy requirements.

NAHB supports the Title III Section 301 changes. Condominiums are often the most affordable homeownership option for first-time home buyers. In many urban environments, condominiums can be the only viable option available for purchasing a home. When the interest rate environment changes to the upside, affordability will become even more of an issue. Reducing these restrictions will assist first-time home buyers and condominium owners who want to sell their condo and move up to a single-family detached home. Condominiums are critical to the natural progression of homeownership and provide affordable solutions. The Section 301 changes better reflect home buyer and market needs for access to safe and affordable mortgage credit while responsibly managing risk to FHA's Mutual Mortgage Insurance Fund.

Title V- Miscellaneous

Title V provides necessary changes to the Low Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA) in Section 502. These changes would release the limitation on an owner's access to equity while continuing the preservation of the property.

Section 504 includes language ensuring that homes funded through the Self-Help Homeownership Opportunity Program (SHOP) remain energy efficient, without imposing new burdensome energy efficiency regulations that would negatively impact affordability. Energy efficiency standards have been used to improve the performance of homes, however, they have historically focused on consumers – helping them reduce their utility bills with affordable home improvements. More recently, these standards have become overly expensive and restrictive. Any new regulations affecting housing programs, including those promoting energy efficiency, must always be balanced with affordability.

Impact of Executive Order 13690 on Housing Affordability

NAHB supports H.R. 3700 and commends the Subcommittee as it pursues necessary and common sense changes to key housing programs upon which so many Americans rely. However, I would be remiss if I did not express concerns regarding decreased housing affordability that will result along the nation's rivers and coasts once HUD begins to implement Executive Order 13690 and the new Federal Flood Risk Management Standard (FFRMS).

The FFRMS expands floodplain management requirements, including floodplain avoidance, mitigation, and increased elevation and resilience standards, far beyond the long-established 100-year floodplain limits for all federally-funded projects. While protecting federal investments and tax payer dollars makes sense, HUD has indicated it will apply the new flood risk management standard to multifamily projects using FHA-backed loans for new construction and substantial rehabilitation as well as Community Development Block Grants (CDBG) and HOME grants. However, HUD has not mapped the geographic limits of the floodplains or analyzed the costs and benefits of implementing the new standard. Without maps of the regulatory floodplain, builders and developers using HUD products and programs will face unnecessary uncertainty as they plan multifamily projects. Moreover, if a project triggers the expanded flood risk management requirements, project time requirements and costs will undoubtedly increase. These delays and increased construction costs pose a serious threat to housing affordability in communities anywhere near the water.

To avoid undermining the many positive outcomes H.R. 3700 will have on housing affordability, NAHB believes that HUD must first take a number of important steps before implementing the FFRMS. At a minimum, HUD should develop and release for public comment a cost/benefit analysis associated with the new standard and identify the floodplain area for which future HUD actions must comply. Provided HUD takes these necessary first steps, future rulemaking should only proceed through tailored application of the Executive Order to HUD programs as permitted by the order itself and the recently finalized Implementation Guidelines. We strongly urge HUD to use any and all flexibility afforded by the final Implementation Guidelines when implementing the order to ensure that its regulations do not make construction or substantial rehabilitation of HUD-financed or HUD-assisted multifamily housing cost-prohibitive. In particular, HUD-financed housing, both single- and multifamily, should be exempt from the expanded FFRMS requirements as these projects are not "federally-funded."

Conclusion

NAHB thanks the Subcommittee for the opportunity to testify in support of H.R. 3700. NAHB appreciates that this bill seeks to facilitate greater private-sector participation within affordable housing programs.

Whether they rent or own, Americans want to choose where they live and the type of home that best meets their needs. NAHB thanks the Chairman and this Subcommittee for their leadership on this important issue, and stands ready to work with you to achieve necessary reforms and expand the availability of affordable housing.