Statement of
Mary Kaiser, President

California Community Reinvestment Corporation

Before the

Subcommittee on Housing and Community Opportunity
Of the
House Committee on Financial Services

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Good morning. My name is Mary Kaiser. I am President of the California Community Reinvestment Corporation (CCRC), a non-profit multi-bank funded lending consortium. I am also a member of the Executive Committee of the National Association of Affordable Housing Lenders, a member of the Low Income Housing Fund loan committee, and serve as an advisor to the Ventura County Community Foundation, and Chairman of the Board of Trustees for United Way. I have worked in commercial banking for more than 25 years and in community development for the past 6 years.

I want to thank the Financial Services Committee for the opportunity to tell you about some of the successes we've had in meeting affordable housing needs in California but also to make you aware of the enormous challenges that lie ahead – and how Congress might help us address those challenges.

By way of background, The Federal Reserve Bank of San Francisco and senior banking executives from California-based commercial banks created CCRC in 1989 to address the lack of long term mortgages for the development of multi-family and senior affordable housing. The Federal government had just created the Low Income Housing Tax Credit program and permanent, long-term mortgages to finance the units subsidized by the tax credits were hard to find. The perception of high risk in this type of lending led to the formation of a mitigated risk loan pool where all member banks would participate in each loan on a prorata share basis.

At the time when CCRC was launched, the world of affordable housing was quite different than it is today. Eleven years ago, the relationship between banks and affordable housing proponents was largely adversarial, the perception of risk in community development lending high, and the system for financing affordable housing in California, and elsewhere throughout the country was generally fragmented. The pool concept through the consortium seemed a great compromise, allowing banks to meet their CRA requirements and providing a much needed private capital financing vehicle. CCRC's member institutions have committed in excess of $250 million in private capital to meet this need.

California was the first model for this, where we developed the expertise to underwrite multiple layered financing of multi-family affordable housing properties. Since 1989, an additional ten consortia were created in other states for this very same purpose. In our particular business – underwriting tax credit, multifamily rental projects – we pioneered the way in developing effective partnerships with nonprofit and for profit housing developers, local municipalities and state agencies to increase the production and rehabilitation of affordable rental housing for low-income families. In the last eleven years, CCRC has originated over $300 million in mortgages secured by projects containing over 15,500 housing units affordable to families and seniors. 100% of the units are affordable to those earning 80% or less of the area median income. Deeper affordability is demonstrated by the fact that ½ of our total loans represent housing units affordable to those earning 50% or less of area median income.

Through our willingness to create innovative loan structures, tailored to each project's needs, we have succeeded in getting done the new, cutting edge, and hard-to-do deals that have helped increase the supply of affordable rental housing in California. And what we've done, has been done right. Through adherence to rigorous management practices, CCRC's loan losses since inception has been extremely low – only .32%, $622 thousand, of all loans originated – comparable to the performance for a good portfolio of investment grade bonds.

CCRC is proud of its contributions to affordable housing. In fact, CCRC recently received the Financial Supporter of the Year Award from the Southern California Association of Non-Profit Housing for our work in financing low-income housing. In California, we have become part of a strong affordable housing infrastructure, in which lenders, nonprofit corporations, commercial investors and state and local governments work together to meet a common cause: providing low- and moderate-income families and communities with decent, affordable housing. Our experience in affordable multi-family mortgage origination also has allowed us to meet community needs in other ways, such as our acquisition/rehabilitation lending program targeted to inner-city investors; a tax-exempt bond permanent loan program, acquisition/development lending and direct investments in affordable housing projects.

But, despite all that we – and others – in California are doing, we simply don't have the resources to keep pace with soaring demand for affordable rental housing. The 1999 American Housing Survey conducted for HUD and released this month noted that of the 112 million year-around housing units in the nation, 30% are renters. The overall vacancy rate of rental units nationwide is 8%, less than 5% in California. California accounts for seven of the eight least affordable rental housing markets in the country. With low-income renters outnumbering available rental units on a 4 to 1 ratio, the housing wage in California now $15.20 an hour -- more than twice the minimum wage -- and adding only one housing unit for every 5 jobs created since 1990, we need help on every front to build sustainable communities.

What can we do to increase the production to start to narrow the increasing gap? The low-income housing tax credit is an important tool. While it does not reach to the very low income, those earning 30% or below of area median income, it does, combined with local subsidy and federally funded/locally allocated subsidy such as HOME and CDBG, reach effectively between 40% and 80% of AMI. The recent increase in the cap in both LIHTC and Private Activity Bonds will allow more units to be constructed and rehabbed, but won't come close to meeting the demand, and really cannot address the lower income citizens of our state.

In California, where a waitress who earns minimum wage and tips, falls in the 30-35% range earning $12,000 annually, production programs at the federal level are the only solution to the market failure to meet the needs of the very low income working poor. The housing wage of $15.20 means she would have to earn close to $30,000 annually to afford a fair market rent. Production programs with ongoing operating subsidy, such as Project Based Section 8, Additional Section 8 vouchers, as well as specialized programs such as Shelter Plus Care and other specialized subsidy programs that make the numbers work when incomes can only support such low rents. The costs are the same to build any type of housing. The costs to operate real estate are the same. The conventional financing on the debt portion, the equity injection from tax credits and the subsidy from the public sector continue to provide the model for increased affordable housing production.

You can help us, by continuing to support programs at the Federal level that can be counted on, year in and year out, with similar restrictions and requirements as other programs developed in the private sector, to allow this important partnership to continue. The synergy between the private and public sector is maximized when we are striving to reach the same goal. Production programs for the very low-income working poor, where tax credits can’t reach, need to be reinstated. Ongoing operating subsidy to cover the costs of running these properties where low income rents cannot support the costs need to be committed as well.

Thank you again for the opportunity to speak. I hope I’ve conveyed that the problem is real, quantifiable, and solvable. We have demonstrated that very fact on a small scale at the California Community Reinvestment Corporation.