Testimony of Sheila Crowley, Ph.D., MSW
President and CEO of the National Low Income Housing Coalition
presented to the
Subcommittee on Housing and Insurance
Financial Services Committee
United States House of Representatives
April 16, 2015

Chairman Luetkemeyer, Ranking Member Cleaver, and Members of the Committee, thank you for the opportunity to testify today on the how to engage the private sector in producing and preserving affordable housing.

I am Sheila Crowley, President of the National Low Income Housing Coalition (NLIHC). NLIHC is dedicated solely to achieving socially just public policy that assures people with the lowest incomes in the United States have affordable and decent homes.

NLIHC's members include non-profit housing providers, homeless service providers, fair housing organizations, state and local housing coalitions, public housing agencies, private developers and property owners, housing researchers, local and state government agencies, faith-based organizations, residents of public and assisted housing and their organizations, and concerned citizens. We do not represent any sector of the housing industry. Rather, NLIHC works only on behalf of and with low income people who need safe, decent, and affordable homes, especially those with the most serious housing problems, including people who are homeless. NLIHC is funded entirely with private contributions.

We organize our work in service of three overarching goals for federal housing policy:

- There will be no further loss of federally assisted affordable housing units or federal resources for affordable housing or access to housing by extremely low income people.
- The federal government will increase its investment in housing in order to produce, rehabilitate, and/or subsidize at least 3,500,000 units of housing that are affordable and accessible to the lowest income households in the next ten years.
- Housing stability in the neighborhood of one's choice, which is foundational to good health, employment, educational achievement, and child well-being for people with the lowest incomes, will be the desired outcome of federal low income housing programs.

Any discussion about affordable housing has to begin with the clarifying question: affordable for whom? When we talk about affordable housing in the United States, generally we are referring to housing that is affordable to low income people, who are defined by statute as households with incomes of 80% of the area median ($68,000 for a family of four in the DC metropolitan area) or less. Affordable means spending no more than 30% of household income for housing, including utilities. In housing policy, low income is further categorized as very low income (50% or less of the area median), and extremely low income (30% or less of the area median). Table I compares 30% of the national median family income to the federal poverty level for a family of four. This shows you how poor families in the extremely low income category are.

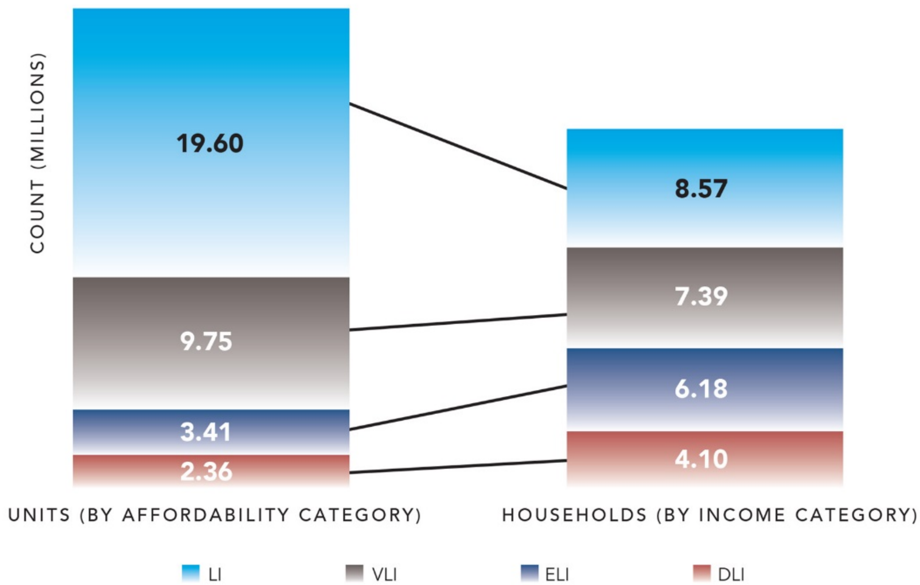
TABLE 1: FEDERAL POVERTY LEVEL VS. 30% MFI FOR FAMILY OF FOUR

Year	Poverty Guideline	30% of National Median Family Income	Difference
2000	$17,050	$15,060	$1,990
2005	$19,350	$17,400	$1,950
2010	$22,050	$19,320	$2,730
2015	$24,250	$19,740	$4,510

Figure 1 compares the number of renter households in these income groups to the number of housing units renting at prices they can afford. There is a surplus of housing affordable to the very low income and low income segments of the low income population and a shortage of housing that is affordable for extremely low income households. Remember, this is a national picture. In high cost areas, there is also a shortage for very low income households.

On Figure 1, you will note that NLIHC has added another category that we call deeply low income, with incomes at or below 15% of the area median. For a one person household, 15% of the median family income is $6,909 a year. These are the poorest of the poor, with even less income than people whose sole income is federal Supplemental Security Income (SSI). SSI for one person is $8,796 in 2015.

FIGURE 1: RENTAL UNITS AND RENTERS IN THE US, MATCHED BY AFFORDABILITY AND INCOME CATEGORIES, 2013



Source: NLIHC Tabulations of 2013 ACS PUMS data

The shortage of affordable rental housing is actually worse than is depicted, because many of the units affordable for one income category are occupied by people in higher income groups, making them unavailable for people in lower income groups. Thus, nationally, there are 10.3 million extremely low income renter households and only 3.2 million rental homes that are available and affordable to them. For every 100 extremely low income renters, there are just 31 affordable and available rental housing units. In Missouri, extremely low income renters fare slightly better. For every 100 extremely low income households, there are 34 units.[1]

The first consequence of this shortage is that poor people spend more than they can afford for their homes. Today, 75% of extremely low income renter households spend more than half of their income for their homes, and are one financial emergency away from not being able to pay the rent. Eviction often leads to homelessness. Changes in how federal homeless funds are spent and the infusion of $1.5 billion in additional rent assistance in the Recovery Act (ARRA) has reduced levels of homelessness in 34 states in recent years.[2] However, the number of homeless people remains alarmingly high, especially among families with children. There are 25,000 homeless children in New York City alone.[3]

---

[1]National Low Income Housing Coalition. (2015). *Housing Spotlight: Affordable Housing is Nowhere to be Found for Millions.* http://nlihc.org/article/housing-spotlight-volume-5-issue-1.
[2]National Alliance to End Homelessness. (2015). *The State of Homelessness in America 2015*. http://endhomelessness.org/library/entry/the-state-of-homelessness-in-america-2015.
[3]Coalition for the Homeless. (2015). *Basic Facts about Homelessness: New York City*. http://www.coalitionforthehomeless.org/basic-facts-about-homelessness-new-york-city/.

The 4.5 million households that receive federal housing assistance through public housing, project-based Section 8 housing, housing vouchers, and the smaller housing programs for elderly and disabled people[4] are the lucky ones. They are able to afford their homes as long as the Brooke rule remains in effect. Named after the late Senator Edward W. Brooke (R-MA), the rule codifies the industry standard of affordability being no more than 30% of household income. In public and assisted housing, federal appropriations are supposed to cover the difference between what tenants pay based on this standard and the cost of operating the housing.

Dating to the U.S. Housing Act of 1937, new public housing was built until the early 1970s. Any stock that became obsolete had to be replaced unit for unit until "one-for-one" was repealed in 1995. Since then, we have been losing public housing units to demolition and redevelopment. The Housing and Community Development Act of 1974 created the Section 8 program. This was a major shift in policy away from public ownership of low cost housing to public-private partnerships. The new housing was owned by the private sector, but financed and subsidized by the federal government. New Section 8 project-based properties were developed into the early 1980s, until Congress stopped appropriating funding for new construction. The number of these properties is diminishing as owners opt-out as their mortgages end. Preservation of the public housing and Section 8 project-based stock is a high priority for NLIHC and other low income housing advocates.

The 1974 Act also created the Section 8 voucher program, which provides poor families with an income supplement that allows them to more successfully compete in the private rental housing market. Congress increased the number of vouchers every year until 1995. Since then, we have had a few spurts of modest funding for new vouchers, most recently vouchers specifically for veterans. Although in dollar amounts, it may appear that the voucher program keeps growing, the growth is due to the conversion of assistance that was attached to public housing or project-based Section 8 to vouchers for tenants who were displaced as these hard units have been lost. The other factor is that the voucher program is market driven, i.e., rents go up, so appropriations have to increase just to maintain the vouchers already in place.

These "safety-net" programs differ from most other federal safety net programs in an important way. They are funded on the discretionary side of the budget. This means that simply being eligible for assistance does not guarantee assistance, and indeed only a quarter of eligible households receive assistance. This is why there are such massive waiting lists for housing assistance. Discretionary programs, subject to the annual appropriations process, also are much easier to cut than other safety net programs on the mandatory side of the budget. The discretionary programs are all subject to sequestration. Especially hit hard has been public housing.

Two approaches to preserving public and assisted housing that Congress has authorized are the Moving to Work Demonstration and Rental Assistance Demonstration programs. Each

[4] HUD. (2013). *Picture of Subsidized Households*. www.huduser.org/portal/datasets/picture/yearlydata.html.

has its merits and its limitations. Both bring new resources to bear on operation and preservation of public and assisted housing. Many people want to significantly expand both. NLIHC opposes expansion of MTW in the absence of evaluation requirements to determine if the innovations public housing agencies are undertaking are helpful or harmful. We support RAD as long as the promised tenant protections are upheld and risk of foreclosure and loss of public ownership is minimized.

The subject of this hearing is how to engage the private sector in producing and preserving affordable housing. There are numerous opportunities for the private, for-profit sector to be involved, but only in the context of public-private partnerships. In the absence of a public commitment, especially a federal commitment, to affordable housing, there is no motivation for private investment.

The data about the housing shortage and the waiting lists for federal housing assistance show that there is a market for rental housing that extremely low income families can afford. If there were a profit to be made in building and operating this kind of housing, someone would have done it by now. There is a mismatch between what it costs to build and operate decent rental housing and what extremely low income households can pay. When the market cannot supply a good that is essential for the most minimal standard of living, it is the responsibility of government to step in to assure the well-being of its citizens and to maintain social order.

The private, non-profit sector is critical to solving the affordable housing shortage. All across the country, not-profit housing organizations are cobbling together multiple sources of funding to build and preserve affordable rental housing. But no one does it without public resources.

The main driver of rental housing production today is the federal Low Income Housing Tax Credit (LIHTC). Established in 1986, the LIHTC had supported about 2.5 million units through 2012. The Joint Committee on Taxation estimates the cost of the LIHTC as $7.6 billion for 2015.[5] LIHTCs are allocated to states on a per capita basis. State agencies administer the program. Private investors put up equity to support new or rehabbed rental properties in exchange for a dollar-for-dollar reduction in federal income taxes over ten years. It is a very popular program with investors.

Unlike traditional affordable housing programs, rents in LIHTC properties are not based on income. Rents are set at either 30% of 50% of AMI or 30% of 60% of AMI depending on which kind of rent restriction the developer is using. On its own, the LIHTC is not responsive to the housing shortage for extremely low income households.

NLIHC conducted a study of a random sample of LIHTC properties in five states to determine the degree to which the program serves extremely low income households. We

---

[5] Joint Committee on Taxation. (2014). *Estimates Of Federal Tax Expenditures For Fiscal Years 2014-2018.* https://www.jct.gov/publications.html?func=startdown&id=4663.

examined 104 properties with a combined total of 8,758 units. The income categories of residents broke down as follows: 0-30% AMI - 36%, 31-50% AMI - 35%, 51-80% AMI - 26%, and 81% AMI and above - 3%. We then looked at how many households in each income category also received tenant-based subsidies to keep their rents affordable. Seven in ten (69%) extremely low income and 22% of very low income households also received rent subsidies, 90% of which were Section 8 vouchers. Of the extremely low income households that do not have rent subsidies, 83% were paying rents they could not afford; 57% were paying more than half of their income for housing.[6] One of the key lessons from our study is the degree to which the Section 8 voucher program is shoring up the LIHTC program.

Voucher payment standards exceed tax credit rents in many markets, so voucher holders bring in more rent than non-voucher holders. Some non-profit developers use this "bonus" to reduce rents to affordable levels for extremely low income households that do not have vouchers, essentially using one voucher to house two families. The recent report by Abt on the Moving to Work program cites one PHA that has experimented with similar "stretching" of vouchers.[7] This is an area that needs more research to better understand how Section 8 voucher resources are being used and if there are good policy models to be incentivized.

Knowing that there will be no more Section 8 vouchers for the foreseeable future, NLIHC surveyed non-profit developers to determine if and how they serve extremely low income households without Section 8 vouchers. We found that it is hard to do, but not impossible. We showcased five case studies in our report.[8] The factors that contributed to their success are:

1. Cross-subsidizing. Rents from higher income households help pay part of the costs of renting to extremely low income households. Based on this finding, NLIHC recommends income averaging in LIHTC properties that will help them serve more extremely low income households by also serving more higher income households, above the current 60% AMI income limit. Income averaging will only be of use in high cost areas where rents based on 30% of 60% AMI are not competing with market rate rents.

2. Eliminating mortgage debt. This means acquiring all capital resources upfront and not carrying debt service as an operating expense.

3. Partnering with local governments. Collaborative relationships with local governments that know that adding affordable rental housing to their communities is good and necessary are essential to success. Local governments can support the development of affordable rental housing by donating land, cutting red tape, providing property tax exemptions, and bringing non-housing resources, such as social services, to deals.

---

[6] National Low Income Housing Coalition. (2014). *Aligning Federal Low Income Housing Programs with Housing Need.* http://nlihc.org/library/research/alignment.

[7] Abt Associates. (2014). *Innovations in the Moving to Work Demonstration.* http://www.pahrc.org/studies/InnovationsInTheMovingToWorkDemonstration.pdf

[8] National Low Income Housing Coalition. (2014). *Aligning Federal Low Income Housing Programs with Housing Need.* http://nlihc.org/library/research/alignment.

4. Using state and local funds. Projects that reach extremely low income households rely heavily on state and local revenue sources, especially housing trust funds. NLIHC has identified 254 state level programs that provide some kind of capital or operating subsidy for affordable rental housing and another 66 municipal programs that do so as well.[9] We estimate their combined annual value to be less than $3 billion. It is a mistake to think that state and local governments can make up for reduced federal funds, but their role is essential.

5. Private fundraising. Like state and local governments, philanthropy makes small, but catalytic, contributions. Home Funders is a joint project of several Boston foundations that combined resources to support rental housing for extremely low income families. They have contributed support to more than 1,000 homes in ten years and have just set a goal of supporting another 1,000 homes in the next five years.

6. Establishing preferences or set-asides for LIHTCs by states. Some states give extra points in their LIHTC competitions or provide other favorable treatment for developments that commit to serving some extremely low income households. These preferences do not make the units affordable by themselves, but the preferences attract other resources to a project. A new report by the Technical Assistance Collaborative highlights three state housing finance agencies (IL, PA, and NC) that have programs to create permanent supportive housing in integrated settings for extremely low income people with disabilities, without relying on Section 8 vouchers. Each program is different, but they all used LIHTC and a variety of other state, local, and private sources.[10]

The HOME program administered by HUD and the Affordable Housing Program of the Federal Home Loan Banks are two other sources of capital for affordable rental housing development. HOME is a block grant to states and localities funded through annual appropriations, with $900 million for FY15. The Federal Home Loan Banks are required by statute to set aside 10% of their profits for their Affordable Housing Programs, through which they make grants to support local affordable housing projects. Their combined grants totaled $254 million in 2013. Neither program is required to support rental housing for extremely low income households, but both make important contributions to preserving and expanding the supply of affordable rental housing.

This discussion would be incomplete without describing how the National Housing Trust Fund will be used to address the shortage of affordable rental housing. As committee members know, the National Housing Trust Fund was created in the Housing and Economic Recovery Act (HERA) of 2008. HERA requires Fannie Mae and Freddie Mac to contribute 4.2 basis points of their annual volume of business to support the National Housing Trust Fund and the Capital

---

[9] National Low Income Housing Coalition. *State and City Funded Affordable Rental Housing Programs*. (Forthcoming).

[10] Technical Assistance Collaborative. (2015). *Creating New Integrated Permanent Supportive Housing Opportunities For ELI Households: A Vision for the Future of the National Housing Trust Fund.* http://www.tacinc.org/media/51527/Creating%20New%20Integrated%20PSH%20Opportunities%20For%20ELI%20Households.pdf.

Magnet Fund. That funding will begin in 2016. Unlike the traditional affordable housing programs that depend on annual appropriations, funding for the National Housing Trust Fund and the Capital Magnet Fund is on the mandatory side of the budget and is a dedicated source of revenue like the Affordable Housing Program of the Federal Home Loan Banks.

The core purpose of the National Housing Trust Fund is to expand the supply of rental housing that extremely low income households can afford. At least 90% of the funds must be used for rental housing and at least 75% of the rental housing must be affordable for extremely low income households. It is a block grant to states, distributed by a formula based on the shortage in each state of rental housing that extremely low income households can afford. Funds can be used to build, rehabilitate, preserve, and operate rental housing. Up to one-third can be used for operating assistance or to create an operating assistance reserve. States must develop an allocation plan based on priority needs. States will issue Requests for Proposals and make grants or loans to developers with demonstrated capacity to carry out the proposed projects.

The National Housing Trust Fund will serve as an incentive to bring other resources to bear on the development and preservation of rental housing that extremely low income households can afford. Two of its attributes make this possible. First is the deep income targeting. There is no other federal program that provides new money to support rental housing development targeted to ELI households. In order to use National Housing Trust Fund dollars, a developer has to include some units in a project that are affordable for extremely low income households. The second attribute is the National Housing Trust Fund's flexibility. It provides capital grants or loans that can be coupled with LIHTCs and other sources of capital. Funds can be used for a wide range of costs associated with the construction or rehabilitation of units designated for ELI households in multifamily properties. Projects can be designed based on local market conditions, local priorities, and local resources.

As we are meeting just one day after Tax Day, it is appropriate to close by noting that it is possible to end homelessness and the shortage of affordable rental housing in our country without costing the federal government one additional dollar. We simply need to use our existing federal housing programs more efficiently and effectively. The federal mortgage interest deduction is the single largest federal housing program. According to the Joint Committee on Taxation, the mortgage interest deduction will cost $74.8 billion in 2015, and its primary beneficiaries are higher income households.[11]

We propose two modest changes to the mortgage interest deduction that will make the tax treatment of home ownership fairer and more effective, and generate billions of dollars in revenue. First, we would lower the cap on the size of mortgage for which interest can be deducted from $1 million to $500,000. NLIHC analysis of Home Mortgage Disclosure data (HMDA) shows that just 4.5% of all mortgages in the U.S. between 2011 and 2013 were over $500,000. Second, we would convert the deduction to a 15% non-refundable tax credit. This

[11] Joint Committee on Taxation. (2014). *Estimates Of Federal Tax Expenditures For Fiscal Years 2014-2018.* https://www.jct.gov/publications.html?func=startdown&id=4663

would increase the number of homeowners who would get a tax break by 16 million, all with incomes under $100,000 a year. Phased in over five years, these two changes would produce $230 billion in additional revenue.

Representative Keith Ellison's "Common Sense Housing Investment Act" would make these changes and direct the revenue into affordable rental housing for extremely low income households. His bill is supported by over 2,000 organizations and elected officials from every Congressional District. We urge committee support for H.R. 1662.

Thank you and I look forward to your questions.