

**Testimony to the U.S. House of Representatives
Committee on Financial Services
By Ghebre Selassie Mehreteab, CEO and Co-Chairman, The NHP Foundation
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Washington, DC

Chairman Frank and committee members: I thank you for inviting me to speak today.

I am the co-chairman and chief executive officer of The NHP Foundation, headquartered in Washington, DC with a regional office in Baton Rouge, LA.

In 1989, The National Housing Partnership, a congressionally chartered corporation, established The NHP Foundation (NHPF) as a nonprofit organization to address America's affordable housing crisis.

NHPF is governed by a board of trustees composed of distinguished citizens in related fields of business and philanthropy, and from the academic world. NHPF is managed by a staff of high-caliber professionals who blend business skills with charitable purpose.

(See Exhibit A)

Since 1994, NHPF has preserved 44 properties totaling approximately 9,000 units in 14 states and currently owns a portfolio of 28 properties or approximately 5,000 units in 11 states. Our portfolio includes four damaged properties comprising 952 units in New Orleans and vicinity.

For the first time in almost two decades, we have a Democratic-led Congress and a Republican-led Executive Branch, both with commendable track records of supporting the financing and production of low- and moderate-income housing.

Chairman Frank's mastery of the intricate financing for low- and moderate-income housing is legendary. We have worked with Congressman Frank for many years at the national level, as well as in Massachusetts' 4th Congressional District. The nation is fortunate to have a person of Congressman Frank's expertise as Chairman of the House Financial Services Committee.

Similarly, Secretary, U.S. Department of Housing and Urban Development, Alphonso Jackson has been dedicated to ensuring that low- and moderate-income families break the cycle of poverty and reside in decent housing. The Secretary has used his combined experience in the public housing and private sectors to implement significant financial and management reforms in the Department of Housing and Urban Development. It is no coincidence that last week, after 15 years, the Government Accountability Office announced that HUD's critical housing programs have been removed from its "high-risk" list. Our hope and expectation now, is that the Secretary and his staff will continue working closely with the Committee and others in expediting assistance in the process of rebuilding the Gulf Coast's housing stock.

With both Congressman Frank and Secretary Jackson at the helm, I believe this is an opportune time to take bold action to tackle the acute shortage of affordable housing.

Mr. Chairman and Committee members: Many people ask, “Why hasn’t more been done in the Gulf Coast Region?” This is a fair question. One of the challenges in the production of affordable housing is a financing gap, primarily due to the increased cost of construction and the astronomical cost of insurance premiums. These increased costs have significantly impeded our rebuilding efforts.

Despite a significant amount of federal funds, there has been relatively little progress in the rehabilitation or new construction of housing projects in the region. To the extent of its capacity, NHPF has met many of these challenges through an innovative strategy combining public and private funding.

The NHP Foundation’s business model combines elements of a successful real estate enterprise and an efficient charitable organization to create and preserve quality affordable housing.

The NHP Foundation’s current activities—with 1,000 units under development and 2,000 units in the pipeline—comprise a true success story. And every day we are getting closer to residents moving back into their homes in New Orleans.

However, there is much more to be done. It is imperative that *all* citizens displaced by Hurricane Katrina have homes again—and as soon as possible. Like you, we believe, the

rebuilding of New Orleans and the Gulf Coast is absolutely vital not only to the victims of Katrina, but also to our neighborhoods and communities across the nation.

Mr. Chairman and committee members, I am grateful for the opportunity to share our experiences in the rebuilding efforts.

Financing Gap

The NHP Foundation has benefited from federal programs, including the Low Income Housing Tax Credit program, and Community Development Block Grant program. We thank you for your financial commitments to these. However, there remains a significant financing gap.

To close this gap, there is a need for grants or interest-free loans from philanthropic organizations, financial institutions, and corporations. I believe private sector institutions, especially those who have an interest in housing, can stimulate and expedite the rebuilding efforts.

The NHP Foundation was able to close the financing gap for new construction and rehabilitation of our Katrina-affected properties through grants and interest-free loans from the Freddie Mac Foundation, the Ford Foundation, the John D. and Catherine T. McArthur Foundation, the Bush-Clinton Katrina Fund, JPMorgan Chase Foundation, NeighborWorks America, and the State of Qatar. The layering of this public and private

financing has enabled us to make significant progress in moving forward to rebuild the housing stock.

Many skeptics question whether true rebuilding of the housing inventory is even possible. Our modest progress on the ground proves that it is possible; rebuilding is happening at this very moment.

The NHP Foundation

Our success in the redevelopment of the housing stock is due to our multi-faceted financial model consisting of public and private funding in addition to grants from philanthropic and corporate sources. This model enables NHPF to have the flexibility needed to efficiently construct and rehabilitate affordable housing—especially in times of acute crisis, such as in the Gulf Coast region.

NHPF believes that developers and owners must look beyond just supplying affordable housing to residents. We must empower residents to break the cycle of poverty by providing supplemental education programs for school-aged children and access to health and wellness opportunities for all residents.

The great need for quality and affordable housing in New Orleans and the Gulf Coast region was only exacerbated by Hurricane Katrina. Yet we did not allow these daunting challenges to prevent us from planning and executing an aggressive recovery program—a program to build 3,000 affordable units serving approximately 12,000 people in the Gulf

Coast region. The total cost of this rebuilding effort is estimated to be approximately \$300 million.

To date, we are making considerable progress with one third of these units under construction and rehabilitation, amounting to more than 1,000 homes at a total cost of over \$100 million in the State of Louisiana.

Financing Structure

NHPF has implemented a financial structure composed of three funding streams:

- Conventional and bond debt amounting to 30 percent, of our total funding;
 - \$21 million in conventional loan from Bank of America through its Community Development Group;
 - \$9 million in the form tax-exempt housing bonds from State of Louisiana;
- Low-Income Housing Tax Credit equity amounting to 45 percent of our total funding;
 - \$45 million in equity from private investors;
- Low interest loans and grants and amounting to 25 percent of our total funding;
 - \$20 million from the Community Development Block Grant
 - \$5 million in philanthropic grants and interest free loans

We believe this financing technique could also prove successful for other organizations contributing to the rebuilding efforts and help citizens move back into their homes sooner.

Conclusion

As we all know, flexibility is a necessity in difficult situations. At NHPF, such an approach has been the hallmark of our activities for the past 15 years and will continue to shape our plans in the future.

We ask that philanthropic entities, financial institutions, and corporations increase their contributions and combine their resources with the public sector, and help us close the financing gap. This approach will ensure that the Gulf Coast is rebuilt and our fellow citizens have the housing they need.

Thank you for your time.

Exhibit A

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Exhibit B

NHPF's Properties in Progress

Walnut Square, New Orleans, LA

After assessing the state of NHPF's properties, we determined that Walnut Square, located in New Orleans East, was the most severely damaged in the storm. For more than 30 days, the entire building was underneath 12 feet of standing water and suffered significant structural damage. In the end, it was not economically feasible to rehabilitate the property, and we were forced to make the tough decision to demolish and rebuild.

When complete, Walnut Square will have 209 mixed-income units, meaning there will be a combination of fair market and affordable housing available, as well as both residential and commercial spaces. As with every NHPF property, we strive to serve the surrounding communities in addition to our residents. Walnut Square will bring local businesses back to the area in addition to affordable housing.

Forest Park, New Orleans, LA

Forest Park in Algiers, a New Orleans neighborhood, was also damaged, though not as extensively as Walnut Square. We are pleased to report that substantial rehabilitation is currently underway. If construction progresses smoothly, occupancy for this residence is even scheduled to begin in May 2007 and be completed by January 2008. Once fully restored, it will have 284 units of affordable housing.

Tanglewood Apartments, Westwego, LA

In contrast to Walnut Square and Forest Park, our properties in Westwego, which is part of Jefferson Parish, were not as badly damaged and will be completely rehabilitated.

Tanglewood, consisting of two complexes, contains 384 units of affordable housing and has been nearly fifty percent occupied since the storm.

Lake Charles & Ponchatoula, LA

In addition to the properties we are constructing and rehabilitating in New Orleans proper, we are building 126 single family housing units in Lake Charles and Ponchatoula Louisiana. Our plan is to convert these two properties into homeownership.

With the level of construction underway on NHPF's projects alone and occupancy beginning in the spring of 2007, we believe we are demonstrating that rehabilitation and restoration of New Orleans affordable housing *is* feasible.