TESTIMONY OF
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ON BEHALF OF THE

**NATIONAL MULTI HOUSING COUNCIL/
NATIONAL APARTMENT ASSOCIATION**

JOINT LEGISLATIVE PROGRAM

BEFORE THE

HOUSE COMMITTEE ON FINANCIAL SERVICES

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

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Chairman Ney, Ranking Member Waters, and distinguished Members of this Subcommittee, my name is Deane Dolben. I am president of the Dolben Company, which operates approximately 8,000 apartments in Massachusetts, Maryland, Michigan, New Hampshire, Rhode Island and Virginia. I am also the 2004 president of the National Apartment Association and a director of the National Multi Housing Council. It is my pleasure to testify today on behalf of the National Multi Housing Council (NMHC) and the National Apartment Association (NAA).

Together, NMHC and NAA represent the nation's leading apartment firms. Our members are engaged in all aspects of the apartment industry, including ownership, development, management, and finance. NMHC represents the principal officers of the apartment industry's largest and most prominent firms. NAA is the largest national federation of 164 state and local apartment associations representing more than 30,000 professionals who own and manage more than 4.9 million apartments. Our two independent organizations operate a joint legislative program in order to provide a unified voice for America's rental housing industry.

NMHC and NAA commend you, Chairman Ney, for your leadership, and we thank the Members of the Subcommittee for your valuable work addressing the important issue of housing in America. You may wonder why two rental housing organizations are testifying on a bill to create zero-downpayment mortgages for homeownership. We are here not to argue against homeownership. But we are here to point out that it is shortsighted—indeed dangerously misguided—to attempt to solve all of our nation's housing problems on the back of homeownership alone.

This year we have seen a tremendous proliferation of private and public sector initiatives to push low- and moderate-income families into homeownership. We are not here to suggest that the U.S. should stop supporting or subsidizing homeownership. In fact, a great number of our firms offer their residents "rent to own" assistance to help them buy their first house. But we do believe that time has come to ask whether a "homeownership above all else and at any cost" policy is wise.

We believe that three key facts have been overlooked as the homeownership bandwagon has gained steam.

1. Not everyone has the means to own a house.
2. Trying to create a nation of homeowners will ultimately harm not only many of those owners, but also our local communities.
3. Not everyone wants to own a house.

Before I explain our concerns with this and other recent homeownership proposals, I want to first dispel the notion that our objections are based solely on the apartment sector's fears that they will lose apartment residents and rental revenue if more households are given the opportunity to become owners. The truth is that more homeowners do not necessarily mean fewer apartment renters. Thanks to projected population growth, continuing strong immigration, and a dramatic increase in the number of single-person households, even if all of the proposed homeownership initiatives are implemented, there will still be enough new renters to fill the expected inventory of rental apartments. According to Harvard University, even if the homeownership rate rose by three percentage points over the current decade—a possible, but unlikely, scenario—the number of apartment renters would still rise by between one million and six million.

In other words, when it comes to market share and profitability, housing is not a zero-sum game. However, the federal budget **is** a zero-sum game. Every dollar allocated to homeownership incentives is a dollar taken away from other housing programs. And homeownership, while worthy, is not the best tool to solve our most pressing housing needs. After nearly two years of study, the Congressionally chartered Millennial Housing Commission reported to Congress in May 2002 that expanding the supply of affordable rental housing should be our nation's top priority. The Commission concluded

that homeownership alone cannot solve suburban sprawl, urban decline, the affordable housing shortage or the need to house our aging citizens.

There is a growing and dangerous disconnect between our housing policy and our housing needs. The U.S. will "spend" $393 billion on the mortgage interest deduction over the next five years, but just $37 billion on the one federal program, the low-income housing tax credit, that supports the production of more affordable rental housing.

NOT EVERYONE HAS THE MEANS TO OWN A HOUSE

The pursuit of homeownership is a worthy goal, but we must be careful not to oversell homeownership. Many families never question whether buying a house is a path to financial security. They just assume it is, especially when the federal government is the one telling them they should buy a house. But for too many households, the joys of homeownership have turned into an agony of onerous and unsustainable debt that harms their financial future.

We do hard working families a grave disservice when we encourage them to buy homes they are not likely to be able to maintain or keep. Evidence suggests that we may already be pushing the homeownership envelope too far. Foreclosures of conventional loans are near record-level, and FHA foreclosures are at their highest level ever and are still climbing. The National Housing Conference reports that 51 percent of working families with critical housing needs are owners, not renters. And, HUD reports that the only group whose housing conditions worsened between 1999 and 2001 were low- and moderate-income owners. While the number of renters with critical housing needs remained essentially unchanged during that period, we added one million new homeowners with incomes below 80 percent of the area median income who are paying more than 50 percent of their income on housing. This nine percent jump brings the total of such households to 14.5 million.

Low- and zero-downpayment loans, in particular, are putting households at higher risk for default. Zero-downpayment mortgages failed miserably in the 1980's when tens of thousands of financially troubled mortgage holders had no recourse but to abandon their house and mail the keys back to their lender. Yet here we are, once again debating the merits of zero-downpayment loans.

A growing number of households have put up only a few hundred dollars to buy an older house that is more expensive to maintain and is located in a neighborhood where wealth accumulation is not likely. With no cash reserves, many are one paycheck away from financial disaster if their incomes decline, their house values fall or expensive repairs are required. A recent University of North Carolina study found that almost half of low-income home buyers experienced major unexpected costs associated with their homes—largely as a result of the age and condition of the housing affordable to them.

Highly leveraged buyers are at risk for owing more on their house than their houses are worth. If prices in their neighborhood fall three to five percent in the first five years they own their house, and they have to move for personal or financial reasons, these cash-poor families will have to come up with 10 percent of their home's value in order to pay off their mortgage.

Since lower-income households are more likely to suffer job losses **and** are more likely to live in neighborhoods with declining house prices, homeownership can actually trap them in distressed neighborhoods, especially if they do not have enough equity in their homes to simply return the keys to the lender when homeownership becomes unsustainable.

Beyond the emotional damage caused by foreclosure, rising foreclosures create economic costs too. A 1995 study estimated that the average family loses $7,200 through foreclosure. They also damage their credit rating, which makes it more difficult for them to buy, or even rent, another dwelling. Rising foreclosures also create economic costs. Foreclosure affects more than just the family who loses

their house. It creates losses for lenders, loan servicers, mortgage insurers, the GSEs, and the city, county or township. One research report says total losses to all stakeholders conservatively average $73,300 per foreclosed FHA-insured loans and $26,600 for foreclosed conventional loans.

These facts make it clear that it is essential that proposed homeownership initiatives include strong and substantial counseling and education provisions to educate consumers about the considerable responsibilities that accompany successful homeownership. No one is born a successful homeowner. To be a successful first-time homeowner, an individual should understand all the factors that go into purchasing and owning a home—especially all the financial considerations. We urge the Committee not to pursue this legislation until sufficient research has been done to verify that adequate counseling resources are included.

TOO MUCH HOMEOWNERSHIP IS NOT GOOD FOR LOCAL COMMUNITIES

Rental housing may not be as strong a political message as homeownership, but the plain fact is that this nation needs apartments in order to meet our housing needs. We need them for the 73 million Echo Boomers who are already graduating from college and looking for housing. We need them for the estimated 13 million immigrants who will come to this country in the next 10 years, looking for a place to start their new lives. We need them for the millions of hard working families who are paying more than half their income for shelter or living in substandard housing. We need them to help house the nation's nearly 74 million Baby Boomers as they age and can no longer take care of themselves.

Pushing the homeownership envelope too far can actually backfire and seriously damage the economic health of our communities. While homeownership can play a role in stabilizing neighborhoods, it can only do so if new homeowners are successful. If new owners cannot afford to maintain their homes, as is the case with many low-income households, nearby property values will fall. One study estimates that that average sales prices fall $788 for each 1 percent increase in tax delinquencies in a one- to two-block area of residence. If families default and abandon their houses, then cities, counties, towns and school districts also lose tax revenue and incur higher costs associated with vandalism and other social problems. One researcher estimated that cities spend, on average, $27,000 per FHA foreclosure. Instead of improving conditions for residents, ownership can actually trap families in bad neighborhoods, particularly highly leveraged buyers.

In Philadelphia, a group of city officials, advocacy groups and the sheriff asked a judge to suspend the city's foreclosure auctions because they believe too many families are having their mortgages foreclosed. The director of the Philadelphia Unemployment Project said "This is the worst time for foreclosures basically since the Great Depression."

America's communities have learned the hard way that they need more apartments. Towns without sufficient rental housing forego valuable consumer spending and discourage businesses from expanding or relocating there because they cannot house prospective workers. To give one example, one study found that the Minneapolis-Saint Paul region forgoes an estimated $265 million per year in consumer spending and business income because it lacks sufficient housing for essential employees.

Towns need apartments to help revitalize distressed neighborhoods. The biggest housing success story of the last decade is the downtown revivals taking place from Philadelphia to San Jose. Decaying and abandoned city centers are being transformed into dynamic neighborhoods with new restaurants, shops and cultural attractions. These stories owe their success not to new homeownership initiatives, but to apartment developers who took a chance and created new housing downtown.

Towns also need apartments to accommodate population growth without adding to the nation's pollution and traffic congestion. Apartments concentrate development and conserve resources. By contrast, our homeownership initiatives only push development farther and farther out, creating costs for

towns when they have to extend roads, water and sewer to new developments and find ways to offer police, fire and social services over a wider geographic area.

NOT EVERYONE WANTS TO OWN A HOUSE

Not only does America need apartment homes, but a growing number of Americans **want** them. America's tagline may be "a nation of homeowners," but actually one-third of our citizens are renters, and 40 percent surveyed report that they prefer to rent, even though they could afford to buy.

Apartments are no longer the housing of last resort. As American lifestyles have gotten busier, young professionals and empty nesters who could afford to buy are choosing to rent instead. They want the conveniences, amenities, shorter commutes and financial freedom that renting provides. Yet, for some reason, policy makers keep trying to push them into homeownership. This seems irresponsible; especially when research shows that half of all owners could have saved money by renting comparable housing.

The popularity of rental housing will intensify in the coming years as the groups most likely to prefer renting come to dominate our population. By 2020, singles and unrelated individuals living together will comprise one out of every three households. And 73 million Echo Boomers are getting ready to enter the housing market, typically first as renters.

Why do so many policy makers want Americans to own houses even when the households themselves have indicated that they prefer to rent? Often it is because they believe that apartment residents are second-class citizens who cause property values to decline and crime rates to increase. But this is a throwback to the housing projects and tenements of an era gone by, especially now that the fastest growing segment of the apartment sector is households making $50,000 or more. A Harvard University study found that average house values were the highest in working communities—which it defined as neighborhoods in which residents earn between 60 and 100 percent of the area-wide median income—with the **most** multifamily units. They also report that between 1970 and 2000, home values increased in high multifamily working communities in each of the largest 42 metro areas.

CONCLUSION

NMHC/NAA applaud that you recognize the need for safe, decent and affordable housing, but it is time to realize homeownership is not for everyone and it isn't a cure-all. We have real housing problems we need to solve, and we cannot solve them exclusively on the back of homeownership. We need more quality housing and a more balanced housing policy. The zero-downpayment initiative proposed in H.R. 3755 threatens to harm the very citizens it aims to help and to damage the economic viability of some of our communities. The idea that too much homeownership is a bad thing may not be conventional wisdom. But the facts make it clear that it is true.

NMHC/NAA urge Congress to consider all the impacts that a zero-downpayment program would have on society. Homeownership can be fantastic, but our nation's housing policy should not be so lopsided that people who are otherwise ill-equipped for homeownership are lured there only to regret it when the mortgage payments and repairs bills come due. In addition, we urge Congress to include strong and substantial counseling and education provisions to educate consumers about the considerable responsibilities that accompany successful homeownership.

The time has come to create a new housing paradigm and to begin to focus our limited resources on those programs that can serve the most families dealing with critical housing needs.

Thank you for the opportunity to testify today.