# Statement of
# Joseph F. Reilly, Senior Vice President

# JP Morgan Chase Community Development Group

## Before the

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

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Good morning, my name is Joseph Reilly, and I am a Senior Vice President in the Community Development Group at JP Morgan Chase. I am responsible for managing a staff of staff of forty people who provide financing for affordable housing and commercial real estate projects in areas that are served by JPMorgan Chase. JPMorgan Chase has been a leader in providing financing for affordable housing and other community development projects for many years. Over the past five years, JPMorgan Chase has provided over $2.6 billion in community development financing. We continue to seek new and innovative ways to provide financing which will strengthen the communities we serve.

In 1988, JPMorgan Chase was one of the founding members of NAAHL in an effort to help accelerate the growth of a sustainable flow of private capital to housing, small business and other community development activities in low and moderate-income communities.

I have been involved in the field of community development and affordable housing finance for over 23 years. For the past 12 years I have worked at JPMorgan Chase and its predecessor institutions. Prior to my experience with JPMorgan Chase, I worked for the New York City Department of Housing Preservation and Development for six years where I worked on providing subsidized financing for affordable housing development. Prior to that, I spent six years working as a community organizer for the Northwest Bronx Community and Clergy Coalition. I have been fortunate to see the issues surrounding affordable housing development from a variety of perspectives.

I'm sure you've already seen the considerable data documenting the problems American families are facing in finding decent, affordable housing. While much has been done to meet these needs, there remains much to be done. Many high cost areas like New York suffer from a profound shortage of both rental housing and homeownership opportunities, not only for very low-income families but also for low-income and moderate-income families also. We have a growing crisis that requires the ongoing attention of policymakers, and both short-term and long-term measures to achieve our national goal of a decent home in a suitable living environment for all Americans.

## MUCH HAS BEEN ACCOMPLISHED OVER THE PAST DECADE

Over the past ten years, what our industry has experienced is a dramatic strengthening of the system for financing affordable housing.

- We know what it takes to provide affordable housing.
- We have come to work together cooperatively in new types of partnerships.
- We have developed creative, new tools and techniques for financing and producing affordable housing for low-income families and communities.
- We have coped with the often conflicting requirements of federal, state and local programs we need to do our work.
- We have built the infrastructure necessary to have a major impact on housing needs.

"We" includes:

- government at all levels,
- for-profit and non-profit developers,
- lenders, investors, and community leaders.

The result is that we are building affordable housing that is sustainable, that is financed with the resources of the private market and leverages public resources effectively. Our success has ensured that private capital is readily available to leverage public subsidies. For example, last year the U.S. Treasury reported that, from 1993-1998, the amount of mortgage lending to low- and moderate-income communities and borrowers by CRA-covered lenders rose 80%. In 1998 alone, Treasury reported at least $135 billion in mortgages to these borrowers, made by insured depository institutions.

## THREE MAJOR CONSTRAINTS

As good as these solutions are, they come nowhere near meeting the need. The public, non-profit, and for-profit organizations that have mobilized and partnered to provide affordable housing face three major constraints in our ability to deliver more decent, affordable units.

First, Federal funds are often encumbered by well-meant legislative and regulatory constraints that often limit needed flexibility to meet community needs. Sometimes, something gets lost in the translation of housing policy when it is regulated into practice. For example, Congress last year enacted legislation to encourage project-based Section 8 rental assistance vouchers to promote mixed-income housing. However, HUD prohibits the use of this tool in neighborhoods with at least 20% poverty, when local community development strategies often call for mixed income housing in these neighborhoods. And inevitably, the more tightly the subsidies are targeted to those most in need, the greater the financing gap and the harder it is to make the deal economically viable.

Second, we could finance more affordable housing if we had more resources. The past decade has confirmed that there is no magic to the provision of affordable rental housing. Additional housing can only be built if public subsidies fill the gap that exists between what families can afford to pay and the costs associated with the construction and maintenance of the decent affordable housing.

Federal programs such as HOME, CDBG and the Low Income Housing Credit, have played valuable roles in helping to fill that gap, but rarely do it alone. For example, many housing credit deals in low-income communities require additional subsidies to fill financing gaps. But funding levels for all Federal programs have failed to keep pace with rapidly growing need, and these programs come with complex requirements that slow, or even discourage, development of new units.

Unfortunately, over the past decade the focus at the federal level has shifted to demand-side subsidies, which do not increase the supply of affordable units. In addition, there is an aging housing stock of affordable units that needs new roofs, new mechanicals, and sometimes new systems to remain viable, at the same time that communities are seeking to replace the old public housing units with mixed-income, affordable housing.

Third, in some states there is a scarcity of permanent financing for multi-family affordable housing. These projects often involve subordinated debt and low-income housing tax credits that make these loans "non-conforming" for sale to the secondary market.

## TO DO: SHORT-TERM WAYS TO LEVERAGE MORE PRIVATE CAPITAL

The more we can simplify the regulations, processes, and paperwork of federal assistance, the more we will increase the efficiency of the programs and private sector participation. Simple, flexible funding sources that have real impact with maximum efficiency include the old Nehemiah program, the Affordable Housing Program of the Federal Home Loan Banks, and the Community Development Financial Institutions' fund. A streamlined FHA product, which made "non-conforming" affordable housing loans more attractive to investors, would also be extremely helpful.

## TO DO: LONG-TERM

The Federal government can be a catalyst for attracting more private capital to affordable housing by providing a stable, predictable source of capital that would not be subject to the annual appropriations process, in keeping with the long-term nature of community development.

It is also clear that homeownership opportunities for low-income families and communities are not keeping pace with rapidly growing need. The President's proposal for a new single family housing tax credit would do much to alleviate the shortage of homeownership opportunities in our neediest communities. NAAHL endorses this proposal and asks Congress to do so as well.

Thank you very much for the opportunity to be here today.