Statement

of

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On Behalf of the
National Association of Affordable Housing Lenders
on
Community Development Financial Institutions

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CELEBRATING 30 YEARS OF SUCCESSFUL COMMUNITY INVESTMENT

INTRODUCTION
My name is Judith A. Kennedy and I am the President and CEO of the National Association of Affordable Housing Lenders.

NAAHL represents America's leaders in moving hundreds of billions in private capital to those in need: 100 organizations committed to increasing lending and investing private capital in low and moderate income (LMI) communities. This "who's who" of private sector lenders and investors includes major banks, blue-chip non-profit lenders, CDFIs, and others in the vanguard of affordable housing.

NAAHL's mission is to increase responsible, private capital lending and investing in low (under 50% of area median) and moderate (under 80%) income persons and areas. Seventy percent of NAAHL's nonprofit lender members are CDFIs, and the rest are high-performing, mission-driven organizations.

MAIN STREET LOAN DEMAND HAS INCREASED
The many financial "rescues" of the past 18 months have eclipsed the strong performance and potential benefit that nonprofit affordable housing lenders can play in the nation's economic recovery. The bottom line is that experienced, mission-driven nonprofit lenders, serving areas as diverse as Massachusetts, New York, Alabama, California, Illinois, and the Carolinas, are the victims of their own success. They have few troubled assets and most have never had a loss on a loan. Recognizing these nonprofits' important mission and stellar track records, throughout the crisis bank investors have honored their traditional commitments to these loan funds. This private capital has enabled nonprofit lenders to continue to finance the preservation and construction of affordable rental homes, providing jobs for Main Street, small businesses and residents of underserved areas across the country. But loan demand exceeds their supply of capital.

Successful nonprofit lenders are ready and willing to fill the current financing gap, **but are struggling to find needed capital and liquidity to meet the increased loan demand they face, both in urban and rural underserved markets.** Like other financial companies, non-profit lenders rely on the availability of credit to lend on Main Street, so the seizing up of the credit markets has hindered local lenders from doing more to help mitigate the crisis.

CDFIs and other mission-driven nonprofit members stand ready and willing to finance at least twice as many "shovel ready" construction projects this year, but are impeded by constraints on their liquidity and capital, the bank regulators' concerns about exposure to commercial real estate, and nonprofits' inability to access Federal financing. Barriers to lending include the following:

- Non-bank lenders are not eligible for TARP, TALF, the two percent Capital Initiative for CDFI banks, or any other emergency assistance.

- GSEs continue to be AWOL in financing small multifamily landlords on Main Street.

- The 2003 CDFI regulations significantly reduced housing lenders' access to the Fund, and required applicants to focus on Federal priorities instead of their communities.

- Regulatory incentives for supporting Main Street financing and job creation remain in limbo.

As Chairman Frank and Reps. Waters, Gutierrez, Maloney and Watt of this committee noted in a letter last October to Treasury Secretary Geithner: "*Each year, more than 500 nonprofit Treasury-certified CDFI loan funds support thousands of jobs, affordable housing units and community facilities in the nation's most distressed communities, and leverage additional capital by participating on loans with regulated lenders, and filling critical capital gaps.*"

In addition, there are also successful, mission-driven nonprofit loan funds (such as those in the Carolinas and Alabama) that do not meet the current CDFI definition, but are also safely leveraging private capital to meet their states' affordable housing and community economic development needs, producing thousands of jobs and revitalizing neighborhoods across the nation.

BUILD ON WHAT WORKS: LOCAL AND STATE LOAN FUNDS

The partnership between blue-chip nonprofits and responsible for-profits has evolved and matured over the past 30 years. For-profit and nonprofit lenders and investors, developers, community leaders, and government at all levels, have all learned to collaborate as partners in devising new solutions and creative strategies for financing affordable rental housing that people are proud to call home in thousands of communities across the United States. These homes are of high quality and lasting value, and remain affordable over the long run (see attached pictures). Examples of successful nonprofit lenders that aggregate private capital to finance affordable housing and community economic development include the following:

- In New York, the **Community Preservation Corporation (CPC)** has financed the preservation and development of more than **145,000** affordable apartments since 1974, representing public and private investments of nearly **$8 billion**.

- Over 15 years, the **Massachusetts Housing Investment Corporation (MHIC)** has financed over **11,000** affordable apartments**,** representing **$1 billion** in mortgages.

- The **Community Investment Corporation (CIC)** of Chicago has financed the rehabilitation of **41,000** affordable apartments since 1984, representing more than **$1 billion** in mortgages.

- Over the past decade, the **Alabama Multifamily Loan Consortium (AMLC**) has financed over **4,000** affordable apartments across the state, all at or below 50 percent of median income, representing more than **$80 million** in mortgages.

- Over the past two decades, the **California Community Reinvestment Corporation (CCRC**) has financed **26,000** apartments available to residents who earn 60 percent or less of area median income (AMI), representing approximately **$1 billion** in affordable housing loans.

- The **Community Investment Corporation of the Carolinas (CICCAR**) which began accepting applications in 1991, has financed **8,800** low income apartments for 189 affordable housing developments, representing $**158 million** in affordable housing loans. Those developments are located throughout the Carolinas, financing mostly housing with allocations of Low Income Housing Tax Credits (LIHTCs), and all were new construction or substantially rehabilitated multifamily, senior, or special needs housing developments.

- Over 20 years, the **Network for Oregon Affordable Housing (NOAH)** has financed the creation or preservation of over **6,500** low income housing apartments all over Oregon, representing LMI loans totaling over **$170 million**, half of those loans are in hard to serve rural communities.

- Over nearly 20 years, the **Hawaii Community Reinvestment Corporation (HCRC)** has financed more than **3,000** low income apartments in 63 affordable housing rental developments, representing over **$190 million** in affordable housing loans.

- The **Georgia Affordable Housing Corporation (GAHC)** has financed **1,056** apartments in 12 affordable multifamily rental developments, representing $**19 million** in mortgages.

What impact could each of these lenders make if they had the means to finance just 100 more affordable apartments in 2010? Reliable estimates are very encouraging.

The National Association of Home Builders (NAHB) has estimated the one-year impacts of building 100 rental apartments in a typical metro area:

- $7.9 million in local income
- $827,000 in taxes and other revenue for local governments
- 122 local jobs

NAHB also estimated the annually recurring impacts of building 100 rental apartments:

- $2.3 million in local income
- $395,000 in taxes and other revenue for local governments
- 32 local jobs

NAAHL's 25 nonprofit lenders finance thousands of affordable multifamily rental apartments per year. Based on the NAHB multiplier, if each lender financed 100 apartments more, the one-year impacts of these activities could be:

- $198 million in local income
- $21 million in taxes and other revenue for local governments
- 3,050 local jobs

Based on the NAHB multiplier, if each lender financed 100 apartments more, the annual impacts of these activities could be:

- $58 million in local income
- $10 million in taxes and other revenue for local governments
- 800 local jobs

INCREASE CAPITAL ACCESS

Unfortunately, Fannie Mae and Freddie Mac continue to be AWOL from Main Street financing. Only in New York, where a state insurance agency (SONYMA) insures the top 20 percent loss on qualifying multifamily mortgages, have GSEs purchased Main Street loans. Top loss insurance is generally unavailable in the other states.

What has been your general impression of the usefulness of the Community Development Financial Institutions (CDFI) Fund?

CDFI FUND RULES NEED UPDATING

The CDFI Fund initially was an effective means of funneling Federal investment into local markets, through loan fund intermediaries familiar with the local markets that could also put their own capital into the often-small projects localities need. These intermediaries also could deploy the investment with acceptably low overhead, and relative speed. Other Federal programs – HUD, in particular – have had enormous paperwork requirements, reporting requirements, and overhead generally (not to mention inflexibility) that impede their penetration into these local markets, and the usually-small projects in them.

- But, today the definition of a CDFI is too narrow, excluding many mission-driven nonprofit organizations across the country that are doing great community and economic development work.

- NAAHL members believe that the Fund's awards favor organizations with the simplest structures and plans, that don't leverage public subsidy with private capital. Such leveraging is crucial to successful multifamily affordable rental housing projects and community economic development initiatives which often require multiple layers of financing. More flexibility in the Fund's matching requirements would also facilitate a much larger impact on underserved communities.

- **The 2003 revision of the rules governing the Fund were too restrictive, making it difficult or impossible for many high-performing, larger CDFIs and other mission-driven nonprofit lenders to apply for Fund grants.** Many of these lenders, like other lenders, have been hard-hit by the financial crisis, and face severe liquidity challenges that are restricting their ability to provide additional financing for multifamily affordable rental housing in underserved communities. The mission of the Fund is to help entities that serve such communities, and these lenders have strong track records. By excluding many of the nation's leading nonprofit lenders from its program, the Fund limits its reach and effectiveness.

1. The targeting of awards to CDFI Fund-designated "Hot Zones" eliminated significant markets, including the rural or non-metro counties of many states, and low-income and low-wealth people living outside areas with concentrated poverty.

2. The targeting of "CDFI Partners" eliminated many community development entities with demonstrated capacity in building sustainable communities. These new restrictions include retroactive tests, enormous prospective commitments, and funding priorities **for what the CDFI Fund thinks is needed**, rather than what the local market needs. Institutions and organizations serving distressed communities should have an equal opportunity to participate in the program.

3. The "growth continuum strategy" of making awards "to support CDFIs to the point where they can be self-sustaining" is inconsistent with the statutory limitations of the NMTC. The NMTC is a shallow subsidy and was not intended to address housing needs and is not a substitute tool for housing providers.

The results were predictable and unfortunate. The new rules excluded many previously eligible areas, made it harder to obtain funds even in eligible areas and especially in rural communities, and impeded funding for mid- and large-size CDFIs and their communities. **All of this appears contrary to what Congress envisioned when it enacted these programs to allow distressed communities to meet local needs through innovative community development finance.**

What specific economic or neighborhood impact can you point to that has resulted from CDFI Fund investment?

CDFI Fund investment played an important role before 2003 in helping our members leverage private capital for specific projects, underscoring the need to revise the Fund's rules to restore eligibility for meeting local area needs, make the definition of a CDFI more encompassing, and simplify certification requirements.

Here are just two examples of successful projects:

CDFI FUNDS USED TO LEVERAGE PRIVATE CAPITAL
Community Preservation Corporation (CPC)
CPC received $5 million in CDFI grants for neighborhoods in the Bronx, Newburgh, Syracuse, Albany and Rochester. The $5 million awarded to CPC was deployed in projects totaling 907 units and $35.7 million in total investment. This leverage ratio – $7 in total investment for each $1 of CDFI Fund grant – demonstrates the catalytic impact of Federal grants channeled through local intermediaries that themselves can provide additional investment.

CPC was able to use its $5 million in grants from the CDFI Fund to supply shallow subsidy (grants or low-interest loans), in markets in which the local government had neither subsidy nor programs to deliver it. CPC coupled Fund dollars with CPC's own mortgage investment, thereby replicating public-private financing models that had been successful in New York City.

Network for Oregon Affordable Housing (NOAH)
NOAH has received two CDFI funding awards for a total of $2.4 million: $1.52 million in grants, $879,000 in long term loans. While small, the CDFI awards to date have proven invaluable, allowing NOAH to leverage private capital and accept greater risk for higher impact.

NOAH is a multi-bank CDFI and it existing $119 million credit line with member banks is fully deployed, and it is currently unable to issue new commitments. Loan demand is high, but viable and important projects are unable to secure private loan capital from NOAH or other lenders. NOAH has historically funded up to 75 percent of the 9 percent LIHTC projects in Oregon; if NOAH is out of the market, a huge gap exists. With a few notable exceptions, member banks have not been willing to provide additional loan capital to NOAH.

How has the economic downturn affected your entity's activities?

LOAN DEMAND EXCEEDS LENDERS' SUPPLY
Nonprofit lenders could finance at least twice as many "shovel ready" affordable housing projects nationwide, if they could just sell their existing loans, or if they could obtain low cost capital from the Treasury. **A recent survey of our nonprofit lender members found that they currently hold more than $1.5 billion of seasoned multifamily loans.**

With millions of single family homes expected to go into foreclosure over the next few years, an ample supply of affordable multifamily rental housing is more crucial than ever. The severe liquidity and capital constraints faced by our nation's leading nonprofit lenders threaten that supply.

Like other financial companies, non-profit lenders depend on the availability of credit to finance housing, so the seizing up of the credit markets has hindered their ability to help mitigate the crisis and finance additional affordable housing. Bank investors are honoring existing commitments, but for the most part not increasing them. Banks are constrained from lending and investing in these mission-driven organizations that could do so much more if adequately capitalized. The nonprofit lenders are also finding it hard to sell loans back into the market so they do more lending.

What could be done to help serve more people and communities in your area, in the short term and long term, including any legislative changes to the CDFI statute?

CDFI FUND RULES SHOULD BOLSTER LEVERAGING BY LENDERS

- The rules need to be updated to recognize the importance of leveraging, and eliminate any impediment for funding for mid-to large-sized CDFIs. It's worth noting that private capital leverages public subsidy for affordable rental housing as much as 10-25 times.

- Application decisions should reflect a loan fund's track record in Main Street lending. One of our California members, a certified CDFI, whose investors have never lost a dime on its low income rental housing loans and bonds, described how they applied for, and were rejected by, the CDFI Fund: "It was the first time since our certification that we applied. We asked for $2 million to credit enhance a pool of seasoned multifamily loans. The market had shut down, we couldn't sell loans, we were running out of money ...100 percent of our loans are to low and very low income people … We could have leveraged that grant quite well."

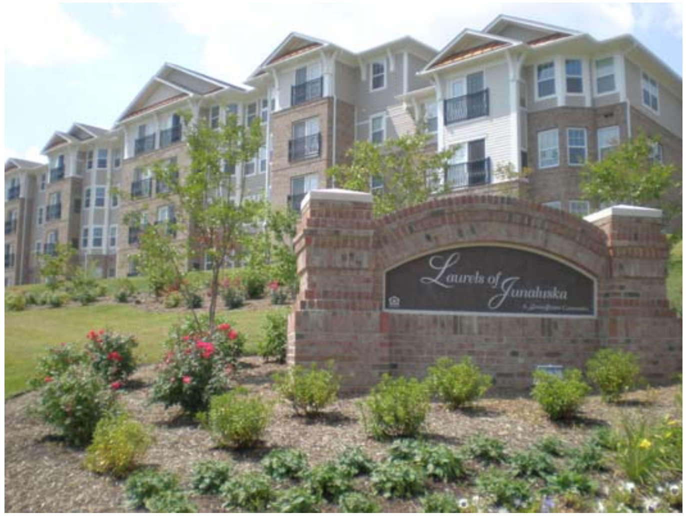
- CDFI applications are considered an art, not a science, with the result that consultants charge up to $30,000 to complete the forms. Unsuccessful applicants often complain that the Fund gives less consideration to a CDFI's actual track record than to the applicant's narrative. Substantive measures of success could reduce the perceived bias in funding decisions.

- The Fund could be a catalyst for affordable rental housing development in smaller markets by offering access to larger levels of loan capital (bonds, direct debt to the CDFI, grants), or by offering credit enhancement products that would provide access to additional capital markets.

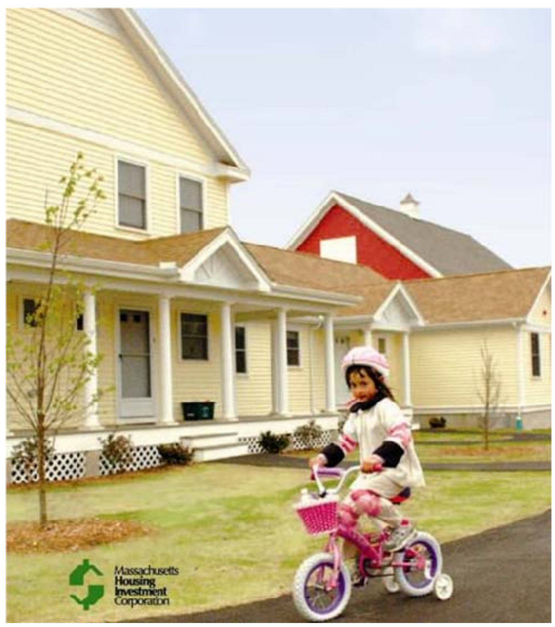
- Both CDFI and non-depository loan funds should be eligible for Federal funds.

- The Fund should allow applicants to match the Fund's grant with their own funds. Currently, the Fund only allows applicants to use "retained earnings" as a match, but just from the previous year.

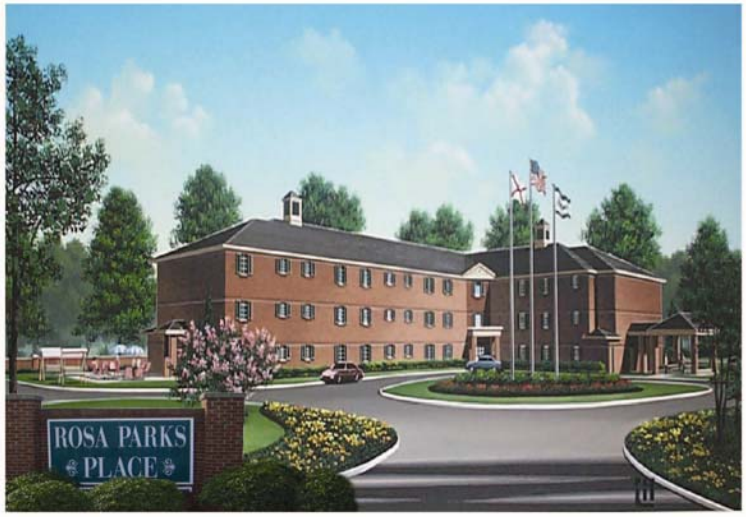
We appreciate your strong interest in increasing loan availability on Main Street, and look forward to supporting your efforts.



Community Investment Corporation of the Carolinas



Massachusetts Housing Investment Corporation



Alabama Multifamily Loan Consortium