STATEMENT BY

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ON BEHALF OF

THE NATIONAL ASSOCIATION OF HOME BUILDERS

ON

H.R. 3995
Housing Affordability for America Act of 2002

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Introduction

On behalf of the 205,000 members of the National Association of Home Builders, I want to thank you for inviting us to speak on some of the important provisions of the Housing Affordability for America Act of 2002. My name is Robert Lawson, and I am a builder from Virginia Beach, Virginia, and President of The Lawson Companies. For almost thirty years, our company has been active in the financing, development, and management of affordable and market-rate single- and multifamily housing. We have a portfolio of 4,000 apartments, 30 limited partnerships, and undertake about $10 million of construction and development activity annually.

Let me begin by saying that NAHB applauds Chairwoman Roukema and Chairman Oxley for introducing the first major housing bill in many years. We appreciate your willingness to address so many important housing issues in this bill, which will benefit low- and moderate-income households and make the process of providing affordable housing more effective and more efficient.

We have been asked to comment on Title I of the bill, the HOME Investment Partnerships program, specifically the Affordable Housing Production and Preservation Program provision, as well as on the Thrifty Production Vouchers in Title IV.

The HOME Affordable Housing Production and Preservation Program

NAHB is very supportive of the HOME program. It is an important and flexible block grant that state and local governments use to address their locally identified affordable housing needs. HOME funds are an important source of gap financing for developers using tax-exempt bonds, low income housing tax credits and other affordable housing financing. According to an August 2001 report prepared by Abt Associates for the U.S. Department of Housing and Urban Development (HUD), since its inception and as of April 2001, the HOME program has assisted over 586,750 units, of which 252,983 are rental units. The report states that the HOME program goal of serving very-low income households is being met -- 80 percent of all households in HOME units had incomes at or below 50 percent of the area median, with 47 percent of those households having incomes at or below 30 percent of area median income. We believe that this excellent track record is due, in large part, to the fact that participating jurisdictions have the flexibility to use HOME funds to meet their specific housing needs, which can vary considerably.

Under Title 1, Section 101, a new affordable housing production and preservation program would be created under HOME. The program would provide loans and grants for the production or preservation of existing affordable housing for very-low and extremely low-income households. Funds would be allocated to localities and states by formula, and matching funds would be required (with waivers for poor and rural areas). The program would be funded with unobligated balances of recaptured Section 8 funds.

The proposed program is not substantially different from the existing HOME program, and in fact, participating jurisdictions can already target their funds to low- and extremely low-income households as needed in their community. The HOME production program would likely be used primarily as gap financing, as it is currently, because of the considerable capital cost related to serving very-low and extremely low-income households.

While we appreciate that a source of funding outside the annual HOME appropriation is identified, that is, recaptured unobligated section 8 funds, we question whether that source of money will provide an adequate and stable level of funding to meet the program's goal of dramatically increasing production for very-low and extremely low-income households, particularly as HUD improves the utilization rate of vouchers and reduces the amount of unobligated funds. If funding for the new program became problematic, there could be a temptation to require participating jurisdictions to set aside regular HOME funds for these purposes. NAHB opposes the establishment of set-asides that would restrict the flexibility now enjoyed by participating jurisdictions in how they use their funds.

In addition, the new program does not attempt to address a number of significant issues that have been recognized as important to the success of sustainable affordable housing, that is: addressing long-term affordability for residents; ensuring the physical and financial health of the property by providing incentives to owners to stay in the program; providing adequate capital for future rehabilitation needs; and ensuring the preservation of the housing over the long-term.

We believe it is worthwhile to consider a different approach, because despite the nation's general prosperity, there continues to be a critical shortage of affordable rental housing for both low- and moderate-income households. Two recent reports, one by the Center for Housing Policy, "Paycheck to Paycheck: Working Families and the Cost of Housing in America," and the second, the Joint Center for Housing Studies of Harvard University's The State of the Nation's Housing Annual Report 2001, have extensively documented the growing problem of meeting the housing needs of 3.7 million households who are the "working poor." The Center is focusing on this group because there are signs of persistent and worsening housing affordability for them in all parts of the country, including cities, suburbs and rural areas, despite the recent economic prosperity.

NAHB believes that the establishment of a new rental housing production program that produces 60,000 to 70,000 units annually should be a top housing priority for the Administration and Congress in the coming year. As described in the reports, there is a need for a new multifamily rental housing production program that would meet the affordable housing needs of households with incomes between 60 and 100 percent of area median income (AMI), America's "working poor." These households are not eligible for housing assistance through most current federal housing programs.

NAHB has developed a different approach. Our program is designed to produce mixed-income housing, which has proven to provide greater financial stability and community acceptance than developments that concentrate very-low and low-income households. The program focuses primarily on the working poor, with a portion of each property (up to 25 percent) reserved for very-low and extremely low-income households.

Although there are several ways in which this program could work, our proposal relies primarily on the low interest rates available through Ginnie Mae-guaranteed lower floater securities, which carry very low rates of interest (currently less than 4 percent). The securities could be issued by a variety of entities, including developers, private lenders, housing finance agencies, and local governments. Ginnie Mae would guarantee the timely payment of principal and interest to investors, which would further lower financing costs. Underlying loans could be backed by the Federal Housing Administration (FHA) or the Rural Housing Service (RHS), or could be conventional loans (use of the latter would require a change in Ginnie Mae's charter).

Interest rate subsidies or buy-downs could be employed to achieve additional affordability. To further reduce debt coverage requirements, developers may also use sources of equity and soft-second debt such as tax credits, HOME, the Federal Home Loan Bank System's Affordable Housing Program and state housing trust funds.

The only federal budget dollars required would be for any credit subsidy needed for Ginnie Mae's participation, interest rate subsidies or buy-downs, and a marginal increase in the cost of rental assistance vouchers. The program would require only a small amount of federal government subsidy per development and would provide for ongoing maintenance and future capital improvements by building in adequate reserves from monthly cash flow at a level sufficient to rehabilitate the development in year 20. A minor modification to the existing voucher program rent payment standard would ensure that very-low and extremely low-income households could be served. The program would work in all areas of the country, including urban and rural areas.

The program also provides incentives to owners through deferral of profits and by making the recognition of any gains contingent on property performance (both financial and physical) throughout the 40-year period that the units must be held in the affordable housing stock. There should be no exit tax on non-cash appreciation of the property when an owner sells the property. However, if the property is sold after 40 years, 50 percent of the equity appreciation should be returned to the federal government to produce additional affordable housing.

The program could be administered by state housing finance agencies, which already administer the tax credit program, HOME, CDBG and other housing loan and grant programs. Centralized administrative elements could be handled by HUD, which already performs similar functions for many of the programs listed above.

In looking at how a new production program might work, NAHB believes we need to tackle affordability problems at all income levels. We urge you to take a closer look at our proposal as you consider how a new program should be structured.

Title 1, Section 102

As for other provisions in Title 1, NAHB supports Section 102, which removes the fair market rents from rent level determinations under the HOME program. Under current law, HOME rents are established by the section 8 Fair Market Rent (FMR) formula. In certain counties, the FMR is too low to support the debt service, which impacts the financial feasibility of a development.

Title 1, Section 103

We also support Section 103, which would allow participating jurisdictions to base the HOME rent on the greater of the state or area median income.   Our members, especially in rural areas, report that this has been a difficult problem because rents often are too low to cover the costs of developing and operating the affordable housing.

Title IV, Section 401, Thrifty Production Vouchers

Finally, we would like to comment on Section 401 of Title IV, the Thrifty Production Vouchers. These vouchers would be project-based with rents set at an amount equal to the sum of the per unit operating cost for the property, plus applicable utility allowances for tenant-paid utilities. However, rents may not exceed 75 percent of a public housing agency's payment standard or fair market rent for a similar unit. Projects in qualified census tracts (as defined in section 42(d) of the Interval Revenue Code) are limited to having 25 percent of the units using thrifty vouchers. The thrifty vouchers must serve extremely low-income households, that is, below 30 percent of AMI.   Owners must commit to the program for a total of 40 years; after an initial 15-year term, they must accept offers of renewal for up to 40 years.

We believe an important objective in the design of new programs should be to simply the process of developing, financing and managing affordable housing. The thrifty voucher program would add yet another layer of rules and regulations to an already complex voucher program. Local housing authorities would need to take on additional administrative responsibilities for which they have little experience, such as reviewing operating expense budgets and determining appropriate rent increases.

In addition, although we understand the desire to find less expensive ways of providing rental assistance, the effect of the thrifty voucher program could be to increase the rental burden on residents. In an effort to make the thrifty vouchers work, housing authorities could set rents higher than operating costs but keep the payment standard at operating costs, thus burdening the residents with higher contributions towards rent.

If the rent burden to residents were not increased, developers may be forced to find additional sources of capital to compensate for the financial gap. Currently, there are few sources of gap financing, HOME and the Federal Home Loan Banks' Affordable Housing Program (AHP) being the principal sources, both of which are significantly oversubscribed. In rural areas, the thrifty voucher is not likely to work because at 30 percent of area median income, rents cannot cover operating expenses and capital costs
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NAHB would like to see a greater portion of the existing vouchers project-based, but we believe the existing program is already being used to serve extremely low-income families without substantially increasing the rent burden on residents or forcing developers to add yet more layers of financing to already complex deals.

Conclusion

We would like to thank you again for giving us the opportunity to speak at the hearing today. The Housing Affordability for America Act is a significant bill that contains many needed improvements to existing programs, as well as new ideas and approaches to solving the country's affordable housing crisis. We look forward to working with you as the bill progresses and to testifying on other important provisions it contains.