HOUSING AFFORDABILITY AND AVAILABILITY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

MAY 3, 22; JUNE 21; JULY 17, 2001

Printed for the use of the Committee on Financial Services

Serial No. 107–14

U.S. GOVERNMENT PRINTING OFFICE

72–406 PS WASHINGTON : 2001

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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HOUSING AFFORDABILITY AND AVAILABILITY

THURSDAY, MAY 3, 2001

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to call, at 9:35 a.m., in room 2128, Rayburn House Office Building, Hon. Marge Roukema, [chairwoman of the subcommittee], Hon. Mark Green, [vice chairman of the subcommittee], and Hon. Sue W. Kelly, presiding.

Present: Chairwoman Roukema; Representatives Green, Kelly, Ney, Miller, Cantor, Grucci, Frank, Carson, Lee, Schakowsky, Jones, Capuano, Waters, Sanders and Watt.

Mr. GREEN. [Presiding.] At least for the next few minutes, I am Marge Roukema, the Chairman of the Housing Committee. Our Chairwoman will be delayed slightly. She is in a mark-up right now in the Committee on Education and the Work Force. I understand it is her amendment that is up, and she will be there obviously for the conclusion of that, and then she will be joining us I believe shortly.

In my capacity as Vice Chair of this subcommittee, she asked that I begin the hearing on time so that the Members and witnesses will have an ample opportunity to discuss this very important issue of housing affordability.

Today is merely the first in a series of hearings that will take place on this complex issue of affordable housing. Mrs. Roukema and I and many others in this subcommittee have expressed our desire to have hearings that would allow a variety of viewpoints, observations and suggested approaches and solutions to our housing crisis.

It is no secret that some of our most needy families, typically defined as earning 30 percent or less of an area median income, have the most difficult time finding suitable and affordable housing.

I am alarmed, as I am sure many others are here today, at some of the statistics that we have seen in today's testimony. More than 220,000 teachers, police, and public safety officers across the country currently spend more than half of their income for housing; 13.7 million Americans pay more than half their incomes for housing or still live in sub-standard housing.

These are just a few of the statistics that I personally find alarming. We are very fortunate today to have a number of distinguished experts in the field of housing as witnesses. Their testimony will begin to outline the problem among various income sectors, and lay out some of the perceived causes.

Additionally, issues such as local barriers to development that increase the cost of housing and other factors affecting the supply of housing will be explored.

I also hope to hear testimony on the role of HUD's multi-family housing programs in providing affordable housing.

On a personal note, at the State legislature back in Wisconsin, I worked in housing issues and was instrumental in enacting a State statute to require a review of policies and legislation that affects the cost and supply of housing.

I am very interested in the testimony today that proposes a housing impact statement for Federal regulations. I think it is a first step in addressing the issue of affordable housing.

At this time, the Chair would recognize Mr. Frank, Ranking Minority Member, for an opening statement.

Mr. FRANK. Thank you, Mr. Chairman.

We face a very serious crisis in housing in much of the country. It is one of those issues which, because of the physical nature varies, to some extent, from region to region.

And there are, I am sure, regions where existing housing programs make a very useful addition to the goal of helping people find housing affordably.

But in much of the country, market forces have had the effect of driving up housing prices. The housing area is probably the best example of the inadequacy of the notion that the rising tide, which is supposed to lift all boats, can't be trusted as the way to deal with our social problems.

Some people can't afford boats. And the rising tide is not good news for them. In fact, it is not only that some people are not helped by the rising tide, they are damaged by it.

If you are standing on tiptoes in the water, the rising tide is not good news. And that is what has happened. I represent an area, the Greater Boston area, where the combination of globalization, deregulation, technological change, have had wonderful economic effects.

Much of the Greater Boston area, the wide Greater Boston area is prospering as a result of these trends, but not everybody in the region prospers. And what happens is that the general prosperity from which most people benefit drives up the price of housing.

And those who are not direct beneficiaries are not only left out of the general increase, they are worse off. We have had a problem.

The Ranking Member of the Full Committee and I and others on the Republican side joined last year in the House, to try to make some special provision for teachers, police officers, firefighters.

People said "Well, why should they get special provisions in terms of the eligibility requirements for the Federal Housing Administration?" The answer is that in many municipalities, certainly in the part of the country that I represent, these employees are, by local ordinance, required to live in the city where they work, but they can't afford to live there.

That is why we singled them out. There are teachers and firefighters and police officers who have not benefited from the general prosperity, and in fact, where you have high housing costs and a very tight supply of housing, the voucher program has two effects.

One, it does add to equity. There is no question. People who were too poor are now allowed to get into the mix to some extent.

But it has another effect. The voucher program is, as a result of the actions of this Congress, very strictly a year-by-year program with the exception of those efforts where we are taking care of expiring use contracts where there are prior commitments.

Any new voucher comes with only an annual requirement. No one builds housing, no one gets a loan to build housing based on an annual stipend. Any bank which gave a developer a loan, based on a series of 1-year Section 8s, with no assurance whatsoever of renewal, would probably be up before another one of our subcommittees for improvident lending.

So what we have done is this: We have added to the demand for housing through the voucher program, but in a way that is very, very unlikely to add to the supply.

And the free market economic answer is very simple; we raise the price.

So the voucher program has both the good effect of adding equity, but the negative effect of raising price. In some parts of the country, that may not be a problem. In parts of the country where there is relatively slack demand for housing—and I don't think there are too many of those—it will have less of an impact.

In the parts of the country where there is a very, very tight situation, where housing demand already has pushed prices up because it has outpaced supply and demand has increased in a number of ways, and one of the ways demand is increased is, when the incomes of a certain sector of the population go up, they can bid up the price. Their capacity has gone up.

What we do is we exacerbate the situation to some extent. So I think it is absolutely essential that we begin to get into a housing production program.

I think the results of an objective study would be very clear. That the voucher program is a useful but hardly a sufficient nationwide solution to the problem of affordability.

Indeed, there is one production program that is still going on, other than the limited one for housing for the elderly, and that is the Low Income Housing Tax Credit, one which this subcommittee does not have jurisdiction over.

And that is a very popular program. The popularity of the Housing Tax Credit, the demand we are getting here from States to increase the allocation of tax credits, demonstrates, I think, the importance of a housing production program.

So that is what I will be making my goal, and I think the goal of many of us on our side, namely, to make it clear that we need, at least in parts of the country, a housing production program and to move forward to shape one.

Thank you, Mr. Chairman.

Mr. GREEN. I thank the gentleman for his thoughtful comments. I think there is much that we can work on together to meet these challenges.

Without objection, all Members' opening statements will be made part of the record. Hearing no objections, it is ordered.

I would turn at this time, to the gentleman from California, Mr. Miller, for any opening remarks that he might have.

Mr. MILLER. Yes. Thank you very much, Mr. Chairman.

Mr. Frank said many things that I have to agree with, and that is dealing with market forces driving up housing costs, and dealing with the rising tide, those who are not helped by that, and the concept of prosperity drives up the cost of housing. Teachers and firefighters and law enforcement agencies are not living in their local communities.

But I think the point at which we disagree and where we go in different directions is that what we do in Government, especially with vouchers and Section 8, is we see a sore on an individual and we place a bandage over that sore, rather than determining what caused the sore.

I have been a developer for over 30 years, and Government housing is a very, very small part of the overall marketplace. And when you are dealing with market forces, and what causes housing prices to increase by market forces, it is not what we think it might be; it is Government regulations and red tape in many cases that drives up those costs, and impact the overall marketplace.

When you have a community that is providing housing, new housing costs directly impact the cost of resales. Whatever a new home is selling for in an area, you will notice that in the community around it, their housing prices tend to move up into the same price range and price bracket of those new homes that are being sold.

And when you consider the outrageous costs of housing, due to the Government costs imposed upon contractors and builders, those Government-related costs have a direct impact on the affordability of the market overall.

And when we are talking about a rising tide, the tide is rising because of the heavy weight of Government at the bottom end causing it to rise. For example, if you take a glass of water and you drop a bucket of ice in it, the water in that glass is going to rise.

The ice in this example is the cost of Government. Yet, Government provides options for itself that it does not guarantee for the private sector. As an example, you can have a piece of property in the community that can be denied the right to develop under local ordinance and local criteria. Yet, that individual property owner can make application to the U.S. Department of Housing and Urban Development to build a HUD project.

That means you are going to rent or sell to the low-income levels that meet HUD criteria. In HUD, the Federal Government has the authority to usurp local control and they can actually permit a project that has been denied locally, and they will even inspect the project, certify the project, and issue occupancies on the project.

And yet, when we try to look at it legally and say we need to provide some nexus between the cost of Government and the service that is supposed to be provided based on the fees being charged to the developer, we all say, well that is a local issue, we should not get involved in local issues. But, yet, through HUD, we do get involved in local issues.

The problem with housing affordability, if you are trying to provide entry level housing that is affordable, is that it is impossible to do if the market forces keep driving up the overall cost of housing in other areas.

I mean, you could have an individual move into a low-income house, and never be able to move out of that, because the price of the next home up is so great. This example, due to the cost of legality dealing with such States as California, Arizona, and Nevada, it is impossible to build attached housing anymore.

In California, for the last 10 years, you have seen an absolute exit of condominiums and town homes, because tort reform is so out of control that if you build a condominium or town home, you are going to end up in court, no doubt about it.

And those entry level houses that we should otherwise be providing by building condominiums and townhomes are not being provided and thereby we are creating, in and of itself, a housing shortage.

We want to deal with vouchers, we want to deal with HUD programs that are Section 8, yet we are unwilling to deal with the base problem that is causing the housing shortage and the crisis in housing affordability in this country, which is Government regulation and the concept of property rights having been thrown out the window. For example, people buy a piece of property and they are unsure whether they can even develop that piece of property.

I agree with Mr. Frank. We need to deal with the problem and we need to deal with it outside of Government.

Mr. GREEN. Mr. Miller, if you would sum up, please. Thank you, Mr. Miller. Thank you for your comments.

The Chair, at this time, would recognize Ms. Carson, for any opening comments that she might have.

Ms. CARSON. Yes, thank you very much, Mr. Chairman.

In the absence of the Chairman in terms of giving us an opportunity to explore ways that perhaps we can impact the growing demand for affordable housing among American citizens, I think added to that, it would be wise if the subcommittee could probably examine ways in which this crisis has been accommodated in some parts of the country, in terms of whether there are self-help opportunities where persons attempting to acquire homes can use a little sweat equity in terms of obtaining homeownership, and whether hopefully this subcommittee would be willing to underscore, in a bipartisan way, the need for the policymakers at our level of Government would underscore the need for the continuation of supportive type vouchers and supplements to enable to assist families live in affordable and decent housing.

Of course, the challenges are myriad, and I am sure that as time goes on, we are going to have to raise a cry on behalf of the many families in America who seek housing opportunities, both purchase and rental.

I know as a Member of Congress, Mr. Chairman, I am finding it increasingly difficult to afford rental housing right here in Washington, DC., and I have a fairly decent salary that far outpaces that of Americans across this country. And for Members of Congress not to be able to afford rental property here in the Washington, DC. area, I mean, gives rise to the belief that there is, in fact, a problem that we need to be addressing.

Thank you very much.

Mr. GREEN. Thank you.

The Chair at this time, would recognize Mr. Nye for any opening comments he might have.

There is none at this time.

And the Chair then turns to Ms. Jones, please, for any comments she wishes to make.

Ms. JONES. Good morning, Mr. Chairman, Members of the subcommittee. I am glad to be here to discuss the issue of housing affordability. For me, housing is probably one of the most important issues that people in our communities across this country face, and they have different issues based on their geographical or regional areas.

Coming up next week, the Congressional Black Caucus Foundation will be hosting a housing summit in New York. Last year we hosted one in Oakland, the year before, North Carolina.

And each of the areas that we go to present different issues for housing affordability. I hope that through the speakers that we will have this morning, they will give us different information to help us continue to set the policy that will be important for developing affordable housing across this country.

One of the things I would ask them to do is to present matters that might help us think outside the box. Because many times, when we start talking about housing, we think of traditional ways of providing housing for folks.

I was talking with my colleague, Marcy Kaptur the other day, and we began to discuss the import of housing, how it affects children going to public schools and how the transition of people moving from place to place may cause students not to perform appropriately when they move from one school system to another.

And maybe what we need to consider, in the course of dealing with housing, is the possibility of vouchers to families to get them to stay in a location to allow their children to complete a year in one school system, rather than moving around and around.

I appreciate the opportunity to be a part of this hearing, Mr. Chairman, and look forward to the statements of the various witnesses who will present this morning.

Thank you.

Mr. GREEN. For further opening statements the Chair at this time would recognize Mr. Watt, if he would have any opening comments?

[No response.]

Mr. GREEN. Thank you.

At this point, the Chair would ask unanimous consent to submit for the hearing, statements that have been submitted by three organizations: The National Leased Housing Association; The National Affordable Housing Management Association; and The National Association of Realtors.

Seeing no objections, it is done.

[The materials referred to can be found on page 295 in the appendix.]

Mr. GREEN. At this point, we will move to our first panel of witness.

Panel 1 has Ms. Kathy Nelson, an economist with the U.S. Department of Housing and Urban Development; Mr. Robert Reid, Executive Director of the National Housing Conference; Ms. Sheila Crowley, President of the National Low Income Housing Coalition; and Mr. Michael Rubinger, President and CEO, Local Initiatives Support Corporation.

Ms. Nelson, would you care to begin, please?

STATEMENT OF KATHRYN P. NELSON, ECONOMIST, OFFICE OF POLICY DEVELOPMENT AND RESEARCH, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. NELSON. Thank you. I am delighted to be here.

I am going to summarize the three main conclusions of my written testimony in six charts. If somebody could put the charts up, please.

Basically, I am here because I spoke on the same panel as Clinton Jones, and he asked me to basically repeat the testimony I gave then before the National League of Cities.

The question they posed was, what do we know about shortages of affordable rental housing? As the press claims, are supplies affordable to low-income renters dwindling, and are shortages of affordable housing worsening? That is basically my question.

The six charts summarize my three main conclusions.

First, that during the 1990s, the number of units affordable to low-income, as is it usually defined for HUD rental assistance programs, actually increased. But the number of units affordable to extremely-low-income renters dropped.

Mr. FRANK. What is the percentage of median income that is low? I think it would help at the outset if you gave us what the numbers are for low- and extremely-low.

Ms. NELSON. Right. The first chart basically has four ranges of income that are all under the so-called low-income cutoff which is below 80 percent of area median income.

When I talk of "low " income, I am talking about incomes between 50 percent of median and 80 percent of median, and those are the two left-most bars on the chart. As you can see, numbers of units affordable to those incomes grew during the 1990s.

What I am talking about as "very low" is incomes below 50 percent of median. "Extremely-low" incomes are below 30 percent of median income.

When I say that the main loss was in units affordable to extremely-low-income renters, I am referring to the right-most bar there, where, as you see, there was a loss of almost a million units during the decade of the 1990s.

That is my first conclusion. I will go back to it in a minute, but I wanted to start off by summarizing my three main conclusions.

First, that losses in affordable units were for extremely-low-income renters, not for "low-income" renters.

Second, that the worst shortages of housing that are affordable to renters come among housing affordable to extremely-low-income renters, below 30 percent of median.

And third, that the extent of these shortages varies greatly around the United States.

As I said, my first chart is basically the basis for my first statement. You will see there that during the 1990s, the fastest growth, a gain of about 600,000 rental units came in the range between incomes of 50 percent of median and 65 percent of median.

This is the range for most housing supplied by HOME (HOME Investment Partnerships Program) and the Low Income Housing Tax Credit, which are our two major supply programs.

The two bars on the right show changes in housing affordable to very-low-income renters. As I said, it is for the housing affordable to extremely-low-income renters where there was the sharpest decrease in the 1990s.

Now if you could turn to the second chart. So far, I have just talked about changes in numbers of rental units. The issue is often phrased in terms of shortages, i.e., comparing numbers of units affordable below an income cutoff to the numbers of renters in that income group needing them.

And this chart summarizes shortages as the relationship of supply to demand below four different income cutoffs; 80 percent of area median income, 65 percent, 50 percent, and 30 percent of area median income.

As the two left bars show, below incomes of 80 percent of median income and 65 percent of median income, there were, on average, wide surpluses of affordable housing compared to renters. The chart shows the number of affordable units per 100 renters below an income cutoff.

For incomes of 80 percent of median and 65 percent of median across the United States, there were more than 140 units for every 100 renters below those income levels. So rather than a shortage, there was, at least technically as it is usually measured, extreme surpluses of housing.

This occurs in part because almost all rental housing stock—85 percent—is actually affordable to 80 percent of the median.

Mr. GREEN. Ms. Nelson, if you could wind your testimony up, we would appreciate it.

Ms. NELSON. OK.

Mr. GREEN. Thank you.

Ms. NELSON. The bar on the right shows that the only income range in which there is a shortage of affordable housing is for extremely-low-income, below 30 percent of median. In that income range, there are only three affordable units for every four renters needing them.

The next chart shows that extremely-low-income renters—on the left—are the income group most likely to have severe housing problems.

And the follow-up charts show that the shortage of housing affordable to those extremely-low-income renters has been worsening during the decade of the 1990s.

Thank you.

[The prepared statement of Kathryn P. Nelson can be found on page 206 in the appendix.]

Mr. GREEN. Thank you very much for your testimony.

Next we will turn to Mr. Robert Reid. Welcome.

STATEMENT OF ROBERT J. REID, EXECUTIVE DIRECTOR, NATIONAL HOUSING CONFERENCE AND THE CENTER FOR HOUSING POLICY

Mr. REID. Thank you, Mr. Chairman.

I am here representing both the National Housing Conference, commonly referred to as NHC, and its research affiliate, the Center for Housing Policy.

Last year, NHC released a study called "Housing America's Working Families." That study tested a simple premise——

Mr. GREEN. Excuse me, Mr. Reid. Could you pull the microphone a little bit closer to you?

Mr. REID. Yes. Thank you.

That study tested a simple premise that working families should have access to decent, affordable housing.

With the Chair's permission, I would like to submit a copy of that report for the record.

For most of the last 20 years, Federal housing policy has implicitly or explicitly linked the housing problems of American families to issues of poverty and welfare dependency.

In 1997, nearly 14 million families had a critical housing need. Either they spent more than 50 percent of their income for housing, or they lived in substandard housing.

By 1999, that figure had grown to over 15 million families. Twenty-two percent of those families, over three million households, are working families earning between the minimum wage, which is about $10,700 a year, and 120 percent of the area median income.

These working families defy the stereotypes that too often surround discussion of housing policy. Over half were homeowners. More than half lived in the suburbs. This group included police officers, firefighters, teachers, as well as service workers.

The number of working families with critical housing needs grew by 17 percent between 1995 and 1997, or about 440,000 households.

Between 1997 and 1999, the number of families grew another 500,000, or an additional 17 percent. So the problem continues to grow.

Now please don't misunderstand, this is not a zero sum game. NHC is advocating the need for more resources, not a reallocation of current meager resources.

Let me suggest some solutions.

Programs and tools that have proven records for producing and preserving affordable housing must be strengthened and provided with significant additional resources. Low Income Housing Tax Credits, private activity bonds, and HOME are proven winners.

Better use of other proven tools which can work in conjunction with the aforementioned programs, such project-based Section 8 vouchers would facilitate the expansion of mixed-income projects.

FHA must improve its programs, particularly multi-family. The Community Reinvestment Act must be preserved and appropriately strengthened. NHC supports stronger roles for the Government Sponsored Enterprises. Exit tax relief for owners of assisted properties would ensure preservation of valuable affordable housing stock.

We should make better use of the tax code for lower income homeowners.

NHC's recent publication "Expanding the Dream of Homeownership," examines various proposals for expanding access to affordable homeownership opportunities.

With the Chair's permission, I would like to submit a copy of this report for the record.

Mr. GREEN. Without objection.

Mr. REID. Ultimately, it is local taxing, planning, and zoning decisions that determine what is done or not done about affordable housing. We must fashion Federal incentives that will encourage communities to support the production and preservation of affordable housing.

In conclusion, this Nation faces unprecedented affordable housing shortages and challenges. Some would contend that current conditions rival those faced by this Nation's leaders over 50 years ago, when the landmark 1949 Housing Act was passed.

After 50 years, we know what works to produce and preserve affordable housing. We are not lacking in programs or expertise. What we are lacking is sufficient resources. What we are lacking is the will to meet this challenge head on.

Mr. Chairman, on April 2nd of this year, 20 of NHC's corporate and association members, who are key players in providing affordable housing in this Nation, and some of whom are testifying here today, sent a letter to you and your colleagues in the House and the Senate calling on the Congress and the Administration to provide the necessary resources and incentives to encourage expansion of the affordable housing supply.

With your permission, I would like to enter a copy of that letter in the record.

Mr. GREEN. Without objection.

Mr. REID. Thank you.

[The prepared statement of Robert J. Reid can be found on page 219 in the appendix.]

Mr. GREEN. Thank you for your testimony.

At this time, I would like to introduce and welcome Ms. Sheila Crowley.

STATEMENT OF SHEILA CROWLEY, PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION

Ms. CROWLEY. Thank you, Mr. Chairman. I am happy to be here today. Thanks very much for the invitation to come and talk about what the National Low Income Housing Coalition refers to as the problem of housing unaffordability.

Mr. GREEN. Please speak into the mike. I cannot hear you.

Ms. CROWLEY. Oh, OK.

The National Low Income Housing Coalition is dedicated solely to ending the affordable housing crisis in America, and we believe that this is a solvable problem.

We believe that Americans have the knowhow and the ingenuity to do this. It is simply a matter of putting the resources to work.

Housing policy can be unnecessarily complicated, but housing is quite straightforward. Everyone needs a basic, stable, safe, fair and clean place to live and the capacity to pay for it. Some may need additional services to assure stability. That is the social minimum.

In the absence of a national commitment to this standard, we think it is foolhardy to expect people to succeed as workers, as parents, as citizens, or as students, because without attending to the social minimum in housing, we undermine the potential to achieve other desired social objectives, and we undermine the foundation of our housing system.

The dimensions of the affordable housing crisis are well documented and widely known, and each of us today will offer our way of how we see the numbers, but at the end you will come to the same conclusions.

I would like to place in the record, if it is possible, a report from the National Low Income Housing Coalition called "Out of Reach."

Mr. GREEN. Without objection.

Ms. CROWLEY. This report documents the gap between income and housing costs in every jurisdiction in the country and is the source of what has become a much-cited refrain by housing advocates and by public officials and that is, there is no jurisdiction in the country where a full time minimum wage worker can afford to pay the fair market rent.

We examined a variable that we call the housing wage and that is what wage a full time worker must earn in order to afford the fair market rent.

In Sussex County, New Jersey, where Mrs. Roukema is from, the housing wage is $16.77 an hour. Looking at it another way, a household in Sussex County must bring in 130 hours of minimum wage work a week to afford a modest two-bedroom unit. That is the equivalent of 3.25 minimum wage jobs per household.

Mr. Green, in Green Bay, Wisconsin, the housing wage is $10.46 an hour and one must work 81 hours a week at minimum wage work to afford the fair market rent.

In Massachusetts, the housing wage is $18.83 an hour.

The most expensive region in the country is San Francisco, where the housing wage is $28.06 an hour.

I would like to add to Ms. Nelson's analysis about where the housing gap shortage is with a second analysis from the National Low Income Housing Coalition that I would also like to place in the record.

Mr. GREEN. Without objection.

[The information referred to can be found on page 243 in the appendix.]

Ms. CROWLEY. And these are from 1999 National Housing Survey Data, and they don't tell the story of every community because they are national data.

But here quickly we will run through it.

Of the 34 million renter households, 7.7 million have extremely-low-incomes. That is 30 percent of the area median or less, or in Sussex County, New Jersey, that is $22,000 a year.

In the aggregate, there are only 4.9 million units of rental housing that are affordable to these households, thus an absolute shortage of 2.8 million units.

However, only 2.3 million of these 4.9 million units are actually occupied by households within this range. The rest are occupied by higher income households. So therefore there is a shortage of 5.3 million units affordable for the poorest renter households.

Further, when we apply this analysis up the income scale, we find that we do not lack units of rental housing that are affordable for households in the upper tier of the definition of low-income, that is, 50 to 80 percent of area median, or $36,000 to $58,000 annually in Sussex County, New Jersey.

Indeed, there are 7.3 million renter households in the 50 to 80 percent of median income range, and 13.9 million units. Nonetheless, there is an overall shortage of units affordable to this income group of 1.2 million, again because half of the units affordable to them are occupied by people in other income groupings.

That is, either higher income households who pay much less than 30 percent of their income for their housing, or lower income households are paying a higher amount.

Mr. GREEN. Ms. Crowley, if we could ask you to sum up, please.

Ms. CROWLEY. OK. Investment in more housing that is affordable for the more prosperous, but nonetheless low-income households would expand the household supply but not alleviate the shortage of households at the lowest level.

However, if we expand housing for the lowest income households, we can expand it for everybody.

I would like to close by saying that the National Low Income Housing Coalition supports a multi-pronged housing strategy that includes increasing income, expanding housing vouchers, preservation of our existing housing stock, but also moving into the production of new housing.

And we support the establishment of the National Housing Trust Fund which would provide the resources to supply 1.5 million new units of housing for the lowest income people over the next 10 years.

Thank you, Mr. Chairman.

[The prepared statement of Sheila Crowley can be found on page 231 in the appendix.]

Mr. GREEN. Thank you very much for your testimony.

There is a vote on the floor, apparently a motion to adjourn has been called. Assuming it isn't successful, we will be back here.

Mr. FRANK. But if it is successful, Mr. Chairman, we can be back and be——

Mr. GREEN. That is true and perhaps serving refreshments. But I would ask Members to return as quickly as possible.

Mr. Rubinger, my apologies. We will pick up with your testimony at that point.

We stand in recess.

[Recess.]

Mr. GREEN. I thank everyone for their patience. Obviously, we have not adjourned, and we may have votes coming up. We are in recess subject to the call of the Chair. It is regarding the budget resolution, so we may get called out without warning.

I appreciate the patience of the panelists.

What I would like to do is resume the testimony of panel one, and at this time turn to Michael Rubinger for his testimony.

Mr. Rubinger, welcome.

STATEMENT OF MICHAEL RUBINGER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, THE LOCAL INITIATIVES SUPPORT CORPORATION

Mr. RUBINGER. Thank you very much, Mr. Chairman.

And I would like to thank both you and the Members of the subcommittee for inviting me here this morning.

I do head an organization called LISC—the Local Initiatives Support Corporation—and we are in the business fundamentally of assisting locally based, non-profit development organizations in their efforts to revitalize their neighborhoods. And we do that through a variety of ways of providing financial and technical resources.

Mr. FRANK. Mr. Rubinger, I think maybe you ought to push the mike away a little bit.

Mr. RUBINGER. Oh, OK. I am just trying to learn from experience. Obviously, I got it wrong.

I would like to make three points this morning. One you have already heard, and that is that America's housing shortage is getting worse.

Second, that affordable housing, while desirable in its own right, has also been very much the driver in a great deal of the rejuvenation of low-income communities that we have seen throughout the 1990s.

And third, the good news is that we do know how to expand the affordable housing supply. We just need to do more of what works.

For the past 20 years, we at LISC have been privileged to at least be a part of that solution. Over those two decades, LISC has provided $4 billion in private capital to Community Development Corporations, building over 110,000 affordable homes, 14 million square feet of commercial and community space of all kinds, and creating over 40,000 jobs.

Last year alone, we provided over $600 million to these locally based, non-profit organizations to develop nearly 10,000 affordable homes.

The result is that for the first time in a generation, in the community development world, we are not talking about anecdotes any more, not just about a successful project here, or a renovated block there, but rather the transformation of entire neighborhoods.

And the impact is clearly demonstrable in physical revitalization, and I am sure many of you have seen that in your own cities.

But in addition, the data shows clearly that crime is down, employment is up, property values are up, investment of all kinds, public and private, is up.

In community after community, there is a demonstrable improvement in the quality of life. And this, we believe, is a powerful story of hope and accomplishment. And affordable housing production has been very much at the core of that story.

And yet, ironically, as you have also heard, this hot economy has contributed to a growing housing crisis by driving up rents and sales prices.

The good news is, on the other hand, that the Federal budget surpluses make it possible to invest more in affordable housing.

And let me suggest three areas of possible recommended action.

First, we must preserve existing rental housing whose affordability is increasingly threatened. Federal subsidy contracts are expiring on well over a million privately owned apartments and many other affordable apartments are aging and need rehabilitation.

Preservation of existing stock needs to be a central priority at the Federal and State levels, as well as the local, in order to prevent displacement of long-term existing residents and the rolling back of so much progress over the past decade.

Second, we must produce more new housing to offset worsening shortages, rising rent and price inflation, and revitalize low-income communities.

Two programs that we believe have been particularly effective in this regard are the Low Income Housing Tax Credit and the Home Block Grant program, and we would recommend that both of those be expanded.

Taken together, they have very much been at the heart of this stunning neighborhood rebirth that I described earlier.

And third, we must expand homeownership and use it to build individual assets and strengthen low-income communities.

We therefore enthusiastically support the Bush Administration's proposal to create a new single-family housing tax credit modeled on the Low Income Housing Tax Credit for rental properties.

In short, during the past 10 years, America has learned an historic lesson about how to help communities build back up from abandonment, neglect, underinvestment, and decay. At the center of that process has been the production of high quality, affordable housing.

Today, we have both the opportunity and the responsibility to reinforce our commitment to developing and preserving affordable housing, both for its own sake and as a vehicle for bringing about broader community revitalization.

Thank you very much.

[The prepared statement of Michael Rubinger can be found on page 254 in the appendix.]

Mr. GREEN. Thank you, Mr. Rubinger.

The Chair will begin with questions.

Mr. Rubinger, for you, you talked about three steps that we should, as policymakers, take, and I think certainly in the abstract we are very supportive of them and the goals you have outlined.

I am particularly interested in the area of housing production. You talked about the Low Income Housing Tax Credit and the Home Block Grant. What other ideas would you like to see considered as we talk about a new production style program, A; and, B, can you tell us what the scope of the need is in the area of housing production? What kind of numbers are we talking about?

Mr. RUBINGER. Well, I think in the first instance, in terms of numbers, I think some of the other panelists cited that.

Clearly, we are, at the moment, losing more than we are producing. I think that is the message for me. As we look at the expiring use issue, expiring Federal subsidies and the like, the possibility is that we could lose as many as a million units over the next 5 years of affordable housing.

And when you look at the total production from organizations like ours and others working in this area, it is considerably less than that. So I think we are talking about, from our point of view, a considerable expansion, perhaps even a doubling of the availability of tax credits and HOME resources.

I think, in terms of other programs, I think this new recommendation for a tax credit for homeownership is one of the more interesting proposals that we have seen in the past several years, because it moves beyond the rental into homeownership.

And I think what we find, in terms of revitalizing neighborhoods and the agendas of the non-profit groups that we work with, that increasingly, as they have rebuilt the stock, using the Low Income Housing Tax Credit, is a desire now to bring in more mixed income and provide homeownership opportunities for lower income people as well.

So I think in terms of a new program, that would be the one that we would want to push for the most.

Mr. GREEN. You haven't spoken much about efforts to decrease the cost of producing new homes. And the builders that I talk to, whether it be single-family or multi-family, are constantly complaining about the regulatory barriers, the holding costs that they have that make it impossible for them, in their minds, to produce affordable housing, low-income affordable housing.

Have you taken a look at that at all? Does your organization have any recommendations on how we might tackle that side of it, the cost side?

Mr. RUBINGER. We certainly take a look at it as an organization. I didn't mention in my remarks that we are active today in 38 cities and some 60 rural communities.

And on the ground—I think Bob Reid mentioned this before—a good deal of these issues are local. And we find a large number of the factors that drive up prices are on the local level, like land assembly, for example, can be a very difficult and time-consuming, heavily bureaucratic and political process that drives up costs at the local level.

So that is an area, for example, where many of our local staff on the ground in different cities, are working to try to reform land disposition processes at the local level, and other kinds of regulatory issues at the local level.

And that is where we see the real potential for bringing prices down.

Mr. GREEN. Is there anything that we can do on the Federal level to attack those costs? I mean, my concern is that unless we get our arms around those types of costs, what we may undertake at the Federal level may have diminished effect.

The intentions may be good coming out of Washington, but if the costs of production remain as high as they have been, we will fall short in meeting some of the targets that you and other panelists have outlined.

Do you have any recommendations for what could be done at the Federal level?

Mr. RUBINGER. I don't off the top of my head, but I will certainly look into that, and I would ask my fellow panelists if they have any.

Mr. GREEN. Ms. Crowley.

Ms. CROWLEY. One of the ideas that has been surfacing, of late, because this is obviously a serious concern of folks who work on housing for the very lowest income people, because we hear, as you said, that there is a very difficult time siting that kind of housing.

One of the ideas that we have had, and it is in the very beginning stage, is how is it that you link the receipt of Federal dollars to progressive practices at the local level?

So, for example, if a community has enacted an inclusionary zoning ordinance, which will then help move to make sure that affordable units are included in all housing developments, then there is some value that can be added to that.

Or other kinds of things that localities should do. I think that from our perspective, some of the proposals that would get at what people perceive as Federal regulatory barriers, like environmental issues or, in some cases, civil rights issues, I think it is a mistake to start to whittle away at those things. But I do think that the Federal Government can incentivize local government to do a better job.

Mr. GREEN. Thank you. I appreciate your comments.

At this time, Mr. Frank, questions you might have?

Mr. FRANK. Thank you.

Ms. Nelson, I have had a chance to read the rest of your testimony, and I realize you didn't get a chance to present all of it.

When you talk about affordable units, that is based on the notion that 30 percent of your gross income, including utilities, is the cutoff for affordability.

So I have a couple of questions.

You talk about geographical disparities here, but you talk about geographical disparities in your written statement essentially with regard to extremely-low-income shortages.

And I have this concern. With regard to low-income people particularly in the 50 to 80 range, you don't here talk about regional variations. And my strong view, based on the knowledge of the area I represent, and in Ms. Lee's district at her request, and I think it is true certainly out there, I believe we have shortages, as defined here, in the low-income as well. Below 80 and very-low-income.

Now, what do you have about regional variations with regard to low-income and very-low-income?

Ms. NELSON. Actually, in the very next chart——

Mr. FRANK. I need you to pull the mike closer too.

Ms. NELSON. Sorry. There are regional variations in supply versus demand as well in the higher income categories.

Mr. FRANK. Excuse me. But those are extremely-low-income, ELI. I understand that. I have read your statement.

I want to know about low-income and very-low-income.

Ms. NELSON. Yes, but in the chart the lowest bars are extremely-low-income shortages; the intermediate bars compare very-low-income units to renters, showing that in each region except the west, there are more units than renters; and the highest dark bars show that in every region there are many more units affordable below 80 percent of median than renters with these low incomes.

And as you see, there are regional differences in each of the bars.

Mr. FRANK. Ms. Nelson, if I could see that from here, I could do a lot of other things too.

Ms. NELSON. Oh, I am sorry.

Mr. FRANK. Unfortunately, the charts are not in with your presentation. I recommend you add them in the future, because I didn't get a copy in here.

Ms. NELSON. Oh, well I am sorry. They were in the presentation I gave to the Congressional——

Mr. FRANK. Yes. They didn't manage to incorporate the change. Oh, I take it back. They are scattered within.

Ms. NELSON. Yes. The short answer is that the same patterns of differences across regions and States tend to occur. For instance, in Massachusetts, shortages are worse than average.

Mr. FRANK. I understand that, but here I want to get to—your testimony is basically that the only problem is with extremely-low-income on the whole.

Ms. NELSON. My testimony's basically that those with extermely low income have the worst problem, but it is not the only problem.

Mr. FRANK. But you know we are not here only to deal with the worst problem. You don't characterize whether there is a problem or not, and yes, we all agree there is a terrible problem with extremely-low-income.

But what I find lacking is an analysis of the problem for low- and very-low, particularly with regional variations, because that is really the crux of the policy question we face.

I believe that there are many areas of this country where, certainly for very-low and probably for low-income people, vouchers aren't going to do it. And that is what I don't see here.

So what have you got in terms of, for instance in Massachusetts, is there some indication what is the shortage of rental units, or what is the status of rental units for people in low-income and very-low-income, say in the Greater Boston area? Would I be able to find that somewhere?

Ms. NELSON. I don't have Boston with me, but in Massachusetts, where there were only eight affordable units for ten renters below extremely-low-income in 1990, supply and demand were almost evenly balanced for very-low-incomes, with 104 units per 100 renters.

And there were 140 units per 100 renters below low-income.

Mr. FRANK. 1990?

Ms. NELSON. Well, these data come from the decennial census.

Mr. FRANK. Are all these data from 1990?

Ms. NELSON. No. All of my regional data are from 1999.

Mr. FRANK. Will I offend you if I tell you I don't much care about 1990, it being 2001. And someone calls me up and says, "Geez, I haven't got a home." I can't tell them to move to 1990. I don't have a time machine.

Let me be very clear. I think you are underestimating, in your testimony, by omission, the severe pattern of shortage in many regions for low- and very-low-income renters.

You concede there is a problem with extremely-low, and you give a national view that says there is not a problem for low, but I believe there are severe regional problems that I don't see adequately discussed here.

Ms. NELSON. Problems are not as severe for households with low- and very-low-incomes as they are among households with extremely-low-incomes. In the longer work I have done, I have looked at all the income levels. As Sheila Crowley correctly said, in many cases there are problems for very-low-income.

Mr. FRANK. But let me turn to Ms. Crowley. If you have got further data, I would ask you if you could submit some data on particularly the regional problems, because some regional problems work out, but telling people to move isn't too easy. So I would be interested in your analysis of the regional problem in that regard.

[The information requested can be found on page 216 in the appendix.]

Mr. GREEN. Ms. Crowley, if you could answer quickly, then we will have to move on.

Ms. CROWLEY. Part of the dilemma is that we are talking about data from the 1999 American Housing Survey, which is our latest source, and that does not get us down to very small, jurisdictional kinds of questions.

So that is part of the problem.

But the other piece—and go back to my testimony and the Low Income Housing Profile that the National Low Income Housing Coalition submitted, the other problem is that you are right, there is a lack of units when somebody goes out to actually try to find a place, there is a shortage.

But if you look at the number of units that actually exist that are affordable to people within that income range, once you get up to 50 to 80 percent of AMI, there is, in fact, a surplus of those. They are simply not occupied by people in that income range, they are occupied by higher income people.

And they are occupied by lower income people who are paying much higher percentages of their income than 30 percent for their housing.

So our thesis is that if you expand the supply, if you are going to make strategic decisions about expanding the supply, if you expand the supply for people at below 30 percent AMI, then you will, in fact, expand the supply all the way up, because that group of people is now occupying something and it is housing that they can't afford.

So I hope that explains——

Mr. FRANK. Well, the suggestion is that we should only be worrying about expanding production for people below 30, I think it is a seriously mistaken view socially, politically, and economically.

Ms. CROWLEY. Well, we are not saying that solely, but we are saying that if you are going to say that there is a limitation on what you can do, and you want to move it all——

Mr. FRANK. Well, from your example, you shouldn't be buying into that too soon. We are cutting taxes by $1.3 trillion.

Mr. GREEN. Let us move on. Thank you, Mr. Frank. Thank you for your testimony.

At this time, Chairwoman Roukema has joined us. She has the dubious distinction of being in two places at once today, so you will see her jumping back and forth, but we welcome her back.

Mrs. ROUKEMA. [Presiding.] Thank you. I want to especially thank Vice Chairman Mark Green for doing this for us today and doing it so well. And I apologize for not being here, but the Elementary/Secondary Education Act has had some rather remarkable high profile amendments that had to be voted on this morning, and I will be leaving again.

I apologize for not hearing all the testimony and perhaps, oh, Mr. Frank has just left, Barney. I am going to follow up with perhaps questions that you have already asked, but it has to do certainly with what the reaction is to the legislation that Mr. Frank and I have presented, the FHA Multifamily Housing Mortgage Loan Limit.

Mr. FRANK. Would the gentlewoman yield?

Mrs. ROUKEMA. Yes.

Mr. FRANK. I appreciate that. My problem, as yours is, the Government Affairs Committee is dealing with an FBI matter involving Boston, and I am supposed to be there for at least a few minutes.

So I have, I appreciate that, and I am glad that the gentlewoman will be doing that. I will be back in about 20 minutes.

Mrs. ROUKEMA. All right. Well, I just wanted to see if there was any reaction that you have to that principle of raising the loan limit, the Adjustment Act, and it would go along with inflation, and so forth, but it is an FHA Family Housing Mortgage Loan Limit Adjustment Act.

And, by the way, the initiative is supported by Secretary Martinez. However, I don't think they have the capacity, either financially or at this point, the administrative capacity to deal with the problem.

But I was wondering if one of you, any one of you could make a comment or an observation on that subject. And if not, you better go and study it.

I am sorry. Is there anyone? Mr. Reid, did you have a comment?

Mr. REID. Well, certainly we would support the direction that you are going on it, and so there is no question about that.

Mrs. ROUKEMA. Yes, go ahead.

Mr. REID. We have a lot of concerns, currently, as far as FHA, we have a lot of concerns on the multi-family side where we think there is a lot more room for improvement, and certainly their asking for a 25 percent increase in the limit was helpful. It is not nearly enough.

And at the same time, they are also raising some fees which I think is going to be counterproductive.

And the credit, the expiring credit, or the running out of the credits on the FHA is a very, you know, I believe somebody said we are out of business as of May because of lack of credits on the FHA multi-family.

Mrs. ROUKEMA. Did I know that? Did I know that? Did I?

Mr. REID. I am sure some of the later, the next panel will probably have more to say on that.

Mrs. ROUKEMA. We know that FHA has received a focus from our subcommittee studies and staff work and the Administration as well, but we will have to work together on this.

But I do believe that this is a goal that we have in mind. I don't know whether or not we have to wait until March of 2002 and review the Millennial Housing Commission Report.

Mr. REID. I would hope not.

Mrs. ROUKEMA. Pardon me?

Mr. REID. I hope you don't wait for that.

Mrs. ROUKEMA. I hope we don't wait for that, not singularly, and that we can move ahead in some of these areas.

Anyone else have a comment to make on this, particularly the HUD?

Ms. Nelson.

[No response.]

Mrs. ROUKEMA. Anyone, any comment?

Ms. NELSON. I am a civil servant so I really shouldn't be commenting on the policy issues. I believe that HUD is supportive of it. I would like to mention though that it is my understanding that in many locations, the higher FHA limits would support apartments whose rents would still be below the fair market rent.

And I think, as an analyst, I would say that it is, in terms of Federal responses, it is very important to increase the availability of housing that is below the existing fair market rent because it helps keep down everything else on the cost scale.

Mrs. ROUKEMA. I am sorry. I have been notified that there is a vote going on in the committee, and I will have to leave now, but if there are further comments you would like to make, I am sure Mr. Green would permit it, or you could put it in writing for the record on this subject.

Thank you very much. I will be back shortly, I hope.

Mr. GREEN. [Presiding.] Thank you and good luck.

Next for questions, Ms. Stephanie Jones, please.

Ms. JONES. Good morning.

Ms. Nelson, how are you?

Ms. NELSON. Fine, thank you.

Ms. JONES. My question is, when you define affordable, what do you mean by affordable?

Ms. NELSON. It isn't what I truly consider affordable, but the rule of thumb is paying 30 percent of income for housing, and basically that comes from the fact that in the 1981 Reconciliation Act, the expected contribution of assisted tenants to their rent was raised from 25 percent of gross income to 30 percent of income. And so that is the approach that is used.

Ms. JONES. What do you really think?

Ms. NELSON. I really prefer an approach called "shelter poverty" which tries to take into account how much a family needs for all of its other expenses. That approach shows that many extremely-low-income households, particularly large families with children, cannot afford to pay 30 percent or even 25 percent of income for housing. Instead, for housing to be really affordable, they should pay less than 25 percent.

The recommendations of the National Academy of Sciences with regard to changing the poverty level try to take this problem into account. And I think it is something that should be pursued.

Ms. JONES. So when you make the statement that almost all rental—something to the effect that almost all rental property was affordable, when you factor in what you think really should be considered, what does that do to whether all rental property is affordable or not affordable?

I mean, that is your statement or something similar to that, right?

Ms. NELSON. I said that almost all of the rental inventory is affordable to the incomes of 80 percent of median. And that means almost all of those rents are less than 30 percent of 80 percent of median.

Ms. JONES. OK. I don't want to put words in your mouth. So what does that do to that statement if you look to what you now—just for purposes, I am not trying to jackpot you or anything—for purposes of our discussion about affordable housing, and using what you said should be used to determine what is affordable, what does that do to that statement?

Ms. NELSON. Well, the implication would be that a much lower proportion of units with many bedrooms are affordable, because my preferred statement is basically that since families with children can afford only to pay less and families with children need large units. Rents on two or three bedroom or more units already tend to be higher, not surprisingly. There is more pressure on that part of the rental stock.

Ms. JONES. Thank you very much, and lest I be accused of being engaged in a tirade, I want to just cut your questions and go to the next witness.

Thank you very much for your statement.

Mr. Rubinger, my question to you goes to the issue that I raised with regard to schools and housing and the movement of students or families such that students tend not to be in any school system for any period of time, because they are moving around.

Do you have any position, one way or the other, about what housing vouchers might do to stabilize students in school?

I know it is a new concept I am throwing out here, but I am just curious as we walk down this road.

Mr. RUBINGER. It is not altogether that new, and I think most people in my side of the business, which is more generally speaking community development, as opposed to housing per se, believe that schools, in the long run, are going to be the answer as to whether or not these neighborhoods survive or not.

I think our position on this is that if you can—whether it is with vouchers or whether it is with tax credits, or however you do it, if we can increase the supply of affordable, decent housing in these neighborhoods, and begin to deal with the school issues as well, I mean, I guess my belief is that good schools are the result of stable neighborhoods, not the other way around.

And if we stabilize those neighborhoods in any way we can, the schools are going to get better.

Ms. JONES. I would like to let all of you know that the next Congressional Black Housing Summit in 2002 is going to be in Cleveland, Ohio. And if you have any interest in participating, I would like to invite you to participate.

We have a significant community development—I am almost done with my statement—we have a significant community development of opportunity and network in the City of Cleveland that I would love to be able to showcase some of the things we have done. But look to move forward to covering a lot of things we have not accomplished in the City of Cleveland.

Thank you, Mr. Chairman.

Mr. GREEN. Thank you.

At this time, the Chair recognizes Mr. Miller.

Mr. MILLER. Thank you, Mr. Chairman.

I really enjoy these type of hearings because we talk about problems, we discuss numbers, and one of the last comments that was dealt with was vouchers, not that vouchers are bad, but it is kind of like paying the neighborhood bully not to beat you up, and not enforcing the law and putting the neighborhood bully in jail.

I mean, we are not dealing with the problem; we are dealing again with the bandaid.

Mr. Rubinger, you said you are trying to reform local regulations and practices. What did you mean by that?

Mr. RUBINGER. I am sorry?

Mr. MILLER. One of your previous statements was that you are trying to reform local regulations and practices relating to housing. What did you mean by that?

Mr. RUBINGER. Well, I was talking specifically about issues like land assembly.

Mr. MILLER. How are you doing that?

Mr. RUBINGER. Well, we are working with municipalities in several instances, Detroit, for example is a good one, where we are working directly with the city to try to find ways to make the land disposition process more efficient because we are talking about lowering housing prices. If we can get larger tracts into the hands of developers, you know, in a form that is ready for production, you are going to lower the cost down.

Mr. MILLER. That is what I was hoping you were leading to, and that is an issue I think we are not addressing federally.

Now, Ms. Nelson, you said there is an increase in rental units and much of it was in the low- to middle-income brackets. In the States of Colorado, Nevada, Arizona, and California, there is a lack of attached product that is being built in those States, because of the litigation associated with it through tort law that requires you to be legally responsible for a unit for 10 years.

One of the largest builders in California, who is a friend of mine, who is the major stockholder in K&B right now nationally, is going back into building again this coming year and instead of building condominiums and townhomes for people to move into, because of the tort issue, he is building apartments.

They are getting density bonuses for low-income people which means they can build more units. And, they plan to hold those units for 10 years and then convert those units, filing new CC&Rs (Covenants, Conditions and Restrictions), and forming homeowners' associations, and sell them on the market as condominiums and townhomes, because they cannot do it today, they can't even buy liability insurance that covers them against litigation associated with building attached product.

So many of the numbers you are showing up there nationally, especially in high developed areas, are being skewed because the lack of our willingness to attack the issue of tort reform and defects issues that face this Nation.

So I think we are looking at numbers that are not genuine and not realistic.

The problem we have today is that developers have become cash cows for local government. You can't avoid that, especially in the San Francisco area.

Mrs. Lee, you and I talked about that, the associated cost of trying to build in these areas is outlandish. You deal with the normal cost associated with it, and the local government will even take the impact of the intersection three miles from your small project and say, what is the impact of your project on that intersection, and assess you a fee to mitigate that impact.

And when you add those local assessments up, the costs are absolutely outrageous. Prior to 1972, most infrastructure was put in place by government; local cities, communities, counties, whatever. Since 1972, infrastructure is put in by the developer. Everything's placed on the developer and the new homeowner is paying those fees.

I had a project I started in 1987 in the City of Rialto, which is Congressman Joe Bachus' district, a low-income community. I made about 3,000 units. I had probably another 500 units approved for apartments, but the fees associated with those apartments were the same as the fees associated with the houses.

I had to zone change those apartments. I could not build those apartments for people of lower income levels to live in, because the cost of Government was greater than the cost of the land. I mean, you could buy land cheaper than you could pay the fees to Government.

Until we address these types of local issues, nothing is going to change. And there is going to be a crisis in affordable housing until we realize that affordable housing relies on the move up marketplace.

If there is noplace for people to go in lower income housing, if they can't move up, there is going to be a crisis in that bottom end, because people cannot afford to move out of their lower income housing since they can't afford the higher priced houses.

But the biggest issue we have with affordable housing is most communities don't want it. And people in low-income housing come in all colors, so it is not a matter of race. It is a matter of people saying, we just don't want those people in our community.

An example, the City of Claremont, which is a very nice college town in Southern California, I knew a developer who had a piece of property for 3 years, and he wanted to build apartments that people could afford to live in in this area because there were no apartments. He could not get the City of Claremont to approve an apartment complex, because people did not want those people in their neighborhood.

So what he did, he circumvented the local control, went directly to HUD, got a HUD project approved. HUD inspected the project, issued the certificate of occupancy, and now people are living in affordable housing in Claremont because the Federal Government allowed them to do that.

But all the vouchers in the world are not going to provide housing. All the subsidies in the world are not going to change the problems we are dealing with in most States. California is a great example.

The Endangered Species Act. First of all, we look and say, where are the endangered species?

Mr. GREEN. Gary, I am going to need you to finish your question.

Mr. MILLER. I am going to wrap up. And then we say, what habitat do they need? Then, by the time we set aside the habitat, it looks like a checkerboard, and if you don't have an endangered species you have habitat.

So my question is altogether different.

MBA's (Mortgage Bankers Association) blueprint for reform, which outlines their position on various issues relating to houses, in its documents, MBA advocates talked about modernizing the mortgage process through comprehensive reform.

What would MBA's purpose be in doing this, and would it help in improving housing affordability in this Nation?

Does anybody have an idea?

[No response.]

Mr. MILLER. Thank you very much.

Mr. GREEN. Thank you for your testimony.

Mr. Watt is recognized.

Mr. WATT. Thank you, Mr. Chairman. I want to try to get at the two extremes here, Mr. Rubinger and Ms. Nelson.

I think I agree with both of them that certainly Mr. Rubinger has indicated that there are a number of very successful housing production things going on.

But Ms. Nelson has indicated that those housing production things are not getting to the lowest income people.

And that is certainly the experience that I think we are having in at least parts of my congressional district and at least the Charlotte, North Carolina part of my congressional district.

Tax credits and HOPE VI are doing some good things, but those things are not getting housing produced at levels that are affordable for the very-low-income people. In fact, HOPE VI, the HOPE VI projects that have been done in my community have reduced the number of units that are available.

Now I understand the reason is to create a more vibrant neighborhood, create some homeownership, do neighborhood development, and I endorse that. I am not critical of that.

The question I have though, Mr. Rubinger, is are you aware of any patterns, any places where the problem that Ms. Nelson has described—assuming that it is legitimate, and I understand Representative Frank's concerns with her thesis—but assume that her thesis is correct. Are there any programs that have been successful that have really gotten to this lowest of the low-income housing production? And how do we get to a policy that addresses those very-low, what is ELI?

Ms. NELSON. Extremely-low.

Mr. WATT. Extremely-low. I am sorry.

Ms. NELSON. That is all right.

Mr. WATT. I hate to differentiate between extremely-low, very low, low. But let me talk about the extremely-low.

Are there projects that you are aware of that have been successful in going directly at that extremely-low population?

Mr. RUBINGER. Yes. I don't mean to be glib about this, but I think both the Low Income Housing Tax Credit, and the HOME

Program have more than 40 percent of each of those programs ended up housing people making less than 30 percent of median income.

Mr. WATT. Well, I am not as familiar with the Low Income Housing Credit, but I can tell you that in the HOME program, you don't have a HOME program unless you are decreasing income, extremely-low-income housing density.

The whole theory was to get rid of the concentrations so you may end up housing 40 percent of the people going back into their community who may be extremely-low-income. But at some point, 100 percent of the people in that neighborhood were extremely-low-income. And it is hard for me to tell the 60 percent, whose houses have been destroyed to make a nicer neighborhood, that HOME solves their problem. It doesn't.

I understand what you are saying.

If you disagree with me, tell me.

Mr. RUBINGER. Well, I do to this degree. That the HOME program has been very important in many cases in making the Low Income Housing Tax Credit program work. Because in many instances, the tax credit is not enough, there is still a gap in the cost, and in many instances, the HOME program has filled that gap.

Now I can't speak for Charlotte, because I am not familiar with Charlotte. But there certainly are lots of instances of that.

And HOPE VI, I think also it is true that HOPE VI, in many cases, decreases the number of units. And I can't argue with that. But in terms of who it ends up housing, I think it does end up housing the very lowest income, and I think that the issue in both cases is, is more.

That is the position we are taking, that both of these programs, the Tax Credit program and the HOPE VI program do get to very-low-income people, they just don't get to them in the numbers that we would like to see.

Mr. GREEN. Thank you for your testimony, Mr. Watt. Your time has expired.

The Chair now recognizes Mr. Grucci for questions.

Mr. GRUCCI. Thank you, Mr. Chairman.

I am sorry I wasn't here for our opening statements and I would just ask that I do have a statement that I would like to make part of the official record of today's hearings.

Let me just ask the panel their opinion on a couple of things. I come from a region of the country where the cost of living is higher than in most places. Home sales are higher than in most places. The average price of a home in my district, 1,100 to 1,300 square foot, probably about $160,000 to $180,000 with a tax burden of about $6,000 to $8,000, the cost of land being extremely high. To try and build multi-family units, or to build any kind of housing, could run anywhere from $75,000 to several hundred thousand dollars an acre. Now that is the good news about the district that I live in.

The bad news about my district is that it is not exempted from people who need affordable housing. Our young families that are starting out, people who are working that are trying to make ends meet, they can't afford those types of houses.

And affordability, I guess, is within the eye of the beholder. What would be considered affordable in my area may not be considered to be affordable in other areas or may be considered to be very affordable in certain areas.

We have an enormous problem with our income levels being as high as they are, and trying to equate that into the formula that has been established for eligibility into affordable housing.

For example, I believe now—it was at 80 percent of median income—it has been cut back from that level.

What are your feelings about adjusting that level from 50 percent to some number higher, possibly as much as 120 percent of the area's median income?

And along those same lines of trying to get people into affordable housing and to try to make affordable housing available, we have mandated certain things from the Federal Government down through into local government that has to be met in order for people to qualify for Section 8 vouchers, for example.

One of them is the lead-based paint removal. And while I agree 100 percent with the initiative and the need for that to be done, do you believe that we should be making that mandate without providing funding?

Do you believe there should be some sort of incentive for the removal of lead-based paint to happen? So let me get your responses to those two, and if I have time left, I would like to ask a couple more.

Anyone can take a shot at it.

Mr. REID. On your first comment about extending the limits, National Housing Conference, when we did our study on Housing America's Working Families, and this was one of the disturbing things we found, is how far up the income scale the affordable crisis had risen.

Our mandate basically is people between zero income and 120 percent of area median.

Now it is absolutely true that the number of families, working families at risk up in the 100, 120 percent, are much fewer and their plight much less than the people at the very, very lowest. And I don't want to overstate that because the people at the very, very lowest are, as Kathy had said earlier, are the worst, worst, worst case.

However, I think we cannot ignore the problems in the communities and we are talking about policemen and firemen and a lot of municipal workers and people in incomes where it is hard to believe that 120 percent of income, they are having serious housing problems. They are spending 50 percent of their income for housing.

So I think it is an area that certainly needs to be closely examined when we are looking at our housing policies as to how wide the net goes.

Mr. GRUCCI. I tend to agree with that, and it is not specifically the firemen and the teachers, because where we come from, they do pretty well. We have volunteer firemen out where we are, but the paid firefighters in the city do rather well and can probably afford it.

I am more concerned about our young families, our young kids, our children, our grandchildren, who want to stay in our communities, want to be part of our communities, who are not making $60,000 and $70,000 a year, but are struggling trying to live on $30,000 a year.

And while that may sound like a lot of money in some parts of the country, I can assure you that that is near poverty level where we come from to the extent that they can't afford to live in quality homes. They live in basement apartments where they get their electricity from an extension cord coming down from upstairs.

That is not what I believe our housing stock should provide, and I am eager to find out how we could be more helpful to making those types of affordable housings available.

The last question that I would have deals with the FHA adjustable rate mortgages. Why should Congress support HUD's initiative to expand the FHA adjustable rate mortgage line to include the hybrid, the ARMS, (Adjustable Rate Mortgages), I am sorry, and how would that product encourage homeownership?

Mr. GREEN. We will need a quick answer to that.

Ms. CROWLEY. That is probably a question the second panel can field.

Mr. GREEN. OK. Unless anyone would like to express a position on that.

Ms. CROWLEY. Can we go back to the last question?

Mr. GRUCCI. Sure can.

Ms. CROWLEY. The lead question?

Mr. GRUCCI. The lead question, fine.

Ms. CROWLEY. It is a very serious issue, and within the low-income housing community, we grapple with that a great deal because obviously when you put more stringent lead safety requirements on landlords, you can reduce the number of units that are available for people to use with the Federal housing vouchers. So it is a serious issue.

The position that we have ended up taking is that from a public policy and a public health perspective, it is not acceptable for Federal tax dollars to be spent on renting housing that has the potential of causing serious harm to small children. And in any event, landlords should be aware that that is something that can limit their marketability under any circumstances.

The new requirements that have come out are part of very extensive work that has been done to move beyond——

Mr. GREEN. If you could wind up your remarks?

Ms. CROWLEY. ——complete lead abatement to get to something that we now call lead safety that is a much less expensive, a much less time-consuming way to go about trying to manage the lead problem.

But I do think that, from a public health perspective, it is something that we need to take very seriously.

Mr. GRUCCI. I agree with that. Thank you.

Mr. GREEN. Thank you. Thanks for those questions.

The Chair next recognizes Ms. Lee for questions.

Ms. LEE. Thank you, Mr. Chairman.

Let me ask a couple of questions, and I want to start by just mentioning a little bit about the Bay Area, the Oakland Bay Area which you know is one of the highest cost areas in the country.

I notice now we have a housing wage of $28.06 an hour, and I would say that in the Oakland Bay Area, probably $10 to $12 an hour, $30,000 to $40,000 a year is probably about—I won't say average, but many, many people make about that amount of money.

Yet the cost of a house, a two bedroom house, $300,000 I think is probably on the low side, so between $300,000 to $450,000.

The American dream of homeownership in the Bay Area is the dream deferred, if not ever to be realized, unless we create more affordable housing. So one of the questions I wanted to ask you is, and we talked a little bit about this last week in terms of housing production, the $3 billion plus that FHA and Ginnie Mae are projected to have, either as surplus or profit or reserves or whatever it is called, what is the problem with using that money to create housing, land trusts, or using some of these profits or reserves or surpluses for affordable housing production?

That is the first question I would like to ask probably Ms. Nelson, or any of you who could respond.

And then second, I wanted to ask you just a little bit about the Federal Government's role in what we can do to address the issue of gentrification. Because many people, not only in my district, but I know in Congressman Frank's district and many of our areas throughout the country where these housing costs are so high, are renting houses or apartments and are quickly, as a result of the economy, the economic boom, are quickly being displaced as a result of landlords now seeing a way to make more money from their property.

One area in my district, for example, is an area that is very desirable. Eighty percent of the residents there, primarily people of color, are renters. These properties are owned by other people living outside of the city, but now they see they can make a huge profit in moving these people and selling the homes.

So I would just like to ask if there is a role for the Federal Government in this, and if so, what you think we could do to make sure that people who have lived in a community all of their lives are able to stay there and not be run out.

Ms. Nelson, could you answer maybe the first question with regard to Ginnie Mae——

Ms. NELSON. I think actually Sheila is better equipped to answer that than I am.

Ms. LEE. Ms. Crowley, OK.

Ms. CROWLEY. Our position on the use of the surplus in the FHA program and the Ginnie Mae program is that it can be directed into other good housing uses, and we support the establishment of a national housing trust fund with dedicated sources of revenue, and those would be the first two that we would see would be directed into that trust fund.

Attached to my testimony is our proposal that we would like to see considered in the House, and we expect to see legislation similar to that introduced in the Senate shortly.

So our position is there is no problem with doing that.

Ms. LEE. Thank you.

Now let me ask anyone to respond to the issue of gentrification. How do we provide incentives for landlords not to move tenants out in areas that have really benefited from the economic boom that we have experienced in the last 8 to 10 years?

Ms. NELSON. Well, the general problem is just that there are not enough resources for housing. I mean, I didn't mean to sound obtuse in my answer to Representative Frank, because higher income people do definitely have problems, particularly in the tightest housing markets, because there is so much demand, everyone would like a good buy.

So that a general solution that is absolutely essential is more resources for housing in general, and production, in my personal opinion.

Mr. FRANK. When you are talking about high income, and I appreciate your comment there, we are talking about, you know, higher than extremely-low. We are talking still about the lower median.

Ms. NELSON. Right, right, right.

Mr. FRANK. Sometimes people walk in and haven't heard the context, right.

Mr. RUBINGER. Can I add one quick thought to that. Our approach to this has been to get these properties in the hands of nonprofit organizations who are going to keep them affordable in perpetuity. And so whether it is new production that has set-asides for non-profits, or it is figuring out ways to move properties for forprofit ownership into non-profit ownership, in our experience, even in hot markets, that is the way that you keep housing affordable.

Ms. LEE. So where there are areas where homes are owned by individuals, not non-profits, though, are there recommendations that you have that would incentivize this transaction, I mean, so that it would be appealing for the property owner to either sell to the tenant or to enter into some long-term reasonable rental agreement or lease agreement?

Mr. REID. I would think that from a Federal standpoint, that would be pretty problematical, because we are back to local issues here.

But I think Ms. Nelson hit on—the problem is a shortage of affordable units. If there weren't the shortage for affordable units, gentrification wouldn't be a problem. You know, we will always have some gentrification and movement of housing areas and neighborhoods.

But if there is an adequate supply of housing, the problem takes care of itself. So the core thing is to have more affordable housing production.

Ms. LEE. Thank you, Mr. Chairman.

Mr. GREEN. Thank you.

You might have noticed that we have a floating membership in the subcommittee right now. We are all in lots of different committees at the same time, so I appreciate everyone's patience, and we are trying to go in order of those who first arrived, although with coming and going, that is hard to do.

At this point, the Chair would recognize Mr. Capuano for questions that he might have.

Mr. CAPUANO. Thank you, Mr. Chairman.

It is hard to come up with questions, because I kind of agree with most of the general talk that we have had here.

I guess, Ms. Nelson, what I would like to see though—I have tried to peruse your testimony here—honestly, when it comes to income levels, that is all well and good, but for me, it is more about percentages of income that go into housing than it is about specific income levels.

And I would like to see some data, at some point, relative to both regional and national numbers, as to who is paying how much of their percentage of income for housing costs.

Because it is my guess that that is on the rise. That people are paying a higher percentage of their income for housing costs, particularly low-income people.

And I am not sure about that, and I would like, at some point when you get a chance, if you could provide us with some data on that matter to see if I am right or wrong, and if so, how so.

I guess, I am not even sure I really have any questions except to get down to some nitty gritty. I mean, we are talking here about doing some more. And I presume that each and every one of you have reviewed the budget proposal that is about to be before us maybe today, maybe tomorrow, who knows when, and what it proposes for the housing world relative to Federal involvement, direct Federal subsidies.

And I guess I would like to hear if any of you agree that we should be cutting out, oh, say, $700 million for capital improvement in public housing.

By a show of hands by the panel, are there those of you who agree that we should to that?

[Show of hands.]

Mr. CAPUANO. Gee, what a surprise.

I guess, along the same lines, I guess I would be wondering, I presume that we are not just talking about a building, because I hope that those of you who are in the business of providing affordable housing know that a home is more than just a building. A building is fine, you have to start with that, but it is also a quality of life issue.

My presumption is that none of you would advocate for poor quality housing for poor people, just because they are poor, give them junk.

My presumption is that you don't want all poor people living in one area with no police protection, with no social services, so therefore, I presume, and again if you disagree with me, I would like to see it, like to hear it, would any of you advocate for a $70 million cut in the drug elimination grant that goes toward public housing.

What a surprise.

I presume that none of you would advocate for a $25 million cut in the rural housing production program that is in this budget?

Gee, I am very, very shocked here.

And the bottom line is that it is all well and good to advocate, and I appreciate you being here today and telling us what you believe.

But the truth is, I mean the real decisions that we can impact are really going to be made on the floor of that House within the next 2 days. And all this talk is for nothing if the budget that was submitted to us is enacted.

In my estimation, not only are they real cuts, but even the few programs—and there are a handful that do go up—they are not anywhere near where anybody in this room should be proud of.

No matter how you measure it, no matter what you think, no matter how you say it, if you believe in affordable housing, and I would have some differences of opinion as to where it should be targeted, I happen to think it shouldn't just be targeted to the lowest income and that is why I would like to see some of the other numbers. I happen to think it is a continuum, it is a ladder or continuum of how you help.

If you only help the lowest income people, you are going to keep them dependent on Government subsidies forever. I think you also have to help moderate income people into homeownership, which we haven't really discussed too much today; it seems like we are mostly talking about rental, and that is fine. But at the top of the rental ladder, especially in my district, and you are going to hear from the Mayor of Boston later on, and I have no idea what he is going to talk about, but I have no doubt he is going to tell you how expensive it is in Boston.

He is on top of this issue as well as any mayor I have ever known, and having been a former mayor, I know quite a few of them. And that is all well and good. We can subsidize people and subsidize people and subsidize people on their rents, but there are an awful lot of people, if they can get into a little down payment assistance, can then buy a home.

And then, to me, if we don't talk about that level, then we are really just talking about subsidizing people forever, which those are the kinds of programs that there will never be enough money for.

The ultimate goal, I think, should be trying to get people into their own homes, especially for those people on the borderline.

So I guess the only other issue that I would like to talk about, I know it is not really the subject today, but is geographic targeting.

I want to make sure, in every place I go I want to make sure that people don't think about affordable housing as only an urban area issue. It is not. It is a rural issue, it is a suburban issue, and I believe it is a growing suburban issue, and again that is why I would like to see some of those numbers.

I grew up in a city. Most of my friends that I grew up with moved to the suburbs, and now their kids cannot afford to buy a home in their suburb which is why they went there because they couldn't afford to buy a home in the city.

And that is why, again, as a percentage of income, it is really the most important measure.

I would also like, I guess I would like to ask a question.

Mr. GREEN. Mr. Capuano, if you could——

Mr. CAPUANO. The very first paragraph of Ms. Nelson's commentary relates to a 1981 change which, I was a mere babe in 1981, talking about changing the expected tenant contribution toward rent will raise from 25 percent to 30 percent of income.

Would any of you argue against the notion that it should be a national priority to reduce that percentage. That 30 percent to me just strikes as an arbitrary figure sounding good, probably needed the money at the time, but is there any reason why 30 percent is some magic number that you would advocate for?

Ms. CROWLEY. There is no magic to 30 percent, and as Ms. Nelson has said, there is a better analysis that gets at something that is much less than that.

I just would caution you about the proposal to reduce it back to 25 percent in the absence of expanded resources, because what will happen is that we will serve many fewer people.

Mr. CAPUANO. I absolutely one million percent agree with that.

Ms. NELSON. I would like to respond to your question about changes over time. In the last 20 years, the main increases in housing cost-income ratios have come among owners. Among the group that the National Housing Conference has identified, people who are very-low-income and low-income who are paying more than half of their income for housing, the increase has occurred more among owners, not in renters.

And I am sorry I didn't say this to Mr. Grucci, but even though most of the work I do is with renters, I consider the idea of increasing low- and moderate-income homeownership important too.

But I think there is one very mistaken practice in some current Federal policies and more in many State policies. And that is that programs to increase homeownership usually use an income limit that is not adjusted for household size.

The impact of that is to discriminate against families with children. I have with me ownership rates by income and household type from 1978 through 1999. The basic finding is that in all income groups except incomes above 120 percent of median, families with children still have lower ownership rates than they had in 1978.

The increase in homeownership that we have heard so much about has occurred mainly among the elderly, but second it has occurred among unrelated singles, and families without children who, in my opinion, don't need homeownership as much as families with children.

Mr. CAPUANO. I love you, Ms. Nelson. Thank you.

Mr. GREEN. Thank you, Ms. Nelson. Perhaps if you could supply that for the record, we could enter that into the subcommittee record.

[The information requested can be found on page 218 in the appendix.]

And at this point, the Chair would adjourn this panel. I thank all of you for you for your testimony, your input and your willingness to answer questions, and we will call our next panel up.

Mr. FRANK. Mr. Chairman, can I say that this was a very useful discussion, and I thank you for a break from the norm.

[Pause.]

Mrs. KELLY. [Presiding.] I want to thank the second panel for being here. We have the Honorable Thomas Menino, Mayor of Boston, Massachusetts.

Mr. Capuano.

Mr. CAPUANO. Thank you, Madam Chairwoman. I just wanted to welcome the mayor. I mean, I have known Mayor Menino for many years now. I was the mayor of the city that immediately joins Boston. I have the pleasure to represent a huge portion of Boston, though not the mayor's home specifically. But his home-away-from-home is close enough to me.

And as you will hear in a few minutes, Tom Menino is very much involved with the housing issue in Boston. It is a major, major problem in our area because we are fortunate to have so many people that want to live there. We are unfortunate enough to have so little land to develop and the costs there are incredibly high.

So I welcome the mayor. I thank him for everything he has done already, and for what he is about to do.

Mr. FRANK. If the gentleman would yield to me briefly, I also want to say I appreciate, we had arranged with the mayor for him to testify. He is here not just as the mayor, I believe, but in his leadership capacity in the National Conference of Mayors, and that is entirely fitting because he has been a real leader in trying to make our urban areas more livable, and we are very pleased to have his testimony.

Mrs. KELLY. Thank you very much.

Mr. Mayor, my son lives up there, so you take good care of that city.

Next, we have Mr. Robert Nielsen, President of Shelter Properties of Reno, Nevada on behalf of the National Association of Home Builders.

Next, we have Mr. John Courson, Vice President of the Mortgage Bankers Association, and President of the Central Pacific Mortgage Company in Folsom, California.

And last, but not least, Mrs. Barbara Thompson, Director of Policy and Government Affairs, the National Council of State Housing Agencies.

We thank all of you and we appreciate the fact that you are willing to take your time and appear before us today.

Let us start with you, Mayor Menino.

STATEMENT OF HON. THOMAS M. MENINO, MAYOR, BOSTON, MA; CHAIRMAN, U.S. CONFERENCE OF MAYORS ADVISORY BOARD

Mr. MENINO. Thank you, Chairperson Kelly, and let me thank my two colleagues, Congressman Capuano and Congressman Frank, for those good words. And I will need them this year, I am up for reelection, so they are going to have to bail me out of all my disasters.

And I want to thank you for taking this opportunity to speak with you about issues that dramatically affect people in cities and towns across our country.

As Chairman of the U.S. Conference of Mayors Advisory Board, I want to bring you the message that the comeback of our cities will not be complete until we have a national commitment to quality housing for everyone.

Affordable housing is an issue that I deal with on a daily basis. Every time I visit the neighborhoods for a ribbon cutting on a new business, the opening of a new park, or attend a little league game, I meet constituents who are being priced out of their homes in the neighborhoods where they hoped to raise their children.

Each story is different. It reminds me that prosperity has a price, and for cities like Boston, that price is high. We risk becoming a place where only the very rich and the very poor can afford to live.

I know that mayors across the country will agree with me when I say that the comeback of our cities has helped our country grow stronger and helped more Americans live better lives.

Cities are the economic engines of our country. The new census data shows what many city leaders already know, that our cities are more diverse than ever and that we are gaining strength from that.

We have to keep our cities diverse. We have to make sure that everyone has the opportunity to share in what cities have to offer. One way to keep our cities growing is to make housing a top priority from Boston to Burbank.

The challenges cities face today are different from the ones we faced 8 years ago. Back then, we had high unemployment, high crime rates, and high interest rates were forcing many foreclosures on family homes. But today, there are 22 million new jobs, crime has dropped to a 25 year low, homeownership is at the highest rate it is ever been, and foreclosures continue to drop.

This is our chance to build on our success. We must extend the range of choices so that everyone, not just the fortunate, have access to a better life.

Cities like Boston are thriving in our new economy. In Boston, we have created 120,000 new jobs in the last 8 years. The quality of life in our neighborhoods has never been better.

One of Boston's greatest challenges is a direct result of our new prosperity. We simply cannot produce enough housing to meet the demand. It is hard to believe that in this time of record surpluses and record employment, working men and women who make a good salary are having a hard time finding an apartment or a house they can afford.

In Boston, the median mortgage is $1,625 dollars a month, and the median price on a two-bedroom apartment is now $1,600 a month. When you apply the standard of using 30 percent of a worker's income to go toward housing, here is what some individuals have to spend:

A minimum wage earner, $322; a janitor, $456; administrative assistant, $724; and a computer programmer, $1588.

Those numbers show that even a computer programmer making $63,000 a year has trouble finding an affordable place to live. And I don't think any of us here today can imagine the anguish of trying to find a place to live with $322 in our pocket.

Affordable housing isn't just about assisting the poor and building more public housing. It is about working people. It is about people who make a decent living and search the Sunday real estate section and shake their heads and wonder how this happened. It is about parents who wonder if their children can afford to live in the neighborhood they grew up in.

I am proud of what we have done in our city to produce more housing. We have set aside $30 million in city resources for housing. Last year, we added more than 2,600 housing units. We saved 1,400 units from being converted to market rate. We announced a new 3-year housing strategy to increase housing production. We will use $8 million in gap financing to renovate and fill 1,100 units of vacant public housing. And since it was announced, we have permitted 1,997 more units and more than 1,000 of those units are affordable.

I would like to submit to you, for the record, a copy of our new housing strategy "Leading the Way."

While we have accomplished a great deal, we are approaching the limit of what we can do. We will keep moving forward, continue to come up with creative ideas, but our heartfelt efforts will never be enough until the Federal Government and statehouses across the country return to the business of housing production.

Unfortunately, this year's budget for HUD does not show an adequate commitment to the issue of affordable housing. It cuts investments in public housing.

Mrs. KELLY. Excuse me, Mr. Mayor, but I am going to enforce the 5-minute rule and I am going to ask you to sum up, please.

Mr. MENINO. What I want to basically say is that we have to get back into the business. We have walked away from housing and it is a crisis in every city in this country.

And you know, we just can't tell we are going to give tax cuts. Tax cuts to the rich doesn't help the poor. And cities have to build medium income housing for working people. We are not doing it. And cities can't do it alone anymore.

All of you must represent parts of cities, and you see the problem we have. I see the way we are doing very creative strategy, but we need help. We are not looking for a handout, we are looking for a help out. We are looking for the Congress to help us drive those issues. It is so, so important for the future of our cities and our country.

Thank you.

[The prepared statement of Hon. Thomas M. Menino can be found on page 260 in the appendix.]

Mrs. KELLY. Thank you very much.

Next, we have Mr. Robert Nielsen.

STATEMENT OF ROBERT NIELSEN, PRESIDENT, SHELTER PROPERTIES, INC., ON BEHALF OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. NIELSEN. Good morning, Madam Chairwoman and Members of the subcommittee.

My name is Bob Nielsen and I am a homebuilder from Reno, Nevada. I am President of Shelter Properties, Incorporated, a company which builds and manages affordable multi-family properties.

I appear today on behalf of the 203,000 members of the National Association of Home Builders (NAHB) in the hopes of getting your support for a number of initiatives to address critical affordable housing needs.

I commend you for initiating this hearing to raise awareness of the housing affordability needs. The numbers speak for themselves. 13.7 million Americans pay more than half their incomes for housing or still live in substandard housing. That number is too high.

I want to start by thanking the Chairman of this Committee and the Ranking Member for introducing H.R. 1629, legislation that would increase the statutory mortgage limits for FHA multi-family insurance by 25 percent.

One factor contributing to the shortage of affordable housing, especially in high cost areas, is the fact that the mortgage limits for multi-family insurance have not been increased since 1992.

We also hope that we can work with you, as the bill moves through Congress, to include a provision which would allow indexing for future inflation.

Again, this will help foster the development of affordable housing, particularly in high cost areas like the Mayor just talked about, and ensure that programs can continue to meet demand without additional interruptions.

Second, and of more immediate concern facing FHA multi-family insurance programs, is the need for credit subsidy. In order to remain functioning, appropriations need to be set aside for all insurance programs. Based upon projected activities in each of these programs, it is estimated that FHA will require about $255 million in credit subsidies to operate the multi-family insurance programs for fiscal year 2001.

However, only $101 million was initially appropriated and that money ran out in April. This shortfall translates to a loss of 50,000 units of affordable rental housing that will not be produced.

In the short term, we seek a supplemental appropriation. Over the long term, NAHB joins many others in supporting H.R. 1481, the FHA Shutdown Prevention Act, introduced by Representative LaFalce. H.R. 1481 would allow the negative subsidy to be used in the event of a future shortfall in credit subsidy.

NAHB strongly supports removing regulatory barriers that affect housing affordability. We are working with Congressman Green toward a legislative proposal which would require relevant agencies to designate a staff position to monitor the rulemaking process to determine whether a particular rule would have a detrimental impact on housing affordability.

We commend Representative Green for his leadership on this issue.

And now, Madam Chairwoman, another critically important issue is an administrative obstacle which has been thrown in the path of a very successful affordable housing program, the Low Income Housing Tax Credit.

Since its inception, the Tax Credit has been the key part of the financing of nearly all of the affordable rental housing built in the last decade.

The Internal Revenue Service has issued five technical advice memorandums, TAMS, which have been applied industry-wide. These TAMS establish standards for determining what costs are includable in eligible basis for the purpose of calculating the tax credit.

They are creating a program-wide disruption in the allocation of credits and the development of housing, for they are changing what has become the industry-wide practice for the last 14 years.

The TAMS have the effect of reducing the level of equity financing available for each project making a number of existing affordable housing properties financially infeasible and weakening the economics of those that still pass minimum underwriting standards.

The TAMS also have created uncertainty among investors as to whether the credits for which they have paid will be realized. Therefore, the TAMS threaten to reduce the amount which investors will be willing to pay for each tax credit.

The loss of efficiency hurts both low-income tenants and the taxpayer by further reducing the amount of housing that can be produced from a given amount of tax credits.

Representative Nancy Johnson has agreed to introduce legislation that would allow certain development costs which have been included in tax credit eligible basis as generally-accepted industry practice to continue to be includable in basis eligible for the Low Income Housing Tax Credit.

We realize that this subcommittee does not have tax writing authority, but we hope you can support Representative Johnson in her efforts to move this legislation quickly.

And lastly, we need to think about a new production proposal, multi-family housing production program that would meet the needs of households with incomes between 60 percent and 100 percent of median income.

This new program would serve those who are not currently served by Federal or other publicly supported housing programs.

Mixed income projects should be encouraged and set-asides of funds for the production of housing for elderly, small projects and rural housing development opportunities should be considered.

Lower or very-low-income residents could be supported through increased fundings for vouchers, tax credits, home or community development block grant funds.

NAHB also recommends that the new housing production program provide a very low, 1 percent fixed interest rate. The Section 236 program could be used as a basis for design of this program, but the new initiative should incorporate greater returns, especially for small projects. Greater flexibility for commercial space. And vouchers for elderly and other special need populations.

To assist in any financing gaps, the new program should be compatible with existing housing——

Mrs. KELLY. Excuse me, Mr. Nielsen, but I am going to ask you to sum up.

Mr. NIELSEN. OK.

And community development programs such as CDBG, HOME, and FHA.

Thank you for the opportunity to address the subcommittee on the critical needs for affordable housing. NAHB stands ready to assist the subcommittee in any way they can.

Thank you.

[The prepared statement of Robert Nielsen can be found on page 267 in the appendix.]

Mrs. KELLY. Thank you very much.

Mr. Courson.

STATEMENT OF JOHN A. COURSON, VICE PRESIDENT, MORTGAGE BANKERS ASSOCIATION OF AMERICA, ON BEHALF OF THE MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. COURSON. Thank you, Madam Chairwoman.

Today, in spite of a decade of economic growth, as we discussed, there are millions of Americans who find they are unable to obtain decent, affordable housing. But this crisis, as we have talked about, reaches even beyond low-income families and is affecting even increasingly moderate and middle income families.

While the situation is certainly worse in certain parts of the country, the problem exists throughout our Nation.

Between 1997 and 1999, the number of moderate income families who pay more than 50 percent of their income for housing or who live in severely dilapidated housing, increased by 74 percent.

There are a number of reasons for this worsening crisis I would like to discuss. As we have heard their proposal, the Administration proposes to increase the FHA multi-family limits that have not been increased since 1992 by 25 percent. We certainly support that and we applaud both Chair Roukema and Mr. Frank's H.R. 1629, which, in fact, would support the increase of the multi-family housing limits that are supported also by the Secretary.

Second, Congress should expand the FHA adjustable rate mortgage product line. One of the priorities of the Administration and Secretary Martinez is to increase homeownership, particularly among minorities. One way to achieve this goal is through more flexible mortgage products.

In the fiscal year budget of 2002, HUD would authorize a new ARM product called the hybrid ARM for FHA. These ARMS have an initial fixed interest rate of at least 3 years and adjust thereafter.

They carry interest rates that are lower than fixed rate loans, and certainly are less risky than the 1-year ARM currently authorized.

Third, Congress should take action to halt the shutdown of the FHA multi-family project. On April 26th, HUD announced a shutdown of the multi-family new construction and substantial rehabilitation insurance programs. All new projects will be on hold for the rest of the year unless Congress provides additional credit subsidy funds.

This shutdown will stop the development of more than 50,000 desperately needed units in 33 States that total more than $3.4 billion in federally-insured mortgage loans.

These funds are critical to alleviating the current shutdown in the multi-family new construction program.

We certainly support President Bush's and HUD Secretary Martinez' efforts to strengthen the economy, but without these funds, projects will not be built, and an opportunity to provide an immediate economic stimulus and produce thousands of construction jobs will be lost.

Specifically, we would ask that Congress take the following actions:

Urge the Administration to release the $40 million of already-appropriated credit subsidy that was included in the Legislative Appropriations Act of 2001 and passed in December of 2000.

Second, to appropriate an additional $115 million in fiscal year 2001 to provide sufficient funding to keep the FHA programs operational for the rest of this fiscal year.

And lastly, to support legislation that would allow the use of profits generated from these programs to offset those who need credit subsidy or loss reserves for their implementation.

And we certainly applaud Representative LaFalce and Representative Frank for introducing H.R. 1481, the FHA Shutdown Prevention Act, which leads us down the path of solving this credit subsidy issue.

I would like to, if I may, ask permission to enter for the record a letter, which we have submitted to the Staff, and a chart, which will be going to Members of this subcommittee, of the Senate Banking Committee and the House and Senate Appropriations Committees, that deal with the impact of this shutdown of the multi-family and substantial rehabilitation programs.

Mrs. KELLY. So ruled.

[The material referred to can be found on page 288 in the appendix.]

Mr. NIELSEN. And I would also like to submit a list of all the projects in the country, the $3.4 billion of projects that would be adversely affected by this shutdown.

I thank you for providing Mortgage Bankers Association the opportunity to share our views with the subcommittee and look forward to working with you and other Members of the subcommittee as we implement these solutions.

Thank you, Madam Chairwoman.

[The prepared statement of John A. Courson can be found on page 280 in the appendix.]

Mrs. KELLY. Thank you very much.

Now we are going to move to Ms. Thompson.

STATEMENT OF BARBARA J. THOMPSON, DIRECTOR OF POLICY AND GOVERNMENT AFFAIRS, NATIONAL COUNCIL OF STATE HOUSING AGENCIES

Ms. THOMPSON. Thank you.

Chairwoman Kelly, Representative Frank, and Members of this subcommittee, I am Barbara Thompson, Director of Policy and Government Affairs for the National Council of State Housing Agencies.

I am testifying today on behalf of NCSHA. NCSHA represents the housing agencies of the 50 States, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

I would like to begin by thanking you, Chairwoman Kelly, Representative Frank, and the many Members of this subcommittee who, in the last Congress, cosponsored and helped enact legislation to increase the caps on housing bonds and the Low Income Housing Tax Credit.

Now tens of thousands of additional lower income families every year will have the opportunity to buy their first home, or rent an affordable apartment.

Unfortunately, many people qualified for housing credit and bond help still will not get it; obsolete program rules prevent it.

Representative Frank, we especially want to thank you for your early cosponsorship of H.R. 951 which fixes these problems. We urge all subcommittee Members to join Mr. Frank in co-sponsoring that bill, and we ask you to encourage your leadership and Ways and Means Members to include it in a tax bill this year.

With your extraordinary leadership and sustained support, we have made some important affordable housing gains, won some important battles in recent years. But we are still not winning the war.

HUD's budget is half of what it was two decades ago, and the Bond and Credit Cap increase, as I just mentioned, though of a size no one dreamed possible, are not beginning to restore the purchasing power of those vastly over-subscribed programs.

Meanwhile, as we have heard from many panelists this morning, many American families, one out of every seven, in fact, has a critical housing need, from the very poor to the solidly middle class.

Indisputably, though, families hardest hit are those with the least income; 80 percent of those with critical needs are very-low-income; 60 percent, extremely-low-income.

Meanwhile, the number of rental apartments affordable to them continues to drop. In the face of growing need among extremely-low-income people, State HFAs (Housing Finance Agencies) report uniformly that they are having a great deal of difficulty housing them.

In 1997, the General Accounting Office reported that housing credit properties were actually reaching people who made 25 percent of area median income or less with other subsidies, but that is the problem. Other subsidies often are not available and they are necessary to reach lower income families with the housing credit.

Some might suggest that we need to address rental housing needs across the income spectrum as high as 120 percent of area median income.

We urge you, however, while we have a scarcity of resources, not to divert them from those who have the most acute housing needs. We ask you to reject proposals to increase income limits on existing programs such as HOME and the Low Income Housing Tax Credit.

Still, existing resources clearly are not enough, and that is why one of our highest priorities at NCSHA and among the States is the creation of a new State-administered rental production program targeted, in significant part, to extremely-low-income families.

We want to work with you to design a program that builds on the success of programs like Bonds and the Low Income Housing Tax Credit, utilizes the existing, proven State HFA delivery system, and is integrated with existing State allocation plans and funding systems.

The program will only work, however, if States are given the flexibility to tailor their housing solutions to varied housing problems. HUD regulation must be limited.

We propose that funds be allocated by State HFAs subject to allocation plans like the Housing Credit Allocation Plan.

States should be empowered to use funds for a wide variety of uses.

Finally, it is essential that any new program's income, rent, and other rules be compatible with those of other Federal programs. It is combination with them will almost always be necessary.

A new program, regardless of its size, is not the whole answer. We want to work with you to continue to improve existing programs that work through increased funding, deregulation, and, where possible and practical, devolution of their administration to the States.

NCSHA and our member State HFAs are very grateful to you all for your enthusiastic and constant support of affordable housing. We will continue to do our very best to use Federal affordable housing funds efficiently and creatively under the conditions unique to each State, and to earn the trust that you have placed in the States.

Thank you.

[The prepared statement of Barbara J. Thompson can be found on page 274 in the appendix.]

Mrs. KELLY. Thank you very much, Ms. Thompson, and thank you for staying in your time limit.

I really am happy to hear you talk about an integrated solution to the problem, rather than one that is demanding of Federal intervention, because I am not convinced, from what I have heard, that that is necessarily our answer. So I am very happy to hear you talk about that.

I want to ask a few questions.

One is for the whole panel.

If we assume that, to some extent, some of you may not have reviewed the existing programs. I would like to know what your observations are about the HOME program that was created 10 years ago that was to provide housing for low-income families.

If you have visited, I would like to know why you think that HOME isn't providing the necessary production we originally thought that it would, or perhaps that is a misperception and it is about housing production capacity.

There is a third part to my question.

What about the other existing programs, like the 30 percent set-aside and the McKinney-Vento Homeless Assistance Act?

So I am asking essentially three questions here.

Do you want me to repeat them?

I want to know if you have visited the housing production created by HOME 10 years ago.

And if you have, or even if you haven't, why HOME isn't providing the necessary production that we originally thought or is that a misperception about the housing production capacity?

And I want to know what about the other existing programs, like the 30 percent set-aside in the McKinney-Vento Homeless Assistance Act.

So there are three parts to that question, and you can take them, whichever, whoever wants to own them.

Mr. Nielsen, you are going to own some of it.

Mr. NIELSEN. Let me start with the HOME program.

It has been my experience, and I have been building tax credit projects since the program began, that HOME fills a gap, a gap that is created between what is necessary and what other programs can provide in that, at least in our States, and in the State of California and Arizona, I can tell you that HOME plays a critical role in filling that gap.

And I don't know what the original legislative debate included concerning the original numbers that HOME would generate, but I wonder if many times, we count HOME units by the number of specific HOME units that are in a particular property without counting the entire property which HOME may have been critical in filling the gaps to get that property built.

So I am not sure that that answers both sides of your question, but I think the key is that we need HOME, we need additional HOME funds to continue to fill those gaps in projects that are being built today.

Mrs. KELLY. Thanks, Mr. Nielsen.

I just want to say that from my understanding of the HOME funding, the idea was to provide for housing production for low-incomes; it was not really a gap program, it was simply to provide for production. Get those units up.

So your viewing it as a gap program is very important information for us.

Mr. MENINO. In the City of Boston, we use the HOME funds also as gap financing, and then we go to the State for the tax credits and the issue there is the State doesn't have enough tax credits to build the affordability into the housing. We use it as gap financing also.

Mr. NIELSEN. Excuse me. If I could respond to your comment.

I really believe that HOME is critical in getting many of these affordable housing projects built. So I think it is a matter of counting, the way we count.

Mrs. KELLY. I am still looking for the answer to the third part of it. What about the other existing programs? I mean, if you are viewing HOME as a gap program, what about these other existing programs, and why, in your estimation, are they not there?

We have got the McKinney-Vento, the Homeless Assistance Act. I mean, why is that not working? There are so many possibilities here, there are so many programs.

My interest in asking this question is to establish whether or not the existing programs should be rehabbed and whether or not, in fact, we need new legislation.

So anybody there can have a hand at that.

Ms. THOMPSON. If I could respond, Chairwoman Kelly, I would like to say a few things about the HOME program. It is an enormously successful program, about 37 HFAs around the country run it.

It is most frequently used as gap financing, often with Low Income Housing Tax Credit properties. It simply isn't enough money, doesn't provide enough subsidy to do stand-alone HOME financed deals, unless they're small properties, usually rehab.

The problem with the HOME program is simple; there is not enough money in it. It is $1.8 billion. That is the most Congress has ever appropriated.

More than a decade ago, when this subcommittee and the Senate side got together and created HOME, you thought it ought to be funded at $2 billion. It has never reached that authorization level.

It would require that today just to make up for the purchasing power it has lost to inflation since the early 1990s when it was first funded.

You also have to bear in mind that the HOME funds are divided up today among about 595 State and local jurisdictions. It is hard to have a big bang with those bucks, because it is not a big pot and it is so divided up, as I said, among hundreds of communities.

And finally, there are some structural limitations to the HOME program. We are very excited to learn your subcommittee may be looking at the individual programs, like HOME, because we can give you some specific recommendations for changing some of the rules to make it work better. But HOME will not be the whole answer unless the Congress is prepared to put several more billion dollars into it.

Mrs. KELLY. Thank you very much. My time is up.

We will go now to Mr. Frank.

Mr. FRANK. Picking up from there, I was here when we did the HOME program. Henry Gonzalez was a major figure then, and it was not intended to be a production program. For one thing, as Ms. Thompson just said, it is kind of an entitlement divided up among a lot of municipalities, which means that no one is going to have that large amount of money, and remember you also are talking here about annual amounts.

You don't build a project, you don't get a loan from a bank. Once you get any bank that lent too much on this annually, I think they would be in trouble.

So it is a valuable program, but it was not meant to be a production program.

There is one point that has come out of this today that is very important. And I hope, and I will be approaching Mrs. Roukema, Mr. Oxley. One of the things that both parties have been guilty of has been to allow a jurisdictional rift to keep the Low Income Housing Tax Credit program too separate from the housing programs. And they ought to be made more fully and more easily interoperative.

And it is true that people have used the HOME program, but I am hoping that we will be able to sit down with a kind of a joint effort. You know, in the hopes that we might be in power, I had been talking to Mr. Rangel about that, and the fact that the party didn't change doesn't mean that we can't work that out, so that is something we have to do.

The next point I want to make, though, is that, and I think this is very clear. I am pleased to have, in the two panels that have been speaking in favor of a housing production program in part, a number of people in the business community, people from the Home Builders.

We have statements from the realtors, we have the mortgage bankers. Because one argument has been, well, Government can't do housing right.

And I think it is time for us to confront an inaccurate, cultural lag. It is true that when we decided, particularly in the post-World War II period, as a society, to house poor people cheaply, we built uninhabitable buildings called "public housing."

The poor never asked to live in Columbia Point, or Cabrini Greene. They never thought it was a great idea to put about 800 of them into a small, crowded space with no facilities. We did that because we didn't understand fully the sociology, and so forth.

We have learned from that. The time has come for people to stop citing these acknowledged failures, which we have learned how to avoid, as an excuse not to go forward with a mix of public and private sector flexible programs. We have learned that.

There are few areas in American Government, in my experience, in American society, where actual on-the-ground cooperation among Federal, State, local, private sector people has worked so well.

The Low Income Housing Tax Credit program, Assisted Housing, there are wonderful examples of this.

Now, again, we have in people's minds old public housing projects being demolished, but people are not fully aware of this. So I think we are at the point now where we have the need.

And I appreciated Ms. Nelson's acknowledging that, yes, the real crisis was with the extremely-low-income people. But in various parts of the country, as the mayor has pointed out, for the very-low and the low-income people, there are also crises.

Somebody mentioned well, you know, yesterday's housing is available for the poor people. Unfortunately, other people are living in them.

Well, eviction is not likely to be one of our programmatic tools here. And it is important for a city not simply to have extremely-low-income people; yes, we want to have the low-income people and the extremely-low-income people better housed. We have learned that we do them no favor if we exclusively build for them alone and segregate them.

So we want a range of buildings. We are not going to build luxury housing. We have the need, we have the resources in this wealthiest society in the history of the world, and I believe this is what some people have misunderstood.

We have, in fact, the knowledge, we have the experience. You give the resources and—one of the things, I was talking to Congressman Green when he was here, one of the things we probably ought to do is to recognize the regional differences in this country, and create Federal housing programs with increased resources that give some flexibility.

There may be areas where they want to do all vouchers. There may be areas where they want more public housing. There may be areas where they want to emphasize affordable housing which is going to be a mix with public and private.

I think what we need to do is, one, increase the resources so we don't have people resisting any flexibility because it is coming out of their hides; we don't want to have a zero sum game. And then give each municipality, each region of the country in which people have learned to work together, the flexibility.

I think, again, we have the need, we have the resources, and we have the knowledge. The only question is whether we have the political will, and that is what we will have to determine.

Let me just say, lastly, with regard to the FHA, I hope we will move quickly on the bill that Chairwoman Roukema and I have introduced. She took the lead to increase the multi-family limits, but at the same time as part of the way of dealing with the shutdown, we have an FHA fund that is in very good shape financially.

We had a hearing in which the Congressional Budget Office and OMB and everybody else came and said, GAO, every alphabet agency you can think of that is in charge of fiscal stability, came in and said it is in very good shape. It is inconceivable that we would have an economic downturn so severe as to endanger that fund.

Therefore, and, in fact, every other assumption we are making in the U.S. Government today goes directly counter to the view that there would be an economic downturn of that magnitude.

So the time has come to give more flexibility to the FHA as well, so they can use the increased revenues, the solid surplus in some areas, to help in other areas. There is no need for shutdown and there is no need for fee increase. Within the FHA's pot of money, totally, fiscally, responsibly, they can rearrange things, and we will be pushing for that as an amendment giving them the authority to do that as part of this FHA Multi-Family Increase.

Thank you, Madam Chairwoman.

Mrs. KELLY. Thank you, Mr. Frank.

Next we go to Mr. Watt.

Mr. WATT. Thank you, Madam Chairwoman.

Every once in a while, one of my colleagues will ask a question and I will be tempted to raise my hand to answer it, and then somebody will answer the question.

And I want to start by thanking Ms. Thompson for answering the Chairlady's question.

It is absolutely apparent to me that we do not solve a problem in this body by authorizing legislation to solve it. If we don't put some appropriations behind the authorization, then we can't expect, at the end of a 10-year cycle, to say "Well, what is the problem? Didn't we solve this problem by authorizing the HOME program?"

And I just want to resonate the answer one more time. Yes, the HOME program was a good program to authorize, but if we had not appropriated a dime to implement the HOME program, none of the results that we have gotten out of HOME would have ever been achieved.

And if we had appropriated what we should have appropriated, then maybe we wouldn't have a housing problem now, or at least we would be a lot further down the road.

Now I take it the same is true for the McKinney-Vento Act. It is an authorized piece of legislation.

Have we ever appropriated enough money to solve the problem that it was designed to—maybe we should go one-by-one on these programs, and finally maybe somebody will get the message that it is not about not having programs out there; it is about not having money out there.

And Representative Frank said, we have got the resources. Well, we do have the resources if we appropriate them. That is where the political will that he was talking about comes in. What do we use the resources for.

So maybe I should ask the question: How much more money do we need in the HOME program appropriated for the HOME program for it to really fulfill its mission?

Maybe Ms. Thompson can help me on that.

Ms. THOMPSON. Well, I think we certainly need much more money in HOME. In fact, our organization is advocating $2.25 billion for fiscal year 2002. And that is not nearly enough to meet the need.

Mr. WATT. And how does that compare with the what the President's budget?

Ms. THOMPSON. The President has proposed level funding; we would argue the Administration has actually proposed a cut in the HOME formula grants to State and local governments by virtue of the fact that it proposes a set-aside of $200 million within HOME for a special downpayment assistance program.

So we feel that is actually a reduction in funding from the current year funding of $1.8 billion. But I do——

Mr. WATT. So, if I hear you correctly then, even if you treated this $400 million or $200 million as appropriately in HOME, then we would still be $400 million, $500 million short of what you think——

Ms. THOMPSON. What we think ought to be achievable?

Mr. WATT. Ought to be achievable.

Ms. THOMPSON. And that isn't what is needed.

Mr. WATT. And that is not what's needed.

Ms. THOMPSON. What is needed is more.

But I do want to point out, I think this is really important, and I didn't mention in my earlier remarks, that the HOME program also is for single family housing.

I agree with Mr. Frank, it was never really designed to be a rental production program. Forty percent of the money goes to single family housing.

Mr. WATT. Well, you anticipated my next question. How much are we short on the other programs that we need to really address the housing shortage, affordable housing shortage in this country?

Ms. THOMPSON. Billions of dollars short.

Mr. WATT. And what are the programs? I mean, what is your funding level that we ought to be striving for for some of the other programs?

Ms. THOMPSON. We believe what is needed is a new program, Congressman. That doesn't mean that the existing programs aren't playing a useful role. But we think it is very important that we take the experience we have under the Low Income Housing Tax Credit and build off of that program, which has caused the private sector to get involved in the production of affordable housing.

It works well, it gives the kind of regional and State flexibility that Mr. Frank mentioned is important. The only thing that is missing is extra resources to be coupled with it to reach lower incomes to the extent we need to. And maybe we need to look at the question of 60 to 80, as well.

Mr. WATT. How much extra resources are we talking about? I am trying to give the Chairlady a picture of what——

Ms. THOMPSON. We are looking for a block grant to States probably of several billion dollars in size.

Mrs. KELLY. I am extending you a little extra time.

Mr. WATT. Say that again?

Ms. THOMPSON. A block grant to States of several billion dollars in size. I think we need to change the conversation about money.

Mr. WATT. Is any of that in the President's budget?

Ms. THOMPSON. Is it anywhere in the President's budget.

Mr. WATT. Any of that in the President's budget?

Ms. THOMPSON. No, it is not.

Mr. WATT. All right, I yield back. I rest my case.

Mrs. KELLY. Thank you, Mr. Watt.

Next we go to Ms. Carson.

Ms. CARSON. Thank you very much, Madam Chairwoman. I have heard a lot of the testimony because I have been out here meeting with constituents and all that, we are doing both.

But I was particularly interested in hearing the Mayor's comments about the impact of rising housing costs on a community such as yours.

Would you kind of give me your spin on that, and the impact it has had on your community?

Mr. MENINO. Let me give you an example of what the rising housing costs are doing in our society. I met a couple out in one of the neighborhoods of the city just recently. A year ago, they were paying $750 a month rent. Today, they are paying $1,500 a month rent.

The taxes in the City of Boston haven't gone up, the water and sewer bills haven't gone up, it is just the landlord is looking to make as much as he can out of that housing unit because you have a housing crisis. Housing is at a premium. We are not producing any housing when it comes to affordability.

We did 1,000 units in our city last year. That is outstanding for any city in the country. But we need the Federal, we need the help. We need help and the U.S. Conference of Mayors, of which I am the Chairman of the Advisory Board, recommends on the HOME program $2 billion for HOME and $2 billion for new housing production.

Congressman Watt asked that question, so the U.S. Conference of Mayors is on record for $4 billion.

But how do we do it? Why do we have this problem? We have, you know, cities are hard commodities. Everyone's come back to cities. And we just don't have the resources.

And public housing, public housing developments are places where people could be proud to live in, if we continue do what we do with the HOPE VI program. We have two HOPE VIs in the City of Boston and people are proud to live there. We give them a back door and a front door.

We give them, you know, something that they can be proud of. We are going to continue to do that. What is happening now is we are putting all kinds of resources together. I am putting $30 million of surplus disposition funds, which the city has never done in its history, to provide for affordability.

We are selling off land in the City, you know, giving it away for the most part to get development. But still the HOME funds we just talked about as part of the about $50 to $1,000 per unit helps us cut down the cost, and we have to go to the State and get tax credits.

What we need is a comprehensive plan. We need help. We do have a housing crisis. We don't need it 5 years from now. We need it now. We desperately need it.

You know, cities can't be just the rich and the poor. There also has to be the middle class. And, you know, we are driving them out. Besides housing, there are other issues out there, but we have to continue to work hard and try to produce housing in our city; it is not easy, but obviously we have made it a priority, and we are doing it slow but sure, but we don't have the subsidies that the Federal Government could supply us if they really cared about housing.

Mrs. KELLY. Thank you very much, Ms. Carson.

We now go to Mr. Capuano.

Mr. CAPUANO. I guess I am going to pretty much stick to the same tack as I had in the last.

I guess I would like to see, by a show of hands, those of you who think it is a really good idea to cut $700 million out of the capital improvement program for public housing?

Or $70 million out of the drug elimination grant?

Or $25 million out of the rural housing production program?

Or basically, I agree with you, Ms. Thompson, that it is a de facto cut. I don't buy earmarks or carve outs, as they are called here.

On the HOME program, do you think there is anywhere near enough money in any of the HUD budgets to address any of the real needs we have expressed here today?

Mrs. KELLY. Will the gentleman yield?

Mr. CAPUANO. Sure.

Mrs. KELLY. Let the record reflect the fact that no one has raised their hands.

Mr. CAPUANO. Thank you, Madam Chairwoman.

I guess the other question I do want to ask, especially since we have two people from business, we do have significant tax cuts before the Congress at the moment, and there are some people that think that somehow there is going to be an economic stimulus, and I am not one of them, but that is beside the point. I mean, I understand tax cuts are fine on some levels.

But on these issues, is there anything in the current tax proposals that are before us that you think will help housing production, changes in marginal rates or changes in the estate tax?

VOICE. The answer from our point of view is no.

Mr. CAPUANO. Thank you.

VOICE. If the President has a proposal for a new, single family housing credit program, we support that. But it is not in the bills that are moving forward, and we doubt it will be in the 1.35 package that is ultimately passed by the Congress.

We urge you, though, to help us get the Congress to include this bill I mentioned earlier, because if they are going to do a big tax bill, we hope it could contain something for housing, such as H.R. 951 to fix the impediments in the Low Income Housing Tax Credit Program and the Bond Program, so we get full use of those cap increases you gave us last year is very important.

Mr. CAPUANO. Many of us are going to try.

Mr. COURSON. And the mortgage bankers would support that. We certainly support H.R. 951.

VOICE. That is terrific, thank you.

Mr. NIELSEN. The other thing, as I mentioned in my testimony, and we realize that this subcommittee can't do a whole lot about it, but you as individual Congressmen certainly can and that is the TAM issue which could cripple the Low Income Housing Tax Credit program, so it is extremely important to us that that get fixed too.

Mr. CAPUANO. I guess what my whole questioning is going toward is really one of the members of the earlier panel said something about there aren't enough resources, and I believe you. Ms. Thompson, said something about a resources crisis.

I totally disagree with that. It is not a resources crisis, it is a priorities crisis. And I will be honest that it is a priority crisis. It is not just in the people who run the Congress and the White House today. It is not just the Republican Party. It is the Democratic Party as well.

As you will see if you take a look at any of our national statements, as far as a party goes, housing is not mentioned. Housing is not mentioned. It doesn't seem to show up on the political radar screen.

And I guess for me, that is the most difficult thing I have had down here. It is not so much finding people that agree with me, but people who are willing to stand up and put it as a priority and an important issue.

I happen to think that housing is probably one of the most important things America can do is to help people get into homeownership and those who can't afford it to at least give them reasonable decent shelter.

And I guess I know you are here asking for help and I know I will do as much as we can; I think most people here today will. But at the same time, I am also asking for your help as well.

Testifying in front of this subcommittee is great, and I appreciate you coming today, but it is not enough. You know, we need you to spread the word in Nevada and to spread the word in other places across this country to people to understand that this is not an urban problem, this is a national problem, and that the Federal Government has an appropriate role to play and that we are not doing it now.

And with that, I know the Mayor wanted to have something else to say.

Mr. MENINO. Congressman Capuano, the drug elimination money has gone a long way in public housing over the last several years, and to remove that money just makes us go backward in public housing.

I don't know why we want to go backward. It doesn't make a lot of sense to me. But to eliminate these funds, you know, it makes good headlines, but it doesn't do anything for the human development issue that we all care about as elected officials.

We have got to get back to human development, and let us not talk about cut, cut, cut, because I see the progress we have made in public housing over the last several years. And to take the drug elimination money out of public housing will not do any good to anyone; it will just let those public housing tenants be treated as second class citizens once again.

Mr. COURSON. Congressman, if I may, the other is, and I talked a little bit about credit subsidy in my testimony, and if, in fact, and we at MBA are working with OMB, if, in fact, you look at credit subsidy in the dollars of those programs that are profitable, and those programs that do need subsidy, and look at those as an insurance fund, as we would in business, you don't need an appropriation.

So there is an area where Congress is appropriating where frankly we don't believe they need to appropriate, because the sharing of risk, if you will, which is what FHA is, an insurance fund, doesn't need that appropriation. So there are dollars appropriated that aren't necessary.

Mr. CAPUANO. I agree. Thank you very much.

Mrs. KELLY. Thank you very much, Mr. Capuano.

We go now to Ms. Waters.

Ms. WATERS. Thank you very much.

I really don't have any questions. And I am sorry I was not here to hear the first panel. I would like to thank Congresswoman Roukema for holding this hearing, and this is what I would expect Barney Frank to do, and I thank you, Mrs. Kelly, for chairing this hearing today.

I mean, I think you are very courageous. I think the Republicans are very courageous because you are doing it in the face of the budget cuts that are in the budget.

I mean, I don't know what else I can say about how outrageous it is to cut the drug elimination program in housing projects. It just speaks for itself.

I don't know what to say about the reduction in Section 8 subsidies. I mean, it just speaks for itself. We know what we need to do.

Again, I thank you, because just by holding the hearing, you highlighted and it points us in a direction, and I think it sends a signal that some of you are willing to do something about it. I just hope you can convince a few other people.

We got it over here, we know. We understand what must be done. I am one of the spenders. I want to spend some money on poor people and housing and a better quality of life for people, and I just hope that the housing crisis is understood so that we can reverse some of the potential damage of this budget.

So I thank the panelists for being here today, and again I thank my colleagues on the other side of the aisle for holding this hearing. All it takes is, you know, a little will and some money, and we can get it done.

I yield back the balance of my time.

Mrs. KELLY. Thank you, Ms. Waters.

We all know, we all know this is not a partisan thing. We know what it takes to create good communities in this Nation. We need good housing, we need good schools, and we need good community support in various ways with regard to jobs and so forth, and safe streets.

You put those things together, those four things, and we have wonderful communities, and it is not about politics. It is about good public policy and I think it is one of the saddest things to witness here today that Ms. Waters feels that this is a remarkable hearing, because this is remarkable in one sense. We are finally trying to get our arms around a tough problem.

So thanks for your kind words.

Next we go to Mr. Sanders.

Mr. SANDERS. Thank you, Madam Chairwoman.

I would not one hundred percent agree with your previous statement in that I think this issue is one hundred percent about politics and it is about national priorities.

And I appreciate very much you and Mrs. Roukema holding this hearing and for highlighting the crisis in affordable housing.

But as I think everybody who has spoken has indicated, that one of the ways we address this crisis is to put money into housing. We could talk theory all that we want, but by definition, affordable housing is going to need Government help.

And where the politics unfortunately comes in is, as a Nation, we have got to decide whether we provide hundreds of billions of dollars in tax breaks to the wealthiest one percent while cutting back on affordable housing programs.

That is politics, that is national priorities.

What saddens me very much in the national discussion on housing is that the people who are most in need of affordable housing are very often the last people who will come to Washington to attend $100,000-a-plate fundraisers.

In fact, in many instances, these are the people that don't even vote. And I think in Washington, these are people who are seen as easy targets. We can cut back, because who cares about those people; they don't vote, they don't contribute to political parties.

I think it is a national disgrace that millions of people are being asked to pay 40 or 50 percent, and in some cases, more per month for their housing. It means that they don't have money left over to take care of other basic necessities.

I think it is absolutely right for the United States Government to say that every person in this country is entitled to decent, safe, and affordable housing, and I would hope that you will join with us to fight for national priorities that say that it is outrageous that we give tax breaks to billionaires, and at the same time, cut back on affordable housing.

So I want to thank the panelists for their excellent testimony without exception, and look forward to working with you so that the day will come, sooner or later, when everybody in this country lives in the kind of housing that they are entitled to and that especially our children have safe and affordable housing.

Thank you very much.

Mrs. KELLY. Thank you very much, Mr. Sanders.

No doubt you have written statements, and without objection, your written statements will be made part of the record.

As the Chair notes, some Members may have additional questions for this panel, and they may wish to submit them in writing, so without objection, the hearing record is going to remain open for 30 days for Members to submit written questions to the witnesses and to place their responses in the record.

I thank you very much.

This hearing is adjourned.

[Whereupon, at 12:35 p.m., the hearing was adjourned.]

HOUSING AFFORDABILITY ISSUES

TUESDAY, MAY 22, 2001

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND
COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to call, at 9:30 a.m., in room 2128, Rayburn House Office Building, Hon. Marge Roukema, [chairwoman of the subcommittee], presiding.

Present: Chairwoman Roukema; Representatives Bereuter, Ney, Kelly, Miller, Cantor, Grucci, Tiberi, Frank, Velázquez, Lee, Schakowsky, Jones, Capuano, Waters, Watt, Clay, and Israel.

Chairwoman ROUKEMA. I am Congresswoman Marge Roukema. We will call the hearing to order and open. I don't know whether or not you heard my comment to Mr. Frank as he came in. I said "Good morning," although then I facetiously said "I don't know what is good about it." But the rain is good about it, right? We need it, and I certainly hope it is raining in New Jersey. We desperately need that.

But it is a good morning to have you all here today, and I appreciate your being here. It is important issues that we are dealing with, and we are so pleased that these panelists are willing to be here and share their time with us and their intelligence and experience with us.

This is the second hearing planned by this subcommittee on the issue of affordable housing. Certainly the country is facing a growing affordable housing crisis for low- and moderate-income families, which I believe is recognized on a bipartisan basis. Despite the fact that more and more people are sharing the American dream of home ownership, many working families are finding it more difficult to find affordable housing, whether rental or personal ownership.

Through these hearings, I hope to better define the problems faced by many of our families and find solutions that we may use in addressing the crisis. That may not be an easy goal to accomplish, but we are going to try, and hopefully be able to resolve it on a bipartisan basis.

The growing economy has created a major dilemma for an increasing number of working class and low-income Americans. In many areas, our better economy means higher rents and these hard working Americans are suddenly finding they can't afford housing and they can't even afford housing available that is geared supposedly to their income levels.

The problem certainly is a complex one, and since the causes may vary, depending upon the peculiarities of the particular real estate market, local markets are highly individualized, which we have learned recently, differing very dramatically from Houston, Texas, to Manhattan, to Portland, Oregon, or Detroit, Michigan. We will not belabor the issue there.

But I can give you a specific example that relates directly to Federal housing policy. In some areas, existing Federal programs such as the use of Section 8 vouchers may be working very well, but in other areas voucher utilization rates are very low, because, as we are all becoming convinced, in order to address the problem successfully we will need to consider a variety of approaches and explore why not even vouchers are helping.

We don't know whether we should develop a production program to encourage the production, the manufacture, of the supply of housing, whether we need to change existing Federal programs that will help to foster production and improve the delivery, and provide other forms of, and I hate to use the word subsidy, but other forms of support or subsidy for housing rental systems.

The high cost of construction and the shortage of land force many builders to focus only on the high end of the market, and we must look for ways to remove these barriers. I say that with great caution, because I come from a State, the State of New Jersey, where local zoning is of paramount importance. But the local zoning has a lot to do with the high cost of building because of the zoning questions.

Last week, Congressman Frank and I, the ranking Democrat on this subcommittee, asked the Administration to release the $40 million in credit subsidy for the FHA Multifamily Housing Program. Releasing these funds will allow us to resume lending under the FHA Multihousing Loan Guarantee Program, while providing Congress with the time necessary to determine the best way to proceed in funding this important program through to the end of this fiscal year and hopefully over the immediate years to come.

I would like to also ask my colleagues to co-sponsor the legislation that Congressman Frank and I have introduced, H.R. 1629, which would raise by 25 percent the existing FHA multifamily loan limits. It is extremely expensive and difficult to build multifamily projects that produce moderately priced units, and the resulting rents are often higher than many families can afford, so in the current situation it is not really applicable and there is no reality there to the FHA loans.

Without the assistance of FHA, builders are building fewer and fewer multifamily projects, exacerbating the grave shortage of affordable rental housing.

Since 1992, construction and other costs have increased significantly and the preliminary survey by the National Association of Homebuilders shows that land costs increased by an average of 25 percent over the recent past 9 years. That is pretty significant. In areas such as New York City, Philadelphia, Boston, San Francisco, it costs more, just to name a few, to construct or rehabilitate moderate cost housing units than the current mortgage limits.

The FHA loan limits were never intended to exclude certain regions of the country. We would hope that H.R. 1629 will fix that problem, and I urge my colleagues to take it under consideration and co-sponsor this legislation.

Finally, last year Congress passed legislation to increase the cap in both Low Income Housing Tax Credit and private activity bonds. Congressman Houghton and Congressman Neal have introduced legislation to finish the modernization of these important programs. H.R. 951, the Housing Credit and Bond Modernization and Fairness Act, is their bill. I think we should look at it very positively, but, unfortunately, even with the increases outlined in this legislation, and the increases that were enacted last year, many qualified to reach housing help under these programs are not getting it because of a few obsolete program provisions enacted 20 years ago.

So, that is what H.R. 951 makes, three simple low-cost non-controversial tax changes. I will not go into that now, but except to note that the National Governors' Association has recognized the importance of this legislation by endorsing its enactment, and I urge my colleagues to add their names as co-sponsors to this important legislation.

Getting to our hearing today on the contributions that will be made before us today, we are fortunate to have a number of distinguished experts in the field of housing as witnesses, and there are many organizations working together through public-private partnerships. It is more than terminology here, it is actual operations, public-private partnerships, which I would like to see expanded, to provide affordable housing throughout this country.

Today we have several of those organizations who will share with us their experience and recommendations for addressing the growing crisis. I am particularly interested in hearing the ways that we can reform current programs. So I welcome you here today. Thank you for being here.

With that, I seek the comments and observations of our Ranking Member, Mr. Frank.

[The prepared statement of Hon. Marge Roukema can be found on page 318 in the appendix.]

Mr. FRANK. Thank you, Madam Chairwoman. I am very pleased to note that I am in very substantial agreement with the substantive points in your opening statement. Indeed, I think probably the only difference in how we would have said that is the New Jersey accent. I have one and you don't, even though I moved away. You managed to avoid it.

Chairwoman ROUKEMA. The accent, is that what you are talking about?

Mr. FRANK. I have a New Jersey accent and you don't.

Chairwoman ROUKEMA. That is true. I am a true New Jerseyite.

Mr. FRANK. But we are blessed in this country with the best economy that the world has ever seen. The United States economy, private sector, has performed in this last decade at a pace that really people had not thought possible. We had lower unemployment with virtually no inflation, great productivity, and that is a good thing.

The problem is that some people think that that is all we need to do, and as the Chair pointed out, for some people, the good economy is not only not good news, it can be bad news. Because if you happen to live in an area where a large number of people are benefiting from the new economy, if you are one of those people for whom the world is a new market and you are in those areas where the United States has dominated the world in biotechnology, in software, in the provision of medical services and a whole range of other areas, you are doing very well.

You are doing well enough so that you can bid up real property to the disadvantage, not that you intended to be that way, but nonetheless to the disadvantage of teachers and firefighters, factory workers, hospital workers, others, who are not directly participating in this new economy.

So we have the problem of people being worse off as the economy gets better. Now, that is an easily solvable problem, because here we have a situation where the very cause of the problem, the increased economy, provides us the resources if we have the sense to use them to resolve it.

Precisely because this economy has performed so well, this society has the money to deal with the housing problems that are faced by people who have been disadvantaged by the prosperity. So what we have here is a failure of will, plain and simple. We have a decision to make as a society, will we turn our backs on people who need housing?

Twenty years ago there would have been an argument that said: "Well, whenever the Government tries to help housing, it messes it up." I think it is important to deal with that, because there is this cultural lag that interferes with our reference. People still see Pruitt-Igoe and Cabrini Green and the Old Columbia Point in Boston, people see a hundred towers being imploded. Yes, 40 years ago this society built housing badly for very poor people, apparently out of a desire to do it very cheaply.

We know now without dispute how to build housing, how to help the private sector build housing, get the public sector get better housing, with variety, with a great deal of intelligence. The proof of that, by the way, is the waiting lists that we all know about for much of the existing subsidized housing for the elderly, for people who are disabled.

One of the things society did years ago was to end, to some extent, the process of automatically institutionalizing people with mental illness. We have been trying hard to treat people with mental illness better. The Chair has been a leader in the effort to make sure health insurance is fair to people with mental illness. One of the things we haven't done is to provide the housing stock that is necessary to make the deinstitutionalization process work humanely, because you have a disproportionate number of people with mental illness among the homeless, because we have shut down some of these institutions and have not done enough to find replacement institutions.

As I said, we know how to do this. There is a whole range of programs. There a need for flexibility. As the Chair points out, in some areas of the country a voucher program will work well. In others areas, it will not work well. We have a mix of tax credits, of public housing. There is a whole range of need and there is a range of programs, and in area after area in this country, we know how desirable that is.

I wanted to stress one point on the desirability, because again we run into this myth. We know we have a need for housing. We know we have the resources to help with it. We also know, by the way, when you help anybody with housing, you are helping everybody to some extent, because there is a chain here. So as you increase the stock, you help everybody some. Obviously you help primarily those for whom the stock is directly aimed, but you help everybody some.

But, one of the things that the Government did in the 1960s in particular was to do a couple of programs, Section 221(d)(3) and Section 236s they were called, which were public-private collaborations, whereby the public sector subsidized the cost of multifamily rentals, and a large number of people moved into those. For those who think the Government can't do housing well, look at what we have been preoccupied with in the last few years.

We have been preoccupied with meeting the demand of the residents of those federally-subsidized housing developments to preserve them as their homes. In other words, by the best possible test, consumer satisfaction, this country has learned that the housing programs of the 1960s and 1970s, while I think the financing mechanisms were not as good as they could have been, were, as physical and social facts, overwhelmingly popular.

Even at a time when this Congress was cutting back on housing funds elsewhere, we had virtual unanimity out of this subcommittee, the committee and the floor of the House and Senate, in preserving the housing developments built with public funds years ago. Having done that in the 1960s and 1970s, having had the people who live in those units tell us by their insistence that we protect and preserve the units, that they were successful, we have the model for going forward.

So I appreciate what the Chair said, and I also particularly want to reiterate in closing, our agreement on getting more out of the FHA.

I do want to point out to people again, we had a very good hearing, the Chair convened a good hearing, our first hearing in this year, with the Office of Management and Budget, with the Congressional Budget Office and the General Accounting Office. There were more accountants in this room than most people could keep track of.

The unanimous conclusion was that the FHA fund is at this point in very solid financial shape and that it is hard to think of an economic calamity that would call it into question. In other words, without being reckless, being totally actuarially sound, we can go forward and make better use of the FHA. We ought to begin with that right away and get back to some housing being built and go on from there.

Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. Thank you, Mr. Frank. I appreciate the fact you underscored the point that I believe I neglected in my opening comment about the first hearing, that the FHA is actuarially sound, and the point was made over and over again by both the GAO as well as other accountants in the field. I appreciate that.

For all our Members here, I want to remind you of the rules, and the rules are that we will hope that—well, everyone will have to keep their opening statements to 3 minutes, and I am going to have to enforce that, considering the number of people we have here and how we will be going into some voting sessions in the near future, and we do want to hear this panel this morning. So I am going to adhere to the 3-minute limitation. For those of you who want to simply ask unanimous consent to have your statement included in the record, that will be done.

Now we will hear Mr. Miller. Do you have an opening statement?

Mr. MILLER. Thank you, Madam Chairwoman.

Many things that Mr. Frank says I totally agree with. He talked about people not participating in the economic boom and we have the money to deal with the housing problem. The only problem I have with that is we are dealing strictly from a Government perspective and dealing with taxpayer funds.

He talked about the history of housing, how there used to be affordable housing. In post-World War II there absolutely was a boom in housing, housing was affordable, but the problem between today and then is at that point in time, Government was not causing the housing boom.

When I first went into the building industry a little over 30 years ago, you could submit a tentative tract map, and by law we respected the principles of property rights, and in 58 days the Government had to say yes or no to a tentative tract map application, and if they didn't respond in 58 days, 59 days later it was approved by law.

But then we started the EIR (Environmental Impact Report) process and CEQA (California Environmental Quality Act) and other processes that Government has created for the benefit of people. And I give you an example, I had a specific plan in a community I started in 1989 that the local agency finally approved in 2000; 11 years later. It has no endangered species, has no flora, fauna and habitat that supports endangered species. Because of the EIR process and the changes in the concept of property rights, Government agencies can protract the process to such a degree that unless a property owner owns the property, a banker knows that they will foreclose 5 or 6 or 7 times on that piece of property and nothing will ever occur.

As much as I enjoy what Mr. Frank says, and I do agree with most of it, I disagree that Government is not the resolution to the problem. Government is the problem, and if Government would get out of the way of the housing industry as they did in post-World War II, we would not have a housing shortage today, we would not have an affordable housing shortage today, in fact, we would have a boom in move-up housing, and affordable housing would be available, and poor people wouldn't be looking for houses that they can't afford. In post-World War II, an individual bought a $100,000 home, and $35,000 of it would not be in fees to Government as it is today; then that individual could simply buy that home for $65,000, instead of paying $100,000.

Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. Mr. Israel. By the way, I am acknowledging and recognizing—excuse me, excuse me, I would hope that the Members would listen and give courtesy to our other colleagues.

I am recognizing people in the order in which they have arrived. Mr. Israel.

Mr. FRANK. Madam Chairwoman, I would just like to note Mr. Israel gives his statement happily in the presence of his Chairman, whom we are happy to welcome.

Mr. ISRAEL. Thank you, Mr. Frank, and thank you, Madam Chairwoman.

I represent an area where affordable housing has truly become a crisis. A significant percentage of my constituents are now paying over half of their incomes on housing costs. The median price of a home in my area is now near $200,000, home prices increased 16 percent last year alone by one estimate, and affordable rentals are all but absent on Long Island.

Yesterday our colleague, Congressman Earl Blumenauer and I toured areas of my district to talk about how we can make housing more accessible, more affordable and more livable. I look forward to hearing today how we can create more partnerships, how we can use tax policies to encourage more housing, and how we can solve this problem on Long Island and throughout the country.

I thank the Chairwoman and yield back.

Chairwoman ROUKEMA. Thank you.

With that we will recognize Mrs. Kelly from New York.

Mrs. KELLY. Thank you, Madam Chairwoman. I really want to thank you very much for agreeing to hold the hearing on affordable housing. It is a problem facing our Nation and it is the lack of affordable housing that is not really, I think, solely the matter of importance to the working poor, it is an issue that affects every single level of the communities.

In my home county of Westchester County, the median price of a house is $412,000. That is the median price of a house. HUD has declared that a fair market rent for a 2-bedroom apartment is $1,144 a month. That is higher than in New York City. As of February 8, there are 13,207 people on the Section 8 waiting list, and there is simply no product available to those people that is affordable to them to get into.

The county and the communities really are not able, unfortunately, to use all of their Section 8 vouchers, because of a combination of a lack of these housing units and the inability of Section 8 vouchers to cover the fair market rent for the area. One of the things I hope we are going to be looking at is a regionalization of some of these applications. But in looking for remedies for this situation, I don't think we can solely look to the Government. As this is an issue of real importance to the entire community, we have to look to private community groups and institutions for a combination of public-private efforts.

It has been from these initiatives that I have witnessed some of the best work in my region that goes toward long-term solutions. In my opinion, any legislation looking to make serious progress toward a solution has to include public-private partnerships. But the need to engage multiple entities is certainly a drag on the housing market.

In addition, one of my foci is to hear what you think that Congress might be able to do to strengthen existing programs that are having positive results in addressing this need for affordable housing. With most legislation, a balanced approach is necessary. We should continue to work together to ensure that effective programs are going to receive all the support they possibly can get and deserve.

I want to thank the distinguished panel of witnesses for taking time out of their busy schedules to be here to discuss these issues with us. I look forward to working with my colleagues on both sides of the aisle, and I yield back the balance of my time.

Chairwoman ROUKEMA. I thank Mrs. Kelly.

Now we have Mr. Watt of North Carolina.

Mr. WATT. Thank you, Madam Chairwoman. I doubt that it would be an effective use of the subcommittee's time to find a different way to express what the Chair and the Ranking Member and Mrs. Kelly have adequately described as real problems that exist in my congressional district. I am looking forward to hearing the suggestions of these witnesses and witnesses on the second panel about how to innovatively address these problems.

With that, I will yield back the balance of my time.

Chairwoman ROUKEMA. I appreciate your consideration.

Now we have Mr. Ney of Ohio.

Mr. NEY. I will pass.

Chairwoman ROUKEMA. Thank you.

Ms. Lee of California.

Ms. LEE. Thank you, Madam Chairwoman. I thank you for holding these hearings and for a real focus on housing affordability on this subcommittee.

I mentioned this a couple of times with regard to my district and the Bay Area as being one of the most least-affordable areas to live in the country. The Congressional Black Caucus, along with the Congressional Black Caucus Foundation, has sponsored three housing summits, one in North Carolina, another one in Oakland, California, last year, and very recently in New York. One of the issues, of course, that keeps coming up is the gap in terms of home ownership rates between minority families, African American families, and the general population at large. So we are looking at how to try to close that gap while at the same time ensuring that minority families who want to purchase homes do not have to worry about the predatory lenders that are out there in terms of utilizing financing mechanisms to be able to purchase their homes.

Of course, equity in one's home has been the basis upon which African American families have been able to send their kids to college, start small businesses. This has been the primary means of accumulation of wealth. So it is very important for us to look at how the affordability issue can be really addressed in areas where we have large numbers of minority families.

Finally, let me just say in terms of gentrification, one of the concerns I have always had and continue to have and see as being very prevalent right now is gentrification. As the economy gets better, in many areas absentee landlords own homes and apartment buildings which now are becoming unaffordable for tenants. I know that one of the solutions is to increase production, but until we increase production, I would like to hear from the panels how we mitigate against the huge numbers of families now that are being run out of our urban areas as a result of the ability now to make huge profits out of real estate.

So, thank you, Madam Chairwoman, for this hearing. Rental assistance and homelessness assistance strategies, I think, are very important also, not only home ownership, that we need to look at.

Thank you.

Chairwoman ROUKEMA. I thank you.

Mr. Tiberi is the next to be recognized.

Mr. TIBERI. I yield back the balance of my time.

Chairwoman ROUKEMA. Is there anyone else on this side who has an opening statement?

Mr. Grucci.

Mr. GRUCCI. Thank you, Madam Chairwoman. Affordable housing is a very big issue for all of us. As you heard my colleague from Long Island, Steve Israel, talk about the high cost of housing, it is indeed a real problem as we watch as housing prices go higher and higher, and the affordability of being able to own a home or being able to rent a home all but escapes those young families that are just starting out in life.

There are plenty of opportunities for these folks to stay with us. The job market is fairly strong, but not strong enough to allow them the down payment or being able to carry the carrying cost of a $200,000 to $225,000 home. I am hoping to hear from the panel today for ways we might be able to figure out in areas of our country where there is a higher cost of living than in other areas, how do we go about setting the levels of affordability? I guess affordability is kind of like artwork, it is in the eye of the beholder. What is affordable in one section of our country may certainly not be affordable in another section of our country, but yet the need for that home is very real.

We have young families earning $25,000, $30,000 a year, but can't afford to find a home. We need to be able to place them into those homes. I am hoping to be able to hear from you today on ways that this panel and this Congress might be able to figure out ways to make that happen.

Lastly, before I yield back my time, I have a couple of ideas that I would like to run by you, and obviously this is not the time for questions, but I hope you might be able to address this in your presentations, if there are ways to incentivize the process by which developers and owners are able to make more of their properties available for affordable housing. The market is strong, they can get better rates on the outside, there are more burdens that Government places on them, such as regulations, paperwork, the whole issue of lead removal, which obviously is something we have to do and it is very important we do. But there might be ways you might think of that would help to defer the costs on these so that the rents do become affordable and those properties do become available to the people who truly, truly need them, which is our young folks and people who are living on less than $50,000 or $60,000 a year.

I thank you for that. I hope you can incorporate some of those thoughts into your responses today, and I yield back the remainder of my time.

Chairwoman ROUKEMA. Thank you.

Ms. Schakowsky of Illinois, do you have any opening statement?

Ms. SCHAKOWSKY. Very briefly, Madam Chairwoman. Thank you.

I represent Chicago and some of the northern suburbs. We have a crisis as well. Between 1990 and 1999 we lost about 53,000 rental units. Right now we are about 153,000 rental units short. That was as of 1999. It is getting worse. Owners of project-based Section 8 are opting out. We have the problem, and I associate myself with the remarks of Ms. Lee, gentrification is a problem in many of our communities.

I know the number one barrier to production really is funding. I believe in public-private partnerships, but I believe that public subsidy is needed to fill the gap between what families can afford and the cost of development and maintenance of housing.

I am a very strong supporter of a national housing trust fund and look forward to hearing the panel. Thank you.

Chairwoman ROUKEMA. Thank you. Others on this side, on the Republican side?

Others on this side? If there are, Stephanie Tubbs Jones is the next to be recognized.

Mrs. JONES. Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. Please restrict your comments to 3 minutes.

Mrs. JONES. OK. It will be less than that. I just want to thank you for your leadership on the issue. I am glad we are having the hearing on this. I would like to welcome Mr. Hinga from Ohio to our hearing. I want to welcome all of you, but I am from Ohio, so I am directing my welcome to him as well.

In Cleveland, we have had a great success with community development corporations building and developing affordable housing, but we still have a gap in the City of Cleveland as well. I am looking forward to hearing from each one of you with regard to ideas that you have with regard to housing affordability, and the next Congressional Black Caucus Summit on Housing is in Cleveland. I look forward to you having input there.

Thank you.

Chairwoman ROUKEMA. Mr. Capuano, do you have an opening statement?

Mr. CAPUANO. Just briefly, Madam Chairwoman. Again, I would like to add my voice to thanking you for holding these hearings. I hope the final result of all these hearings is actually doing something, as opposed to hearing the problems, because many of us already know the problems.

I also want to welcome Mr. Flatley. He has done fantastic work in the greater Boston area. He is living proof that the public and the private entities can get together. He is well respected on both sides, and I would heed each and every member of this panel to listen to his wise and effective counsel.

Chairwoman ROUKEMA. All right, thank you.

Ms. Waters.

Ms. WATERS. Thank you very much, Madam Chairwoman.

I am appreciative for these hearings today. We have a housing crisis. The economic expansion of the last years has been accompanied by skyrocketing home prices and rents, and there is a severe shortage of affordable housing and in many areas any type of housing.

I just have to put on the record that in my home State of California, about half of renter households pay more than the recommended 30 percent of their income toward shelter. However, 91 percent of low-income renter households with annual incomes under $15,000 spend more than 30 percent of their income toward rent. These low-income households outnumber low-cost rental units by a ratio of more than 2-to-1, both statewide and in Los Angeles County. Statewide, there is a shortfall of almost 600,000 affordable units. I have a lot more information about what is happening in California, but what I will do is place my complete statement in the record and discontinue my comments at this point.

Chairwoman ROUKEMA. I thank the gentlewoman.

Now last is Ms. Velázquez from New York.

Ms. VELÁZQUEZ. Thank you, Madam Chairwoman. I am very appreciative that you are paying so much attention to this issue. I come from New York City. I remember 10 years ago it was crime that was driving people out of New York. Now it is the shortage of affordable housing. We are facing a crisis in New York when it comes to affordable housing, especially low-income communities. I am very pleased that we are having this hearing today, and I look forward to the presentation from our panelists.

Chairwoman ROUKEMA. Thank you. I thank all the Members here, and certainly Mr. Frank.

I will say to our panelists that you should understand that the representation here, the attendance here, I should say, is exceptional for a subcommittee hearing, and it is a visual demonstration of the intensity of this subject and the interest on both sides of the aisle on this subject.

With that, I do want just for the record unanimous consent that the two letters that Mr. Frank and I have sent on this subject, both of May 17, regarding the FHA multifamily housing and H.R. 1629, be included in the record.

[The information referred to can be found on page 320 in the appendix.]

So, we welcome you here today. Our panelists, William Hinga from Bank One Community Development Corporation. By the way, all of you have the same background and experience, years of experience in the field, so you are not just speaking from theory, you are speaking from your practical experience. Certainly Mr. Hinga has 20 years of experience with commercial real estate, lending and investment banking. He has been with Bank One since 1990. Certainly Bank One's Community Development Corporation has a national reputation. So we are very eager to hear from you, Mr. Hinga, please.

STATEMENT OF WILLIAM T. HINGA, PRESIDENT, BANK ONE COMMUNITY DEVELOPMENT CORPORATION, COLUMBUS, OH

Mr. HINGA. Good morning, Chairwoman Roukema, and Members of the subcommittee. I am Bill Hinga, President of the Bank One Community Development Corporation, and I appreciate this opportunity to appear before you and share Bank One's involvement with affordable housing.

Bank One Corporation, headquartered in Chicago, is the Nation's fifth largest bankholding company and has a domestic retail banking presence in 15 States.

Our Community Development Corporation, which I run, is based in Columbus, Ohio. It is comprised of a team of 38 professionals strategically located in seven offices across Bank One's footprint. Our sole mission is to provide debt financing and equity investments for affordable housing and community development. Bank One Community Development Corporation alone has provided over $850 million in investments and community development loans across our markets, financing over 15,000 units of affordable housing.

I am also here as a board member of the National Association of Affordable Housing Lenders, or NAAHL, as we are more commonly known. It is the association devoted to increasing private capital investment in low- and moderate-income communities.

The past 10 years have seen a major transformation in the formation and delivery of capital for affordable housing. Some history may be helpful here. As Federal subsidies declined and FHA's share of its multifamily housing market has dwindled, private sector organizations have had to become creative in finding solutions. Over time, plain vanilla debt financings, such as straight mortgages, were no longer enough to fill the Nation's affordable housing needs. Other financing vehicles were needed. So were other partners. What were once pioneering partnerships among insured depository institutions, like Bank One, and non-profit providers of affordable housing, often involving State, Federal and local subsidies to make the housing units economically viable, are now really the norm in the way we do business.

Perhaps at this point several examples of the partnerships needed and the multiple financing layers required would help illustrate this point. I think my two examples really point out what the Chairwoman's opening comments were about—the need for public and private partnerships, and also the multiple layers of financing needed today to address our needs.

My first example is a project we are doing in Steubenville, Ohio. We are partnering with the Ohio Capital Corporation for Housing to provide $3.7 million in equity capital for a 77-unit low-income housing tax credit development in that market. The balance of the capital for this project will come from other bank financing which is utilizing the Rural Housing 538 program, and $600,000 in HOME funds through the State of Ohio.

The development entity here is a partnership of a non-profit social service provider in the market and a for-profit developer. There are several unique features to this development. There has been no affordable housing in this market for over 5 years. Everything that is already there and is affordable is 100 percent leased. Twenty percent of the units here will be set aside to single mothers with children. Thirty-nine of the units at the end of the tax credit compliance period will be offered for home ownership opportunities at prices that will be very attractive to the renters. So this will offer a rental option and then at the end potential home ownership.

Another example is in Chicago, where we are partnering with the Enterprise Social Investment Corporation in providing $4.2 million in equity capital for new construction of a 107-unit mixed income development. This is an interesting point here, because in this project, we are going to address this a bit with Congressman Frank, what he was saying earlier, is this development is going to have—25 percent of the units are going to be public housing replacement units. The balance of the financing of this is really multilayered. There is FHA-insured tax exempt bonds, tax increment financing, Chicago Housing Authority HOPE VI funds, and City of Chicago HOME and Empowerment Zone funds. Bank One is not alone in working with partners. Loan consortia, non-profit lenders, community-based development corporations, secondary market players and others are all a vital part of the affordable housing field today.

Banks finance affordable housing in a variety of ways, depending on their geographies and the bank's own business strategy. Many bring their underwriting expertise to the construction lending. Some offer permanent mortgages. Others, like Bank One, are major low-income housing tax credit equity investors. Although data is hard to come by, bank participation appears to have increased significantly in each of these areas.

Today, financing affordable housing and community development requires an intricate array of financial instruments and players. Subsidy providers like to spread their finance resources around and obtain the greatest possible leverage in each transaction. With a variety of subsidies involved in any one project and the varied requirements of each subsidy provider, the cost and fees of underwriting, understanding and complying often reduces the actual funds available to build units.

A streamlining of results and paperwork requirements in all Federal and State housing programs would help put more dollars into the housing and less into professional fees.

It is clear that if the Nation is to move forward with providing decent affordable housing for our communities, Congress must look at ways to increase the Federal Government's subsidy for affordable housing. There are a range of possibilities, such as: proposals for an affordable housing trust fund, for increasing the FHA multifamily mortgage loan limits, and the FHA credit subsidy, increasing HOME and other grant programs, and for a new single family housing tax credit program. We ask you to look at all of them.

I thank you for your time and attention today.

[The prepared statement of William T. Hinga can be found on page 344 in the appendix.]

Chairwoman ROUKEMA. I thank you, Mr. Hinga. I neglected to identify you as the President of Bank One Community Development Corporation.

I will say for all of you there is a 5-minute rule. However, understanding the importance of your testimony, I will try to be a little relaxed about it. We will be watching the clock. Until I use the gavel, you won't have to worry about your time commitment, all right?

Ms. Kaiser is President of the California Community Reinvestment Corporation. I understand you have a 25-year banking executive experience, and you are experienced in delivering financial services for especially affordable housing. You are a board member of the National Association of Affordable Housing Lenders and President of the Board of Trustees of the United Way of Ventura County.

I would fully expect that you have a contribution to make, not only in private funding, but also public-private partnership.

Mr. FRANK. We have to say when you think they have a contribution to make in private funding in this room.

Chairwoman ROUKEMA. No, I don't apologize for that, not at all. Do you? No, they are all shaking their heads. No.

Thank you. You see the bipartisanship here. You understand that.

Ms. Kaiser.

STATEMENT OF MARY F. KAISER, PRESIDENT, CALIFORNIA COMMUNITY REINVESTMENT CORPORATION, GLENDALE, CA

Ms. KAISER. I understand that.

Thank you, Madam Chairwoman, and good morning. My name is Mary Kaiser. As Madam Chairwoman just indicated, I am President of the California Community Reinvestment Corporation (CCRC).

Chairwoman ROUKEMA. Excuse me, could you pull the microphone a little closer?

Ms. KAISER. I am also short, so this is kind of tough.

I am also a certified community development financial institution, which is a CDFI, and we have been doing this for the last 11 years in the State of California.

I want to thank the Financial Services Committee this morning for the opportunity to speak about some of the successes we have had in meeting affordable housing challenges and needs in the State of California, but to also make you aware, which apparently you are very much aware, of the challenges that lie ahead and how Congress might address those challenges along with us. We are certainly all in agreement on the magnitude of the problem.

By way of background, CCRC is a multi-bank funded non-profit lending consortium. We were formed actually by the Federal Reserve Bank of San Francisco and some senior banking executives of California-based banks back in 1989 to address the lack of mortgages for affordable housing developers.

The Federal Government had just created the Low Income Housing Tax Credit Program, and permanent long-term mortgages to finance those units subsidized by that program were all but absent in our State. The perception of high risk in this type of lending led to the formation of this mitigated risk pool concept where all member banks would participate in each loan originated by CCRC.

At the time when CCRC was launched, the world of affordable housing was quite different than today. Eleven years ago I think the perception of the risk of this community development type lending was excessive. The system for financing affordable housing in California, and I suspect elsewhere in the country, was generally fragmented. The pooling concept that our organization offered seemed to be a great innovation, allowing banks to meet their CRA (Community Reinvestment Act) requirements, and provided a much needed private capital financing vehicle for affordable housing.

CCRC's member institutions have committed in excess of $250 million to this cause through today.

Since 1989, at least 10 other consortia have been created similar to the CCRC concept. In our particular business, which is underwriting tax credit, multifamily rental units, we pioneered ways of underwriting and developing effective partnerships with non-profit and for-profit developers, local municipalities and State agencies to increase the production and rehabilitation of rental housing for low-income families. Our deals look very much like the ones Bill just described, multiple layers of financing, lots of different rules, lots of different documents.

In the last 11 years, we have originated over $300 million in mortgages secured by projects containing over 15,000 units of affordable housing. While 100 percent of our portfolio represents units affordable to people making 80 percent of those around them, simply more than half of our portfolio represents affordable housing units to those making only half of what people around them make.

Through our willingness to create innovative loan structures tailored to each project's needs, we succeeded in doing what I described as the cutting edge, hard to do deals that have helped increase the supply of affordable housing in California, and we have proven it is not as risky as people thought 11 years ago. Since inception, our losses have been extremely low, less than 0.32 percent, or only $622,000 of all loans originated.

This is comparable to the performance of a good portfolio of investment grade bonds. I might say our member banks have taken no losses on loans originated by this consortium.

We are proud of our contributions to affordable housing. In fact, we recently received the Financial Supporter of the Year Award from the Southern California Association of Nonprofit Housing Developers. This is a group that is always keeping banks on their toes in terms of their commitments to affordable housing. So we have become a part of a very strong infrastructure in which lenders, non-profit organizations, commercial investors and State and local governments work together.

Our experience in multifamily housing has also allowed us to meet community needs in other ways. Ms. Lee was talking about her concerns about low-income tenants being driven out of communities where nobody really wanted to be 10 years ago. One of the projects that we have developed is an acquisition rehab lending program to inner city investors, much like the Chicago model, where individual owners and rehabilitators are given equity private capital to rehab and continue to provide these units to low-income tenants at affordable rents.

We have also developed a tax exempt bond program whereby our investors buy directly tax exempt bonds for their private holding. This allows rural projects to have access to tax exempt bond financing at a lower cost.

We have also done direct investments in affordable housing projects. Mr. Frank was talking about and others were talking about the issue of preserving what we have. I mean, let alone what we need to build. But the preservation of expiring use projects is a big issue in California. So CCRC has also provided equity to preserve those expiring use Section 8 projects.

But despite this and everything else we are doing, we simply don't have the resources to keep up with the soaring demand for affordable rental housing. The 1999 American Housing Study conducted for HUD, just released this month, noted that of the 112 million year-round housing units, 30 percent are renters. The overall vacancy rate of rental units nationwide is 8 percent, and in California it is less than 5 percent.

California accounts for seven of the eight least affordable rental housing markets in the country, and my numbers are even higher than Ms. Waters in the sense that I show that rental units available to low-income, there are more than four low-income housing renters for every one unit of housing in California. That, coupled with the housing wage in California——

Chairwoman ROUKEMA. Ms. Kaiser, excuse me, can you sum up now, please?

Ms. KAISER. We are only adding one housing unit for every five jobs in California. We have got to put public and private partnerships together. It takes your money and ours. At $12,000 a year for people earning only 30 percent of the area median income, it is going to take a deep subsidy to make units affordable to all in California.

[The prepared statement of Mary F. Kaiser can be found on page 331 in the appendix.]

Chairwoman ROUKEMA. I thank you.

Mr. Joseph Reilly is the Senior Vice President at JP Morgan and Chase Community Development Organization and has been with them since 1989. I believe that you manage an extensive staff of professionals that deal with the Community Development Corporation Real Estate Lending Group, and you can contribute now to our understanding of how these programs work and how effective they are.

Thank you.

STATEMENT OF JOSEPH F. REILLY, SENIOR VICE PRESIDENT, JP MORGAN CHASE COMMUNITY DEVELOPMENT CORPORATION, NEW YORK, NY

Mr. REILLY. Thank you. 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 40 people who provide financing for affordable housing and commercial real estate projects in areas that are served by JP Morgan Chase.

JP Morgan Chase has been a leader in providing financing for affordable housing and other community development projects for many years. Over the past 5 years, JP Morgan 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, JP Morgan Chase was one of the founding members of NAAHL (National Association of Affordable Housing Lenders), in an effort to 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 fortunate to see the issues surrounding affordable housing development from a variety of perspectives, as I have worked in the field of community development and affordable housing finance for over 23 years. For the past 12 years, I have worked at JP Morgan Chase and its predecessor institutions.

Prior to my experience with JP Morgan Chase, I worked for the New York City Department of Housing Preservation and Development for 6 years, where I worked on providing subsidized financing for affordable housing development. Prior to that, I spent 6 years working as a community organizer for the Northwest Bronx Community and Clergy Coalition.

I am sure you have 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 home ownership opportunities, not only for very low-income families, but also for low-income and moderate-income families. We have a growing crisis that requires 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.

Over the past 10 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 not-for-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. In addition, last year the U.S. Treasury reported that from 1993 to 1998, the amount of mortgage lending to low- and moderate-income communities and borrowers by CRA-covered lenders rose 80 percent. In 1998 alone, Treasury reported at least $135 billion in mortgages to these borrowers made by insured depository institutions.

As good as these solutions are, they come nowhere near to 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 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 percent 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 the 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 cost associated with the construction and maintenance of decent affordable housing. Federal programs such as HOME, CDBG (Community Development Block Grant) and the low-income housing tax credit have played valuable roles in helping to fill the gap, but rarely do it alone. For example, many housing credit deals and low-income communities require additional subsidies to fill financing gaps, but funding levels for all Federal programs have failed to keep pace with the rapidly growing need, and these programs come with complex requirements that slow or even discourage the development of new units.

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

In the short term, 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.

Chairwoman ROUKEMA. Mr. Reilly, you will have to sum up, please.

Mr. REILLY. OK. I think in the short term what we need to do is simplify the regulation and in the long term look for additional subsidies, consistent, sustainable subsidies, and perhaps some sort of a housing trust fund, something that is there, is available on a readily available basis to encourage the development of a pipeline so that projects can be developed.

[The prepared statement of Joseph F. Reilly can be found on page 335 in the appendix.]

Chairwoman ROUKEMA. I thank you. I am trying to be fair about this, so each person that goes over time, I am letting them go over time equally. Thank you.

I believe now that Mr. Frank will take the opportunity to introduce Mr. Joseph Flatley of Boston, Massachusetts.

Mr. FRANK. Thank you, Madam Chairwoman. I have had the privilege of working with Joe Flatley for more than 20 years on housing. He is one of the real leaders in getting housing built. He is someone to whom I turn when we are talking about how we can improve public policy, and I am delighted that he is now going to share really the great wealth of knowledge and experience he has accumulated in this field with the rest of this committee.

Chairwoman ROUKEMA. Mr. Flatley.

STATEMENT OF JOSEPH L. FLATLEY, PRESIDENT AND CEO, MASSACHUSETTS HOUSING INVESTMENT CORPORATION, BOSTON, MA

Mr. FLATLEY. Thank you, Madam Chairwoman and Congressman Frank. My name is Joe Flatley. I am the President and CEO of the Massachusetts Housing Investment Corporation (MHIC). It is a private organization that finances affordable housing and community development in Massachusetts. MHIC was created in 1990, about 11 years ago, as a collaboration between the State's banking industry and community leaders. Today we have 25 corporate investors including banks, insurance companies and the Government Sponsored Enterprises. We are a Section 501(c)(3) and a certified CDFI.

I also serve as Chairman of the National Association of Affordable Housing Lenders, from which our board members are well represented on your panel today. We have over 200 member organizations, and NAAHL is the premiere association devoted to increasing private investment in low- and moderate-income communities.

I would like to commend you, Madam Chairwoman, and the House Financial Services Committee for holding hearings on the Nation's affordable housing needs, and thank you for the opportunity to give you my perspective on this issue. I have worked in the field of affordable housing and community development for more than 30 years. The organization I now head, the Massachusetts Housing Investment Corporation, last year provided over $100 million in private capital to finance the development of 45 affordable housing projects in Massachusetts.

Over the span of my career, I have seen both the good and the bad in affordable housing. The good news, as Congressman Frank noted, is that we have learned a lot. The affordable housing industry has evolved and matured in learning how to produce decent affordable housing for low- and moderate-income families and communities. We have learned how to do it right, how to build affordable housing—rental housing and home ownership—that creates a mix of incomes, that is built with the discipline of the private market, that uses resources responsibly, that is of high quality and lasting value, that consumers wants to live in, that stays affordable over the long return, and that people are proud to call home.

It is important to make this point about the fact that the programs work, because it is not widely recognized. The problems and difficulties are very visible when affordable housing doesn't work. It is an eyesore and a problem. The eyesores of many years ago are well known. When we do it right, it is, by definition, invisible. If you do affordable housing to be successful, and you want it to be successful, you don't want anybody to know that it is an affordable housing project.

Unfortunately, most of our great successes are not visible. We have achieved these successes because in large measure we have been able to attract substantial private capital. My organization has raised over $500 million in private capital. We have had zero loan losses in our 10-year history. We have never had a loan loss, knock on wood. And we have earned a respectable return for our investors.

In the face of all we have achieved, we have to recognize a central and indisputable fact. The need for affordable housing has never been greater. As has already been discussed by Members of the subcommittee, the need for affordable housing and the problems created by the lack of affordable housing are enormous, so I won't go into much more detail on that, but I would say that it effects all segments of our economy. It effects not only the very lowest income families, but also working families and businesses trying to attract workers in Massachusetts.

We have learned that different solutions work in different places. In some places like Chicago, affordable units are produced each year by small private "Ma and Pa" owners, and they can find financing from consortiums like my own and like Mary's, a bank, or perhaps an NHS with little or no subsidy. But in high-cost areas like Boston, the cost of new construction and renovation remains high, and the number of units remains low. The underlying problem is a result of a mismatch between demand and supply. We need to recognize that fact. That results in escalating rents and housing prices. Demand-side subsidies, such as Section 8 certificates, will not solve the problem on their own. Clearly we need to add to the supply.

Even with a lot of support and with an experienced non-profit developer, and a mortgage lender all working together, additional units can only be provided if there are subsidies available to fill the gap. Unfortunately, over the last decade, funding levels for Federal housing programs have fallen short of what is really truly needed. If we are to make progress, we need to add new sources of subsidy to expand the supply of available units. With only modest levels of new public investment, you will leverage enormous investment by the private sector and by State and local governments.

As Congress considers solutions to this affordability crisis, the most effective long-term measure would be to develop a new Federal financing resource with the capacity and flexibility to at the very least double the production of affordable rental housing if we are to have a real impact. Such a resource should provide a stable, predictable source of capital, ideally free from the uncertainties of the Federal appropriation process, that would ensure providers a dependable stream of revenue for leveraging the substantial sums of private capital today available for lending and investing in affordable housing.

Dependable, predictable funding is critical if we are going to create solutions to the housing affordability crisis that really work for the long run. These solutions depend on hard work over many years, on community outreach and planning, and entrepreneurs who are willing to devote themselves to a multi-year effort with some reasonable expectation of ultimate success in the end. This cannot be accomplished with on-again, off-again public programs. Programs such as the proposed National Housing Trust Fund with a dedicated revenue stream will leverage private resources many times over. Most importantly these programs will rekindle a sense of community throughout America.

Similarly, expanding home ownership is a critical element of most communities' revitalization strategies. The President's budget this year proposes a major new single-family housing tax credit. The "Renewing the Dream" tax credit would make a huge difference for low-income families and low-income communities by attracting nearly $2 billion of private investment annually for the construction and rehabilitation of homes in low-income communities. We strongly support this tax credit and urge you to include it in any tax package enacted this year.

Thank you for the opportunity to testify and for your interest in exploring solutions to the Nation's affordable housing problem.

Chairwoman ROUKEMA. Thank you. You stayed right in my time limit.

Mr. FLATLEY. Thank you. I tried hard to do that.

[The prepared statement of Joseph L. Flatley can be found on page 340 in the appendix.]

Chairwoman ROUKEMA. I will call on Mr. Miller for our first line of questions.

Mr. MILLER. Thank you very much, Madam Chairwoman.

Ms. Kaiser, you talked about rental units and multifamily rentals. Do you do any multifamily for sale?

Ms. KAISER. No, we do not.

Mr. MILLER. Why is that?

Ms. KAISER. I think primarily what we have tried to do is niche our products where there were not other products available, sort of go somewhere no one wants to go. And the for-sale market seemed to be heavily supported by either the mortgage or the banking industry, so ours is primarily the rental units, which require deep operating subsidies.

Mr. MILLER. Do you know of any multiattached products for sale even being built in your area?

Ms. KAISER. Being built? No. We are doing rehab on a lot of those. The economics of getting them at a per-unit cost, at a reasonable cost to be able to put rehabilitation dollars in is a challenge in California.

Mr. MILLER. The problem with that is today not a builder in California can get liability insurance to build an attached product, because I don't know of one attached product in the last 10 years built in California that has not ended up in litigation, which is really having a dramatic impact on the marketplace.

And also you said that we are only building one unit for every five jobs being created out there, and you are exactly right on that.

Mr. Reilly, you said first Federal funds are often encumbered by well-meant legislation and regulatory constraints that often limit needed flexibility to meet community needs. What would you propose to do to solve that?

Mr. REILLY. I think that certainly on a local basis, decisions can be made as to what the best needs, what the best use of the funds could be. I think that sometimes the restrictions that go along with the funds just sort of come down, and those are the rules. And there is not enough local involvement in making a decision as to how best to use those funds locally.

Mr. MILLER. And you talked about the scarcity of funds for permanent financing or multifamily housing projects. Why is that?

Mr. REILLY. I think in some instances, not all, but in some instances and some locations the availability of permanent financing is quite limited, and it is partly because affordable housing projects typically are not what I would call cookie-cutter deals. There are a number of subsidies. There may be Low Income Housing Tax Credits. They may actually be better loans. They may actually be better and more secure loans and investments. However, since they don't fit in a particular conduit or secondary market model, they do not necessarily end up in those pools of loans that are sold into the secondary market.

So, I think that is something that should be considered, and perhaps there is a role for FHA to play in that arena going forward.

Mr. MILLER. Mr. Flatley, you said that demand-side subsidies, such as Section 8 certificates, are not workable solutions because certificate holders cannot find units with rents that qualify, and that leads me to a question. I had a project in a city called Rialto, California. I had about 2,600 units. I sold the last 50 of those last year, and I tried to sell them to a non-profit that does mainly HUD repos, foreclosures, and goes in and provides buyers assistance programs, thinking that this would be a great opportunity to be able to provide buyer assistance to the new housing market. Yet when we figured the fees that they had to pay to the Government, the fees were greater than the land and improvement costs associated with building the home.

What do you see as a solution to this problem if, in fact, you say Section 8 certificates are not a workable solution?

Mr. FLATLEY. I think the fundamental problem is an imbalance between supply and demand. I think we need to add new units. I think you have identified some obstacles to adding new units. I think the perspective I would add is we have been most successful when we have worked in strong partnership with communities, with neighborhood governments, local governments in getting housing built. Frequently that does take a lot of time in negotiating with local governments. But, I think that most of the issues, those restricting development, that you raise really are with local government. It is not the Federal Government, it is not the State government, it is the local governments who get most involved in permitting development.

I think the only real solution to that is working effectively to create partnerships at a local level to demonstrate that these projects are successful, can be successful, and getting the community's support. I think it is only through winning their support that we are ultimately going to achieve success.

Mr. MILLER. The only thing I disagree with is that you said it is mostly local government. I believe predominantly local government, but as an example, and as you are familiar, in California the Fish and Wildlife Department last October slated 2,900,000 acres just in southern California for possible habitat for three listed endangered species, which takes 2,900,000 acres off the playing field for housing, plus the properties next to it are thereby categorized as associate habitat, which also takes those areas off the playing field. But if we could get Government somehow out of the process of inflating the prices artificially, do you believe as a panel that the affordable housing crisis might be resolved in the near future?

Mr. FLATLEY. I do not think that would work by itself. We get free sites already zoned in cities that we work in. The costs are still way beyond what any even median-income family could afford. So the cost of just constructing a new unit on a permitted free site is greater than what somebody at 100 percent of median-income could afford.

Mr. MILLER. But you are strictly associating that with just inner-city parcels dealing with specific low-income groups in those communities. As we know, in California that is not necessarily applicable because of the huge State and the way it grows. Would you agree, Mary? And I thank you, Madam Chairwoman.

Chairwoman ROUKEMA. Yes. If any of the members of the panel would like to submit for the record, as well as to personally to submit to Mr. Miller, Congressman Miller, here, feel free to do that and submit your statement for the record in response to his final question there.

Mr. Frank.

Mr. FRANK. I would like to continue that line. I gather the gentleman was agreeing that with regard to inner cities, there would still be that problem. Of course, as I said, the worst housing problem does come from the poorest people in the inner cities.

Let me ask all of the witnesses as well to answer the question that Mr. Miller asked Mr. Flatley. What would you think of the solution in which the Federal Government simply got out of everything that had to do with housing? Of course, we have no control over local zoning, and I don't assume there was a proposal here to deal with local zoning, but do you think we would be better off in the building of affordable housing if the Federal Government simply withdrew from the arena as has been suggested?

We will start with Mr. Reilly.

Mr. REILLY. I would say no. On the Federal level I think there needs to be a readily available, sustainable source of subsidy to bridge the gap in between construction costs and what people can afford to pay. That will vary from location to location. The fact of the matter is it costs more to build a unit than people can afford to either pay to buy it or to rent it, and there needs to be some readily available sustainable source or subsidy in order to encourage that development.

I think it is important to keep in mind that the gestation period for an affordable housing project can be 2, 3, 4 years. You need to build a pipeline of these projects in order to encourage that development to happen.

Mr. FRANK. Ms. Kaiser.

Ms. KAISER. I feel the same way as Joe. Two things. One, you just need to do the math to know that to acquire, build and operate the real estate for affordable housing costs the same as market rate and sometimes higher, because of income certifications of low-income people to comply with tax credits. So there is obviously a gap right there. The lower the income is, the lower the rents are.

Mr. FRANK. Let me add here, we tried to avoid that. This is how we get into problems. Originally Federal housing, we said these are poor people. Let's build them poor housing in effect. We tried to significantly save per unit on what we built. And when you do that, you get real problems.

Ms. KAISER. You get what you pay for.

And the second issue about incenting developers. We do need to incent more developers to do these deals, which are not the easiest deals to do, and I think incentivizing developers has to do with streamlining programs, not only access to subsidy, but streamlining local municipality issues with regard to zoning requirements that keeps them out of the affordable housing.

Mr. FRANK. At the Federal level—and, Mr. Reilly, I think you say this, too. I think we agree. We should make these programs more easily interoperable, the tax credit and other Federal subsidies. We should reduce some of the restrictions.

Mr. Hinga.

Mr. HINGA. Congressman, I would agree with the comments of my fellow panelists. Without the Federal participation many of these projects would not get done. Even the simplest project that we might even say is plain vanilla any more may be a new construction project targeting 60 percent of area median income, the high end of the tax credit. It is virtually impossible to get that done without at least some HOME dollars or something involved, because if you don't you can't make those numbers work. Or there is so little developer fee left that the developer says it is not worth it, they will do something else.

Mr. FRANK. The figure $150,000 was mentioned, that these homes were homes available for $150,000. Let me ask particularly the two private lenders, what are the income—somebody comes in to get a loan to buy a $150,000 house, what income does he have to show?

Ms. KAISER. I don't do single families.

Mr. HINGA. We are really multifamily folks. I cannot give you an example at this time.

Mr. FRANK. Joe, would you have a sense——

Mr. REILLY. I am trying to do the math in my head here.

Mr. FRANK. For unsubsidized regular loan.

Mr. REILLY. It depends on what the interest rate is. Let's say you can get a 95 percent mortgage. You get a $140,000 a loan. It is about $1,200 per month.

Mr. FRANK. And to pay $1,200 per month you would have to have an income of?

Mr. REILLY. Multiply that by 40. About $50,000.

Mr. FRANK. I think that is the problem. Even if we have these $150,000 homes without restriction, you need $40,000 or $50,000 to pay for them and we have people who obviously make less than that. So I believe in this and I think the suggestion that getting the Federal Government out of it is the answer is simply wrong. We have local zoning problems. There is nothing we can do about them.

But, Madam Chairwoman, and I appreciate the witness list you have put together here. We have four witnesses in the housing business. Two of them are from non-profit so maybe they are a little suspect. But there are two certified, very non-socialist witnesses here, one from Bank One and one from JP Morgan. When we have Bank One and JP Morgan telling us we need Federal funds to get affordable housing, I think the marxist element and the communitarian element has certainly been minimized. So I am glad to be here in recognizing the importance of a public role with Bank One and JP Morgan, and I salute his specter, Mr. Morgan, wherever he is.

Chairwoman ROUKEMA. Is that a demonstration of how far we have declined in private enterprise?

Mr. FRANK. They are your witnesses, Madam Chairwoman.

Chairwoman ROUKEMA. Now, Mrs. Kelly. Congresswoman Kelly, please.

Mrs. KELLY. Thank you. I am glad the Ranking Member recognizes the new tone in Washington.

I want to ask Mr. Flatley, you said something about the fact that it takes 2 to 3, 3 to 4 years to get approvals through. Do you want to go on record and talk about that? Why?

Mr. FLATLEY. Part of it is building the partnerships and the relationships in the community. Part of it is getting through a local approval process. Part of it is dealing with the neighbors and abutters to a site. If you were living in your community and someone was proposing a 100-unit project next to you, you would want to have some discussions with them about the design of that project. They typically are real construction issues. Part of what has happened in many of the communities we work in, these are communities where the easy sites have all been developed over time. We are now to a point where you are either redeveloping a site that was developed before where there is maybe some real environmental issues, or you are developing a site which is hard to develop. Then there is the process of applying for funding, and part of the problem is created by the lack of Federal resources. What happens in terms of tax credits, for example, is typically people apply two or three times and have to go through several rounds of tax credit applications before the tax credits are approved, because there is kind of a queue of projects waiting for resources.

So it is all of these issues, and I think some of the time you could take out by having more resources available, but some of the time is inevitably there, because you have both substantive site issues you need to deal with, as well as you have legitimate neighborhood concerns which you can't rush through. You have to deal with it in a deliberative way. You have to have the discussions with the community. It makes for a better project in the long run to have the community on board.

The groundbreakings we go to where projects are completed—the neighbors are there, the community is there in support. That has a very positive impact on the long-term success of the project.

Mrs. KELLY. Thank you. I think it is good to clarify that. Certainly we do not want the Federal Government going in and subsidizing housing in neighborhoods where it is not wanted. On the other hand, I certainly also believe that there must be ways we can work together with localities to try to speed the process and I appreciate your putting that on record.

Mr. Reilly, I want to next go to you and first of all I want to complement you for the quality of your testimony. It is one of the most concise, precisely presented ones I have seen in a long time, and I appreciate it, because we have a lot to read and going through it was very quick and easy and I really do thank you very much for doing that.

I wanted to ask you, you talked about the fact that things like Section 8 vouchers can't be used in some neighborhoods and of three constrictions that are on the Federal monies that are available. Can you describe some of the other problems that we have at the Federal level that are by definition at the Federal level preventing some of these projects from coming out of the local level?

Mr. REILLY. I think there are certainly some. I am trying to think of others. That particular example is one where if you look at the challenges in New York City, certainly there are a lot of areas where we need to work on preservation as well as the development of new housing. It is not just how much more we can build, how many units of for-sale housing we can build, or rental housing we can build, but in preserving housing. And those types of subsidies that are mentioned in testimony would be extremely helpful in areas where we need to work on preservation, to restrict the outside use of those to certain neighborhoods and basically exclude them from many of the neighborhoods where we need to work on preservation as opposed to development.

Mrs. KELLY. Preservation and rehabilitating other units, I see, Mary, you are nodding your head. Do you want to talk about that also?

Ms. KAISER. Well, certainly while we appreciate the increase in the cap for Low Income Housing Tax Credits and tax exempt bonds, you cannot build it fast enough when the back door is open and we are losing to market existing low-income rental units. So the preservation issue is huge. And having worked with a few of those with developers, the issues working with HUD and prepaying mortgages and all the red tape and the notification period, it really is no wonder why some of these folks do not want to stick with the program any more. So it really is easier to go to market and just obliterate those.

So, I think the preservation issues and the restrictions put on getting out of the RDA is another program. There is some expiring use RDA programs and it requires some very interesting financing that I don't think private capital is going to want to be attracted to. So the more we can think about these partnerships when we build the programs up front, knowing that private capital can come in, I think the better chance we have of not only getting them built, but preserving them for the long run.

Mrs. KELLY. Thank you very much. I yield back the balance of my time.

Mr. MILLER. [Presiding.] Thank you, Mrs. Kelly.

Mr. Watt.

Mr. WATT. Thank you, Mr. Chairman.

Mr. Flatley, I am trying to determine whether I have some organizational enterprise that is comparable to yours in North Carolina since you seem to have been so successful.

Mr. FLATLEY. No, but we would love to help you start one.

Mr. WATT. You have in Massachusetts also a housing finance agency?

Mr. FLATLEY. There is. Massachusetts is rich with a history of organizations. It is sometimes confusing. There is a State Housing Finance Agency.

Mr. WATT. That is connected to the State. You are not connected to the State or a local government?

Mr. FLATLEY. That is correct. We are totally private.

Mr. WATT. OK. You say that you are a Section 501(c)(3) non-profit, yet you also talk about a respectable return to your investors. Those two things seem inconsistent with each other. Can you elaborate a little bit on how you are structured?

Mr. FLATLEY. We manage pools of investments. We are a Section 501(c)(3), but we have subsidiary for-profit funds which we manage for the investors in those funds and it is both tax credit funds and what is essentially a mortgage company where we manage those funds and businesses for the investors in each.

Mr. WATT. So most of your investments have been into those subsidiary funds that are profit funds and return an investment, a return to the investors?

Mr. FLATLEY. That is correct, and that is how we raise money. We would find it hard to raise money if we could not provide a return to our investors.

Mr. WATT. And the bulk of your $500 million over the 10-year period has been from what sources?

Mr. FLATLEY. It is primarily banks. It was really started through a collaborative effort between the State Banking Association and community leaders in Boston. That is how we got started in 1990, but there are two pooled insurance company initiatives which are also investing and also Fannie and Freddie have been investors. Those are the primary investors.

Mr. WATT. Investors in the sense that they are looking for a return also; this is not just putting money there that they are not expecting a financial return on?

Mr. FLATLEY. Correct. We do not seek any philanthropic funds. Even though we are a Section 501(c)(3) non-profit, we have never raised funds from philanthropic sources. Our whole philosophy is to try to attract private capital back into these communities and show that it can be done profitably so that additional capital will flow into these communities.

Mr. WATT. What kind of return would you normally be talking about when you refer in your last sentence on the first page to a respectable return? I am not trying to put your business in the street. I am just trying to figure out how to replicate this.

Mr. FLATLEY. The returns have varied over times as financial markets have changed. On tax credit investments which we do, the returns probably right now are in the 7.5 percent range. The return on our lending program is right now probably around 5.25 percent. So those are respectable returns given that we manage the businesses for them. And that includes all of our costs in managing those businesses for those investors.

Mr. WATT. What are you talking about when you talk about lending?

Mr. FLATLEY. We lend money to developers to develop affordable housing, and we provide the loans. We also provide tax credit equity capital.

Mr. WATT. Are you also a developer?

Mr. FLATLEY. No.

Mr. WATT. So you are not developing; you are just kind of facilitating all of these people coming together and providing ongoing expertise from project to project to project so that people do not make the same mistakes over again?

Mr. FLATLEY. Correct, and we help people assemble the resources and figure out how to make a project successful and put the resources in to get a project done.

Mr. WATT. All right. I think I would like to, if I could, get some more information about how you all are set up. That would be very helpful to me.

Mr. FLATLEY. I would be glad to do that. We were started, I would note, with help from other consortiums. New York and Chicago came to Boston to help us get established, so I think it is the tradition of the industry to help other places start similar organizations. So we would love to help you.

Mr. WATT. We have plenty of resources. They say in my part of the country, we have plenty of banks and things. But this sounds like something maybe we could get jump started in North Carolina. We certainly need it. Are you statewide?

Mr. FLATLEY. Yes, we are.

Mr. WATT. The bulk of your activity is in Boston?

Mr. FLATLEY. I would say about 60 percent is outside of Boston. About 40 percent is in Boston.

Mr. MILLER. Your time is concluded.

Mr. WATT. I have done as much as I can do. Thank you, Mr. Chairman.

Mr. MILLER. Mr. Grucci.

Mr. GRUCCI. Thank you, Mr. Chairman.

Mr. Reilly, coming from New York City and having a great, long and rich history in that great city, and you probably know very well the economy not only in the city, but in the surrounding area, in order to capture more of the folks that are in the metropolitan area that are in dire need of affordable housing, what do you think that the eligibility level should be as a percentage of median income?

Mr. REILLY. That is a good question. I think that I think it is important to keep in mind that there are shortages of what I will call affordable housing at various income points: very-low-income, low-income, moderate-income and also in middle-income categories, as well. I think that right now there is a need for affordable housing for very poor people, as well as working families. So to say at what particular points, I am not sure that there is a particular point.

Mr. GRUCCI. Let's concentrate on the working families for a moment. In that bracket that you have identified as working families, what do you believe would be a good number to work with? Do you think it is 50 percent of median income, 100 percent, 150 percent of median income is eligible for the affordable housing programs?

Mr. REILLY. Now I would have to qualify this by saying I think it varies from location to location, based on construction costs and maintenance and operating costs, as well. But with that in mind, if you look at some of the middle-income housing that is being developed in New York City and probably in some of the surrounding areas you might have a two-wage-earner family earning somewhere in say the $50,000 to $70,000 range. Finding decent affordable housing for people in that income range, it can be difficult, and that is in excess of median income. That is $100,000 to say $120,000. That is not to say that is the only need, but that is, in fact, a need.

Mr. GRUCCI. Would you think that number would hold true for out in Long Island? I am sure you know the Long Island market as well as the New York City market.

Mr. REILLY. My recollection is the median income is about the same on Long Island, but my guess is that the cost of housing is a little bit less. So there might be some reduction there.

Mr. GRUCCI. Second, how do you think, and I guess I could open this up to the panel as well if we have time for responses, what do you think this level of Government can do to assist in making affordable housing truly affordable? And that would cover a wide range of thought process, whether it is paperwork reduction, whether it is incentives, whether it is working with local municipalities. I mean as a former supervisor I remember 30 people would walk into a town hall meeting and drop the town board to their knees in fear of losing an election, because the people came out and ranted over affordable housing complexes, feeling that it was going to degradate their community.

So I would be interested in your thoughts on how this level of Government can facilitate affordable housing.

Mr. HINGA. Well, I think some of that, Congressman, is as you address, that maybe the fears or anxieties is—you know, there is quite an emphasis throughout the States really on mixed income. I think generally when the community sees what is going to be built, if you build a high quality project and have a variety of income levels in that property, I think sometimes that puts aside some of those fears. It is also good for the project, because you do have an economic strata in there that is good.

My example in Chicago, which I raised, is that 107 units near the South Side of Chicago, will have 25 percent of the units for public housing tenants. You are also going to have what we would call tax credit tenants, and they are at 50 and 60 percent of area median income, and then you are also going to have a portion of the project that is going to be market rate tenants. Now this does not work in every locale. I understand that. Particularly in metro areas it works better, where affordable housing options are just not available at all. But I think blending does help, versus putting all the low-income tenants together, which we have done in the past. It doesn't always work. I think the HOPE VI model is a good example of how you are blending home ownership plus rental in one revamped community and you are getting a lot of income stratas in there. That program I think has been very good. We have participated in that program.

Mr. GRUCCI. Thank you, Mr. Chairman.

Mr. MILLER. Thank you.

Ms. Lee.

Ms. LEE. Thank you, Mr. Chairman. Let me ask two questions. One is let me reference my city, Oakland, California. There is a program right now to bring 10,000 new residents to downtown Oakland. One of the issues of course is at what income level and how can people afford to live now in downtown Oakland because of the cost of housing. One of our strategies of course has been to look at a percentage of affordable units in each development. However, the developers with whom I have talked with have indicated that, you know, 30 percent of affordable units in the development would be cost prohibitive. They cannot get the financing for it.

What percentage do you think makes sense to, I guess short of insisting on suggesting, developers do for affordable units in any new development where affordable housing is an issue and how can the financial institutions work with the developers to make the percentage, whether it is 25, 30 or 40 percent affordable?

That is the first question. The second question I want to just ask any of you in terms of the role of non-profits, they seem to be able to provide more sustainable long-term affordable housing stock in certain parts of the country, I know certainly within my own community, and I wanted to see what you think are—what makes that possible in terms of non-profits versus the profit making developers. Why are non-profits more successful in terms of the production of affordable housing?

Ms. KAISER. I would like to address that, Congresswoman Lee, because I think your first and second question in your marketplace are very related. I think some of the more successful programs where we have seen the housing element addressed in the low-income component is when for-profit developers partner with non-profits and allocate a certain percentage of the project to affordable housing and let them work together to determine what percentage based on the size of the project, whether it is seniors or families, unit mix, that kind of thing. So you are right. You have a lot of strong non-profit developers up there who have worked very closely with market rate developers in building mixed income communities.

I think one of reasons non-profits are probably very successful with this type of product is they can hold their breath this long. A lot of the market rate developers may not wait the long process that both Joes accurately explained. But we have a lot of for-profit developers who are also motivated to develop affordable housing. So I don't know that it is always the non-profit versus the for-profit mission. They are both motivated by profit. One just has a stronger mission and perhaps knows the infrastructure of multiple layered financing better than a market rate developer who may not put up with it.

Ms. LEE. Let me ask what percentage of affordable units is reasonable for a for-profit developer, and I know it depends on a lot of factors, regional factors, the income level, the community ordinances. What seems to be standard nationwide? Is 25 percent, 30 percent, is that too much to ask?

Mr. FLATLEY. Are you talking about doing that without subsidy; in other words, internally subsidized within the project?

Ms. LEE. Right.

Mr. FLATLEY. I think I have seen that sort of inclusionary zoning that was in the 10 to 20 percent range, which was pretty broadly acceptable. I think when you go beyond that it is really going to depend on the economics of a project. So I think 30 percent is probably aggressive; 15, 20 percent would probably be more standard. I guess that is my sense.

Mr. REILLY. An 80/20 split seems to work pretty well in New York, but they work because there is a tax abatement associated with it and that is an important part of the subsidy to the project. That is an encouragement, an enticement for the developer to move forward with that structure. They want the tax abatement.

Ms. LEE. Is there anything we can do to increase from 20 to 30 percent? I think that that 10 to 15 percentage points would help in many communities increase the availability.

Mr. REILLY. I would go back to my earlier comments. I think you need more subsidy in order to do that.

Ms. LEE. Federal subsidy.

Mr. REILLY. Wherever it comes from. You need some cash to offset the reduction in revenue. I mean if it is an 80/20 rental and you want to make it a 70/30 rental, somehow you have to come up with the cash to offset the reduction in revenue, whether it is Federal or local subsidy, or maybe the tax abatement is sufficient to do it. Whatever it is, you need something to bridge that gap.

Ms. LEE. Now, if a non-profit——

Mr. MILLER. Ten seconds, Ms. Jones.

Ms. LEE. Thank you, Mr. Chairman. How does a non-profit, however, bridge that gap because non-profits seem to get to 30 percent more easily than a profit making developer?

Mr. HINGA. I think many of these subsidy funds are available to the non-profits and aren't available to the for-profits. So they are very successful in seeking out and getting those funds for the property.

Ms. LEE. OK. Thank you, Mr. Chairman.

Mr. MILLER. I apologize for calling you Ms. Jones, Ms. Lee, but Mrs. Jones was next. But she is no longer here. So Ms. Waters.

Ms. WATERS. Prior to any question I may have I just simply say I came this morning because I wanted to hear us say over and over again how bad it is and how we need Government help. There is nothing in this budget that will help this situation, and I don't know what the Chairlady anticipates, as the Chair of this subcommittee. I don't know what she will do about this. Again we are putting on the record and we are documenting how bad it is.

I just want to perhaps find out what has happened to the HUD subsidized units where the owners prepaid the mortgages at the end of the expiring use period so it opted out of the programs. I thought there was some attempt to keep some of those units on the market, and I thought something was being worked out so that non-profits, I guess, could manage them or gain access to them. What has happened to those units? Do any of you have any idea? Are any of you involved in trying to acquire some of those units and keep them on the market for low-income, moderate-income?

Maybe you can answer, Ms. Mary Kaiser from California.

Ms. KAISER. I do think there are many efforts afoot, certainly more on the non-profit or the private sector side, to capture those. Number one, it is hard to find and identify who owns them and who you talk to and who the decisionmakers are in terms of prepaying the mortgage and keeping them at affordable levels. The market issues in some markets in California or elsewhere in the country are just too tempting not to take them to market. The non-profits are having to find multiple layers of subsidy to rehabilitate the projects. And so to be able to move quickly on those projects sometimes is difficult when you need a lot of different subsidies to make them work.

Ms. WATERS. I think someone mentioned to me that some properties were in great need of repair and rehabilitation, but I don't think there was any Government assistance to do that. Do you know anything about that?

Ms. KAISER. You can certainly reapply for tax credits. That is one of the issues of needing to make the pie bigger, not just cut it differently. Some of these projects are going in for tax credit financing, either tax exempt bond or 9 percent tax credit financing, to provide the injection of capital equity to allow for the projects to work, underwriting that rehabilitation cost. On their own it is really hard to take them, prepay the mortgage and keep them affordable. You have to apply for either local subsidy, State subsidy or some sort of tax credit program to provide that gap financing.

Ms. WATERS. Just in case I missed something I would like to hear from any or all of the panelists, do you have any magical answers, do you have any formulas, do you have anything other than testimony that basically concludes that we need some help in helping to develop units for low- and moderate-income people and that the Government could be very helpful, Federal Government could be very helpful in doing this? Do you have any other answers?

Mr. REILLY. I think it is important to keep in mind that we have built an infrastructure, and the infrastructure is there to build housing, to finance housing. The developers are there. The lenders are there. There are many instances where we just can't make the numbers work. So we are back to the original thought, which is you need some sort of funding to bridge that gap. But the infrastructure is there. I think that the capacity is there to build the affordable housing that is needed. But sometimes the numbers just don't work.

Ms. WATERS. You need money?

Mr. FLATLEY. I just wanted to comment on one program that is working pretty well, which is the Section 8 mark-to-market program, and that program actually is being very effectively utilized to preserve a lot of this housing where the market rents are much higher than the rents that they are originally underwritten at. And HUD is allowing those rents to rise up to the current market rent. And in Massachusetts that is helping to support either the continued ownership by a for-profit owner or sale to a non-profit and the housing remaining affordable.

Ms. WATERS. That doesn't expand much.

Mr. FLATLEY. I thought you were raising the question of preserving the units that were done. You are right. Additional expansion, as we have all said, I think you have partners ready to work with the Federal Government as additional resources are made available, and I think the scale of the problem demands not just a small increase, but a very major increase in resources.

Mr. MILLER. Your time has expired, Ms. Waters.

Ms. WATERS. Thank you very much.

Mr. MILLER. The next would be Mrs. Jones.

Mrs. JONES. Good morning, still, I guess. I kind of missed some of the testimony coming and going. Of all the programs that you have worked with or programs that the Federal Government has done with regard to affordable housing, would you assess for us the best practices, for lack of a better term, and I ask that to all four of you and we have 4 minutes. So you get a minute apiece.

Mr. HINGA. I think the Low Income Housing Tax Credit has worked very, very well. You have seen from the testimony billions of dollars of private capital flow in and to be managed by professionals like Joseph Flatley's group, and those investments also made directly by banks. I think, you know, knock on wood, there haven't been any major problems with that program.

Mrs. JONES. Let me ask you this question, and this will cut off on some of our time, that Low Income Housing Tax Credit program, for what period of time does it last?

Mr. HINGA. The project has to stay, at a minimum, affordable for at least 15 years, and then almost every State in their allocation process makes you commit to another 15 years. So, typically it is at least 30 years of affordability.

Mrs. JONES. So I guess in 1999, that was when I first came to Congress, there was a real dilemma about a number of those 30-year properties coming to the end of their 30 years and going now back into market rates that gave us part of the dilemma we have with the lack of affordable housing across the country?

Mr. HINGA. What you are describing there is a lot of HUD programs where the contracts are expiring and then that leads to what are you doing with housing now? Does it go to market or can you restructure it and keep it affordable?

Mrs. JONES. Would you suggest then that perhaps what we need to do with the Low Income Housing Tax Credit is to have an option for us to extend it another 10 years at the end of 30 or not?

Mr. HINGA. You almost have that now, Congresswoman. Almost every State is going to make you do that anyway, because it is so competitive to get the dollars awarded to you that in their allocation plans they are almost across the board making you keep it another 15 years anyway.

Ms. KAISER. In California it is 55 years of affordability. So I think we will see a long time before those are at risk. I think the answer really is if we increase the ability to build new projects by increasing the cap of both of those programs you will see more and they will have long-term affordability with them.

Mrs. JONES. Mr. Reilly, what program for you?

Mr. REILLY. I would say the Low Income Housing Tax Credit program has worked very well. We are a very large investor in the program. We like it from an investment standpoint, and I think that the quality of the housing has been generally very good. So I think that we are meeting the need for or at least some of the need for affordable housing and we are also involving the corporate sector as investors and investors seem to be interested in the returns. I think the returns are a little bit low right now, but I think that given the increased supply over the next couple of years they will probably go back up.

Mrs. JONES. Mr. Flatley, let's step outside the box a little bit. Is there something else we might do to enhance affordable housing?

Mr. FLATLEY. I think the home ownership tax credit idea in the President's budget is not a bad idea. I think that would, in fact, expand the supply of units. I don't think there is any magic bullet other than money.

Mrs. JONES. Or incentives.

Mr. FLATLEY. I think the incentives have to be fundamentally financial if you are going to bridge the gap. When you look to other things you are really avoiding the fundamental responsibility, which is a financial one.

Mrs. JONES. I have a constituent, and this is my last question, Mr. Chairman, who called me and said I have a daughter who is 30 years old and disabled. She is finally out and working on her own. Her dilemma is that once she leaves the job as an established disabled person where she is working for some minimum amount of wage and she comes past that, then she needs to go to—if she goes to regular minimum wage that kicks her out of the ability to have housing under housing disability programs.

Are any of you familiar with any of those programs, and what suggestions do you have with regard to—well, my suggestion is they raise the dollars that they are able to make in order to be able to stay in the facility. Do any of you have experience with housing for the disabled in the course of affordable housing?

Ms. KAISER. There are a lot of non-profits who deal specifically with special needs housing, and Shelter Plus Care, for instance, is a program that provides operating and rental subsidy to special needs tenants. One of the difficulties for the private sector to deal with those kinds of fundings is they are typically on annual contracts and you need long-term mortgages to make this work. And so to the extent that we can count on those programs year-in and year-out and what the rules and requirements are I think it will make it easier for the private sector to underwrite those federally-funded——

Mrs. JONES. To the special needs program. Thank you, Mr. Chairman.

Mr. MILLER. Ms. Velázquez.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

I want to thank all of you for being here today. This is important, especially coming from New York City. I represent a district in Brooklyn that is so far from Manhattan it was like a foreign territory 10 years ago. Well, now when the market in New York went up in New York City, so people are discovering Brooklyn, Williamsburg Bridge, they are getting there, gentrification is taking place.

Mr. Reilly, you spoke about the need for lawmakers to develop a new Federal financing resource, funding—I'm sorry, Mr. Flatley—and have you thought about how much money we need to finance such a funding?

Mr. FLATLEY. Well, what I suggested in my testimony is that with the scale of the problem, to have a real impact would require effectively doubling the level of resources presently available. I think I mean the problem outstrips what we are doing by so much that if we increase only by 10 or 15 percent what we are doing, the problem is getting worse at a rate faster than what we are building. We are losing more units, and we are losing more families in terms of their ability to afford units at a rate much faster than we can respond.

Ms. VELÁZQUEZ. And you spoke to such funding to be separate from the application process.

Mr. FLATLEY. It would be best if it could be done outside that process.

Ms. VELÁZQUEZ. And I agree with you.

Mr. FLATLEY. I think the issue is dependability and getting people motivated to spend the 2 or 3 years in order to actually create a pipeline. And it will also create more efficiency for the Federal Government. You will get more for your money if you do it in a way that is dependable, so that it is not sort of on again, off again.

Ms. VELÁZQUEZ. So how would you finance such a trust fund?

Mr. FLATLEY. I don't think I am in a position to recommend where the resources come from. There was a proposal last year by Senator Kerry to create a housing trust fund financed out of the FHA surplus and an FHA insurance fund. I think the testimony since then has been that there really isn't much of a surplus or maybe it should go to other purposes. I think the question is: is there a way to provide a trust fund which provides predictability so that people like ourselves and developers can look at it and say, yes, the resources are going to be there on an ongoing basis.

Ms. VELÁZQUEZ. How do you feel about using the surplus from FHA?

Mr. FLATLEY. That would be great if it is available. I don't really know that much about the availability. I am not an actuary and I don't really know whether there is, in fact, a real surplus there, or whether people think that money should go back as rebates to the policy holders. I think that is a legitimate argument. I don't want to set it up as sort of robbing Peter to pay Paul. I think you are really going to need to find resources and inevitably it is likely to be new resources. I think to try to somehow try to pull it out of the little bits of money that may be in different hiding places in the Federal Government is probably not going to be on a scale to really address the problem.

Ms. VELÁZQUEZ. Thank you.

Mr. FRANK. If the gentlelady would yield, let me say, as the Chair, Mrs. Roukema, indicated, we had a very good hearing at her initiative in which the Congressional Budget Office, the General Accounting Office and the Office of Management and Budget testified specifically on the FHA fund and the unanimous conclusion was that there is a surplus, that it is, in fact, enough so that no foreseeable economic downturn could call it into question. And the use to which it is being put now is to not give a rebate to home buyers or anybody else, but to go into the general revenue so it is available for tax cutting.

So the answer is yes, there is an FHA surplus. That does not answer the question of whether that should or should not be used for this, but I wanted to be clear we have a significant FHA surplus and right now it is counted on as part of the general governmental surplus. Thank you.

Mr. MILLER. [Presiding.] Mr. Clay.

Mr. CLAY. Thank you.

Let me preface my remarks by first stating that I represent the City of St. Louis, which is an older urban center with a housing stock somewhere between 80 and 100 years old on average. I live in a home that is about 80 years old.

Do you see that there are quite a few problems in historic preservation? Any of you can tackle this question. Do you see a real need for historic rehab tax credits? Has anyone addressed that yet?

Mr. HINGA. I can tell you, Congressman, that our direct investment strategy, where we are doing tax credit deals directly and not through funds, we really look and seek out historic tax credits. Most of the time you are going to see those in one of two fashions: They are going to be combined with the housing component, or they are going to be a commercial retail component. We look to make sure it is in a designated targeted area, that it is going to really be economic redevelopment, and so forth.

Frankly, it is a great program. The yields from an investment standpoint are actually better than just the Low Income Housing Tax Credit. It is really something that is out there that is not probably utilized as much as it could be by the investment community, and I think it has picked up lately because it is a very attractive product, and it really can make something, again, happen in certain areas, because it does provide a little bit higher level of equity coming into the deal and it is typically a 5-year compliance period.

So from an investment standpoint, it is pretty attractive.

Mr. CLAY. Do you think more emphasis should be put on helping people who are renters transition into home ownership? Do you think that would help as far as availability of housing units?

Mr. HINGA. Through the historic?

Mr. CLAY. No, just in general, to help people transition from rental units to owning their own homes?

Mr. HINGA. I think across the board there are always exceptions, but generally I think that is absolutely great, because home ownership strengthens the community; it also provides equity buildup for that owner to eventually be able to use that equity in their house to build private wealth for their family, finance college. I think it is a great.

That is why Mr. Flatley mentioned earlier the proposed tax credit for single-family housing, I think, is an interesting opportunity. If it could end up being as successful as the Low Income Housing Tax Credit for rental units, it may be a real home run-type project.

Mr. FLATLEY. One thing I would add, quickly, is that one of the best ways to increase home ownership is to relieve some of the excessive affordability burdens on renters. One of the obstacles to renters becoming homeowners is if they are paying more than 50 percent of their income for rent, they are not going to be able to save for a down payment. So many times you get caught in this debate between rental versus home ownership. Well, one of the best ways of getting more people into home ownership is by creating programs, rental programs, which create the mobility, so people can, in fact, save the down payment and move on and become homeowners.

Mr. CLAY. Thank you.

Let me also ask anyone on the panel about successful models. In St. Louis, we rely a little bit on Habitat for Humanity and another program called Youth Build, mostly sweat equity programs.

Have you seen any models that may be worthwhile and worth shopping around the country for? Anyone on the panel can attempt to address that.

Mr. REILLY. I think those are two very good examples. But I think they are part of the strategy. I think that you need to use all of the different resources that are available to meet the need.

I think that requires employing the private sector as it relates to the private development community as well, to build housing. It can't just be on a volunteer basis. I think that is one strategy. I think it is a good strategy, but I think that we need more than that right now.

In terms of models, I think that in New York we have the New York City Housing Partnership, which has built thousands of units of affordable for-sale housing, and I think that that is one that certainly requires subsidy and certainly is replicable if subsidy is available in other locations.

Mr. CLAY. Thank you very much.

Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. Thank you. I do apologize. I believe this now has concluded the questioning of this panel. You have given us a lot to think about. By the way, I do apologize for having to leave. There was an important debate on my other committee on the floor with historic legislation, and I had to be over there for a few minutes.

But you have been an excellent panel. You have contributed a lot of information to us. Of course, you haven't told us how we are going to be able to pay for these things, but we will take that under consideration.

First we have to get our priorities straight. But I do appreciate it, and the fact that I didn't have questions does not reflect negatively on you, it reflects positively on you, because I think all four of you explained yourselves very well and gave us a lot to think about and to take under consideration as we move toward legislation. Thank you very much.

The next panel, if Panel II will take their positions. I think we are in very good position to be able to hear your testimony and question this panel without any interruptions from voting on the floor. At least I hope we have planned that well.

Panel II, I want to welcome you. The Honorable John DeStefano, Mayor of New Haven, Connecticut. And Mayor DeStefano is here on behalf of the National League of Cities, representing them. Welcome, Mr. DeStefano.

Mr. Raymond A. Skinner is Secretary of the Maryland Department of Housing and Community Development and is here representing the Council of State Community Development Agencies. We certainly welcome you.

Mr. Randy Patterson. Mr. Patterson is Executive Director of the Lancaster County, Pennsylvania, Housing and Redevelopment Authority.

Obviously, all three of you have considerable experience in the field and can give us the benefit of your practical and pragmatic understandings of the problem and what the potential alleviation of those problems is.

I thank you, and we begin with the Honorable John DeStefano.

STATEMENT OF HON. JOHN DeSTEFANO JR., MAYOR OF NEW HAVEN, CT; ON BEHALF OF THE NATIONAL LEAGUE OF CITIES

Mr. DESTEFANO. Thank you, Madam Chairwoman. It is good to be here with you and Members as you have patiently sat through all of this. I have enjoyed listening to it as well.

I am the Mayor of New Haven, Connecticut. I also am Second Vice President of the National League of Cities (NLC). The League represents 1,700 cities and towns across America and is the largest and oldest organization of American communities.

I want to make a distinction about how you are having this discussion about affordable housing. I think it exists on two levels. One is the issue of access, which is the issue of access of anybody at low- and moderate-income levels to housing of their choosing.

However, I think there is a second part of affordable housing that speaks to a greater need, which is those populations which not only do not have access to housing, but are also characterized by joblessness, low educational attainment, single-parent head of households, the sum of which those characteristics create neighborhoods that have cultures and problems that are far deeper than just housing.

Having said that, the problem that we have today in America around affordable housing is to my point of view one that we have chosen to have. I say we have chosen to have it, because I believe in large measure the private sector has, for reasons that have to do with where profit margins exist, chosen not to go there, and Government, for reason of where there are other priorities that exist, has chosen not to go there as well.

You all represent districts that have, to some varying degree, these problems. I would make some specific suggestions.

First, do no harm. Do nothing to weaken CRA lending in America. I would urge, suggest to you strongly, that if you did, whatever private-sector investment goes into this problem will disappear.

Second, do not walk away from public housing in America. The budget that has been submitted to the Congress has a $700 million cut in the capital fund, which is the major modernization fund for public housing. It is incredible to me that this older housing stock would be subjected to further disinvestment by our partners in Washington who encouraged us to build this housing in localities.

Third, I would speak to flexibility. As the prior speakers have said, this a funding issue, not a regulatory issue. However, rules that limit placement of Section 8 certificates in high-impact, high-poverty neighborhoods, frankly works against rehabilitation of some of these units.

Fourth, support programs that work. CDBG and HOME are wonderful programs that every speaker that was up here in this last panel will tell you were part of any deal they did to do affordable housing in their communities, and they speak directly to the gaps in these projects that anyone who has tried to put any of these together faces. Support what works: HOME and CDBG.

I want to say a word about local zoning. I do not expect the subcommittee to engage in local zoning. I would tell you, though, as of right now, zoning on an acre of land in New Haven is 22 units per acre. I am surrounded by communities that have minimum building lots of 2- and 2½ acres. Often times, local zoning is no longer used just to prevent affordable housing, but to prevent any kind of multifamily housing. At its root it is often caused by prejudices and ignorances. However, seeing some of the ways we have maintained public housing, I certainly understand some of the fears about it. The best way to overcome those fears is to build housing that works, and we do that by investing in it.

Finally, I would just say to you, this is a larger issue than building decent housing. I come from a community that tried to rebuild itself in the 1960s by massive slum clearance. When we did slum clearance, we tore apart the fabric of neighborhoods, relationships among neighbors and among institutions of neighborhoods like churches and businesses. What you are investing here as well is not just access to decent housing, but to the strength of our neighborhoods.

Everyone who has spoken to you has spoken to you about the need to invest. That means add money. Governance is about making choices. Congress is about to make a choice about a tax cut. When it makes a choice, it will also be making a choice about affordable housing.

Thank you for listening to me.

[The prepared statement of Hon. John DeStefano Jr. can be found on page 347 in the appendix.]

Chairwoman ROUKEMA. Thank you. You really adhered to the 5-minute rule. We appreciate that.

Mr. Skinner.

STATEMENT OF RAYMOND A. SKINNER, SECRETARY, MARYLAND DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT, ON BEHALF OF THE COUNCIL OF STATE COMMUNITY DEVELOPMENT AGENCIES (COSCDA)

Mr. SKINNER. Good morning, Chairwoman Roukema, Representative Frank, and Members of the subcommittee. My name is Raymond Skinner. I am the Secretary of the Maryland Department of Housing and Community Development. I am delighted to be here this morning.

I am here today in my capacity as President of the Council of State Community Development Agencies, or COSCDA. COSCDA supports the common interests and goals of States with a major emphasis on community development, affordable housing, local economic development and State-local relations. COSCDA's members administer a wide range of Federal and State programs focused on housing and community development, many of which you have heard about this morning, including the Low Income Housing Tax Credit program, mortgage revenue bonds, the HOME program, CDBG, and so forth.

Before I begin, I want to thank you for holding this hearing and for recognizing the need to address the dramatic problem of affordable housing in America. COSCDA's members very much appreciate this subcommittee's efforts to expand housing opportunities for low-income people. I am here today to discuss with you the tremendous need for affordable housing and to discuss our ideas for solving the affordable housing crisis as it has already been characterized.

First, the need for affordable housing in Maryland and around the country has been documented in newspaper articles and many reports around the Nation. One of the most notable such is HUD's report on Worst Case Housing Needs. HUD's Worst Case Housing Needs study shows that the number of rental units available for very-low-income households fell by more than 1 million units from 1997 to 1999. Even more alarming, the study noted that the number of units available to extremely-low-income households, households earning less than 30 percent of the area median income, dropped by 750,000 units.

The loss of these units, coupled with the dramatic increase in the cost of housing, has created an affordable housing crisis throughout the country.

Although the need for affordable housing is staggering, there is some good news, and that is that we know what works. As you have heard from a number of witnesses this morning, there are currently a number of programs that address the housing needs of some American families, but we need additional resources to more adequately address the problem.

I would like to mention just a few of the successful programs that my agency and others like it around the country currently administer.

First, the HOME Investment Partnership Program. The HOME program provides a proven, successful model for the development of affordable housing for low-income people. HOME provides State and local governments with the flexibility to meet the unique needs of local communities.

Nationally, the program has assisted in the development of more than 580,000 units of affordable housing, with a substantial number of rental units produced serving extremely-low-income people where there is the greatest need.

Additionally, the HOME program has a proven record of fostering successful community partnerships—again you have heard about that this morning—leading to community support and the leveraging of funds. In fact, for every dollar of HOME money invested in a project, more than $3.50 of additional financing is leveraged. This program works well, and we ask Congress to increase appropriations for it.

In Maryland, we use 65 percent of our allocation of HOME funds for rental housing. Forty-five percent of the tenants in the rental developments we have financed using HOME funds earn less than 30 percent of the median income, and all earn less than 50 percent.

Second, the Low Income Housing Tax Credit is a tremendously successful tool, again as you have heard from previous witnesses this morning. The tax credit is administered by States, and the program has made possible the development of more than 1 million units of affordable housing. Frequently used in conjunction with other programs, including HOME, the tax credit serves as a major source of funds for the development of affordable housing.

While we appreciate the increase in the tax credit passed last year, it is still not enough to address the need or demand for affordable housing. For example, in our latest tax credit competitive round in Maryland, requests for funds outnumbered funds available by 4-to-1.

Another tool generally not associated with housing, but in fact, States and local governments are using for housing, is the Community Development Block Grant program. CDBG has served as a flexible resource of housing funding and housing-related activities for low-income people for more than 25 years. While the program provides resources for a variety of projects, States in general spend about 20 percent of their CDBG funds directly on housing. In Maryland, that figure is about 30 percent.

CDBG has aided in the production of hundreds of thousands of affordable housing units and remains a vital tool for the development of affordable housing.

Lastly I will mention the McKinney-Vento Homes Assistance Programs, which includes two programs, Shelter Plus Care and the Supportive Housing program, which provide for permanent housing. These programs are effective tools for housing homeless people; but, again, the resources are not sufficient for meeting the need. We strongly support efforts to shift the renewals of Shelter Plus Care program and the Supportive Housing program into the Housing Certificate Fund.

While all of these programs are very effective and have proven track records, we believe that there is a real need for a new rental housing production program which focuses on extremely-low-income households, meaning people earning less than 30 percent of the median income.

COSCDA supports the creation of a new rental housing production program administered by State agencies and modeled after the highly successful HOME program. A new rental housing production program is greatly needed to support the production of more affordable housing.

Nationwide, production levels are far below what they have been historically. Production in the late 1990s was less than half of what it was in the early 1990s, despite our extremely strong economy. The case for new production is strengthened further by the fact that while housing vouchers are vitally important, there are many areas around the country, including some areas in the State of Maryland, where there simply are not units available for people with vouchers to rent.

We believe that any new production program should primarily serve people at 30 percent or less of the median income.

Chairwoman ROUKEMA. Excuse me, can you conclude, Mr. Skinner? Thank you.

Mr. SKINNER. Additionally, COSCDA believes the new programs should be compatible with existing programs, including HOME and the Low Income Housing Tax Credit, and eligible uses for the new program should include new construction, substantial rehabilitation, and preservation.

In closing, the argument for more affordable housing in this country is clear and convincing, as you have heard from many witnesses today. The programs and policies required to effectively and efficiently meet the needs are largely in place. At this point, State and local governments need additional resources to partner with housing developers and community organizations to increase the supply of affordable housing for extremely-low-income American families.

I appreciate the opportunity to share our views with you, and I would be happy to answer any questions you have.

[The prepared statement of Raymond A. Skinner can be found on page 359 in the appendix.]

Chairwoman ROUKEMA. Thank you.

Mr. Patterson.

STATEMENT OF RANDY S. PATTERSON, EXECUTIVE DIRECTOR, LANCASTER COUNTY, PENNSYLVANIA HOUSING AND REDEVELOPMENT AUTHORITIES

Mr. PATTERSON. Thank you, Madam Chairwoman and Members of the subcommittee.

I am appearing before you today on behalf of five national associations which represent local elected and appointed officials. We appreciate the opportunity to share our views with you and our recommendations on the issue of housing affordability and the role that Federal programs may play in addressing this issue.

I have prepared a written statement for the record, and that statement highlights some of the national affordability issues. I would like to describe a little bit the experience in Lancaster County, a more rural community rather than an urbanized area, with a central city of 55,000.

In Lancaster County, housing affordability is also a serious issue. In order to afford a 1-bedroom rental unit renting at fair market rents in Lancaster County of $466, a person making just over the minimum wage of $7 an hour must work 51 hours a week to afford that rental unit. For a 3-bedroom unit, that same person would have to work 83 hours a week, or earn a minimum of $14.83 an hour.

As a further illustration, we have run into issues with the Low Income Housing Tax Credit and the affordability. The average 3-bedroom unit in Lancaster County has a 3.5 person occupancy. The Low Income Housing Tax Credit rent is $666 a month, but the average family residing in these units only earns 36 percent of the Lancaster County median income, and they are therefore paying 45.5 percent of their income for rent. The same lack of affordability falls to 1- and 2-bedroom units.

In Lancaster County, a family of four earning 50 percent of the area median could afford to purchase an $85,000 home, but the average price of a single-family home is $127,000.

We have been asked to comment on the effectiveness of several Federal programs to address some of these issues, including HOME and the Community Development Block Grant Program, to expand affordable housing opportunities and to undertake neighborhood revitalization efforts.

The HOME program has been a catalyst in spurring new affordable housing development since 1992. It is useful when providing funding for housing production, particularly as gap financing for rental projects.

The flexibility of the program allows local participating jurisdictions to use the program funds in combination with other funds. According to cumulative HUD data, as of the end of March 2001, HOME has helped to develop or rehabilitate over 583,000 affordable homes for low- and very-low-income families, including 252,000 for rental and 331,000 for ownership units.

Targeting in the program is deep. More than 82 percent of HOME assisted rental housing was benefiting families at or below 50 percent of area median income, while 41 percent was helping families with incomes at or below 30 percent of median income. For each HOME dollar, $3.87 of private and other funds is currently being leveraged. In Lancaster County, our leverage rate exceeds $5 per $1 of HOME money. Clearly this demonstrates the efficient and effective use of HOME dollars by local governments.

The Bush Administration is proposing a $200 million set-aside within HOME for a down payment assistance program to be administered by State housing finance agencies. We are opposed to this set-aside. HOME funds may already be used for down payment and/or closing cost assistance, as may Community Development Block Grant dollars. Since 1992, $1.06 billion in HOME dollars have been used for this purpose.

We do not believe there is a need to create a separate program for this purpose, for it would result in a $200 million cut in formula grants. During the 106th Congress, there were a couple of proposals to create a new housing production program primarily targeted to households at or below 30 percent of area median income. Rather than this approach, local officials proposed a housing production element be incorporated within HOME, because the infrastructure is already in place.

Our proposal would provide grants for new construction, substantial rehabilitation, and preservation of multifamily housing. Mixed-income projects would be encouraged. All of the resources made available under a proposal must benefit households at or below 80 percent of median income, with at least 25 percent benefiting those at or below 30 percent of median.

Funds would be apportioned 60 percent to local participating jurisdictions, and 40 percent to States, using the formula that measures inadequate housing supply. We would be pleased to work with the subcommittee on crafting a production program.

The Community Development Block Grant program is another Federal domestic program which is quite successful at the local level, primarily because of its maximum flexibility to address our local needs. Legislation has been introduced, H.R. 1191, that we believe would fundamentally change the nature of the program and destroy the program's current flexibility at the local level and effectively eliminate area benefit activities. Instead of being a program or a tool for expanding affordable housing opportunities and encouraging neighborhood revitalization, we believe it would be turning the program into an anti-poverty program, something Congress never intended.

There are several refinements to both the HOME program and the CDBG program that we have included in our statement, which we submit for the subcommittee's consideration.

We also seek a funding level of $5 billion for the Community Development Block Grant program and a funding level of $2.25 billion for the basic HOME program and an additional appropriation of $2 billion for the rental production program.

Thank you for the opportunity to address this issue.

[The prepared statement of Randy S. Patterson can be found on page 352 in the appendix.]

Chairwoman ROUKEMA. I thank you.

Let me first observe, as Congressman Frank commented to me and I should have made specific reference, particularly when Mr. Skinner mentioned the McKinney-Vento Homeless Assistance Act, Mr. Frank and I both served on this Congress and this subcommittee with both Mr. McKinney and Mr. Vento. They were magnificent leaders on a bipartisan basis, and unfortunately they died prematurely, but having left this in their memory for all those and left a standard of accountability for us, a standard whereby we should be reaching.

I appreciate the fact that Congressman Frank mentioned that.

Mr. FRANK. Thank you.

Chairwoman ROUKEMA. I would say, first I have got to make a statement here about local zoning. You are speaking favorably about overriding local zoning, and I have just got to tell you, not on my watch. Not only New Jersey, but I just happen to believe that the Federal Government should not be involved in local zoning. There are incentives there that we may want to establish, but that should not in any way have any command over local zoning.

Mr. DESTEFANO. You misunderstand me, Madam Chairwoman. I would make an observation about local zoning, that it is often driven by ignorance and fear, and the best way to overcome that is to build affordable housing that anyone would welcome as a neighbor.

Chairwoman ROUKEMA. With the local people making that case for either approval or disapproval at the State and local level.

Mr. DESTEFANO. Right. I think at some point we have to figure the larger issues do apply here about acting reasonable. However, I think that people will give up their pocketbooks before their prejudice. So I consider this as a pocketbook discussion.

Chairwoman ROUKEMA. I think you have to understand New Jersey and me in order to know how absolutely opposed we are to that. But more importantly, more directly, I did want you to expand a little bit more on the HOME program. Perhaps it was inferred and implied and essential to your statements on the HOME program, but I don't understand quite why it is not providing the necessary production that we originally thought. Is it a deficiency in the program or is it a missed perception about what we thought was the housing production capacity that it embodied?

Mr. Skinner, or whoever?

Mr. SKINNER. I think, first of all, I don't think the HOME program was necessarily intended as a production program per se. For example, there are a number of other uses for the HOME program, some of which you heard about today.

For example, many States and local governments use HOME for down payment assistance. They use it for single-family rehabilitation, for direct tenant assistance and for special-needs housing and so forth. So that really dilutes the HOME program in terms of its availability for present rental housing production programs.

Chairwoman ROUKEMA. Are you finished, Mr. Skinner?

Mr. DESTEFANO. There is not a problem with the program. I would just tell you in my community, and I think many of the communities we represent at NLC, I could double-program what we get.

Chairwoman ROUKEMA. I am sorry, I didn't understand you.

Mr. DESTEFANO. If we had twice the money, we could commit that level of funding to development of affordable housing. So it is not a program issue, it is a resources issue.

Chairwoman ROUKEMA. Well, we will have to go over this, and I will study your comments. If you can, aside from the funding question, if you can help us in any way to improve the program, if necessary, beyond the funding question.

Mr. Patterson, did you have a comment?

Mr. PATTERSON. I agree. The issue is not the program itself. In Lancaster County, we use the HOME program primarily as a financial tool for housing production of new housing or the conversion of vacant and underutilized facilities to housing. But, because of the funding levels, we are still only permitted to fund approximately one 60-unit project per year. Our needs far outstrip that availability of funding.

That is why the project includes Low Income Housing Tax Credits, the Federal Home Loan Bank Board, and local housing funds from a trust fund that we have developed.

[Mr. Randy Patterson submitted this additional information at a later date:

[Lancaster County, PA, has used 68 percent of the $10,233,000 in HOME dollars received since 1993 to produce 355 units of rental housing. Of these 355 units, 259 units were for family housing and 96 were reserved for elderly housing. An additional 10 percent of the HOME dollars were used to provide downpayment and closing cost assistance for first-time homebuyers. Remaining HOME dollars were used to renovate single family homes and provide short-term rental assistance for families. The HOME subsidy required to produce housing at a reasonably affordable rent requires the county to provide an average subsidy of $1,200,000 to construct a 56-unit multi-family rental project with a total development cost of more than $5,700,000. In addition to the HOME dollars, an average project such as this often requires a mortgage provided by a local bank using Federal Home Loan Bank funds, a subordinate mortgage through the county's housing trust fund and Federal Low Income Housing Tax Credit.]

Chairwoman ROUKEMA. Thank you. I appreciate your comments and I will look into this in more detail myself. But if you mentioned anything about faith-based groups and the partnerships there, I didn't hear it. Now, I happen to be one who has had a lot of experience with faith-based groups. I do not believe that there is any problem with separation of church and State. In the State of New Jersey, we have had some exceptional housing programs that have been partnershiped with faith-based groups.

Have any of you had experience or can you give us some insights or understanding, or do you have any recommendations to make?

Mr. PATTERSON. We have worked with several faith-based organizations in Lancaster County, not only from the housing production side, but also from the provision of services to very-low- and extremely-low-income persons, to help them save for that down payment that they need, or for closing costs, to help them go through the process of pre-purchase counseling and post-purchase counseling. We have worked with a local housing partnership that includes bankers, developers, builders, municipal officials, and faith-based institutions in a local partnership to provide down payment and closing cost assistance and the new construction of housing.

[Mr. Randy Patterson submitted this additional information at a later date:

[Although Lancaster County has not provided HOME dollars to faith-based organizations to rehabilitate or produce affordable housing, the county has provided local housing trust fund dollars to faith-based organizations to renovate and resell properties, build new single-family townhouses, and create transitional housing for female heads-of-household who have been through drug rehablitation programs.]

Chairwoman ROUKEMA. I am glad to hear that. Any further comments?

Mr. SKINNER. Likewise in Maryland, we have worked throughout the State with a number of faith-based organizations, non-profit organizations, in the development of affordable housing, both rental and for home ownership, using both the Federal resources as well as State appropriated dollars that we have available, and it has worked very well.

Chairwoman ROUKEMA. Thank you.

Mr. DESTEFANO. CDBG and HOME funds have been used that way for years. The faith-based organizations do just that; they provide a level of support for these families that recognizes this is not just a housing transaction, it is moving people into a different kind of housing than they are used to, and helps provide them support in becoming a member of the community.

Chairwoman ROUKEMA. If you can provide and submit for the record and for me personally any recommendations you could make as to how we can expand and improve on this kind of a partnership based on your own experiences, I would greatly appreciate it.

I appeared at a housing panel that was part of a program on faith-based initiatives, what, last month—within a few weeks. And it was amazing how many people were there from both the private sector as well as the faith-based sector that were endorsing it based on their own experiences, and also assuring that in a very simple way we can keep the separation of church and State and not be evangelized or promoting religious factors, but actually producing housing.

I thank you.

Congressman Frank.

Mr. FRANK. Thank you, Madam Chairwoman. I apologize for being on the phone to everybody but Mayor DeStefano, because I was talking to Rose DeLauro.

As far as faith-based groups are concerned, I think the point is very important. I worked closely with the archdiocese in Massachusetts, Father Mike Groden. We built some housing there. My nominee to be the co-chair of this new commission we have on elderly housing is Ellen Feingold, who runs Jewish Community Housing for the Elderly.

I think the point is very clear. Under existing law, there is no obstacle whatsoever to faith-based groups doing this. We don't need to change the law. It does mean if they are prepared to do this like anyone else, they can do it. We get the benefit of that. Obviously they don't discriminate in who they let in, and they don't proselytize. What they need, I think, is just an expansion of the program.

But, yes, we already have this, and I think that makes the point; there is no need to change the law to allow faith-based groups to give us the benefit of their commitment and expertise if they do it in the same way others do, and we have benefited from that very much.

I appreciated all the testimony. I particularly appreciated your reference to CRA, because if you want to have the private sector participate, then Community Reinvestment Act strictures are very, very helpful.

I was especially pleased to see in all three that you are speaking, I gather, not just personally, but for the organizations you represent. I think what we see is an overwhelming consensus among people who are concerned with housing availability, whether they are consumer groups, whether they are the lenders, whether they are the municipal officials, whether they are the people in the business, the mortgage bankers, the homebuilders, the realtors, we need a larger Federal role. There simply has to be if we are going to deal with this, not all by itself, but among other things, Federal help.

But I also appreciate having three officials who work at the actual State and local level who administer these programs, acknowledging, if I get it correctly, that we have achieved the kind of flexibility on the whole we need. We can make some improvements.

But the old image people have of inflexible programs that you can't use, you don't believe that is true of CDBG and you don't believe it is true of HOME. We have made progress with the tax credit. So I do think, and I was pleased to hear this, that the single biggest thing we need is additional resources.

I have a particular question to Mr. Skinner on this, because we did have a legitimate dispute with Secretary Martinez. He maintained, when he testified, that the lack of utilization of Section 8 reflects on poor housing authority management and that good housing authorities are able, in fact, to utilize them.

Let me start with Mr. Skinner; and then, from the expression on his face, I am going to go to Mr. Patterson.

Mr. Skinner.

Mr. SKINNER. I think it really depends on the area of the country. I can only speak very directly and specifically about my experience in Maryland. But just in talking with my colleagues around the country, I think it really depends. Part of the problem we have in many areas of Maryland is just the availability of rental units.

Mr. FRANK. No matter how good the housing authority would be in some places, you just couldn't use the Section 8's at the current level.

Mr. SKINNER. I don't think the housing authority is the issue. Thanks.

Mr. FRANK. That is a specific point, and that is important, because the argument for a production program in part has to be that the voucher program with the best efforts in the world won't work.

Mr. Patterson, you looked like you had something?

Mr. PATTERSON. As the executive director of a local housing authority, I take great exception to the statement it is the administrative issues. Our housing authority has always been above the 95 percent lease-up rate until the last year-and-a-half.

There were several issues that created that, in our opinion. One is the lack of affordable rental housing outside of the city of Lancaster, in the county, that people can afford when they are limited to paying 40 percent of their income and going out and trying to find a unit that is affordable to them. Those units simply are at a shortage in Lancaster County.

The second issue is that we have really created with the targeting to persons with incomes 30 percent of the median income, we have restricted the usage of vouchers. We have a significant number of people now on our waiting list between 30 and 50 percent of median that we cannot serve because of the targeting rule of 75 percent for those 30 percent and below.

Mr. FRANK. What you said is you went from a 95 percent rate to a lower rate?

Mr. PATTERSON. Our rate is currently 85 percent.

Mr. FRANK. That is about in a year-and-a-half.

Mr. DESTEFANO. Oftentimes the problem is inflexibility imposed by the Federal Government. We can't place Section 8 certificates in poverty high-impact neighborhoods. Well, try to find a census tract that has multifamily housing. It doesn't.

Mr. FRANK. I just want to ask all of you, and I gather you are saying implicitly—let me make it explicit—it is not that there has been in the past year-and-a-half a deterioration in the quality of the work of your housing authority; that if we are going to look for a reason it dropped, it must be something else.

Mr. PATTERSON. My staff would be extremely disappointed if I would stand here and say that it was.

Mr. FRANK. I will ask all of you, because this is a very critical question, and we had this discussion with Secretary Martinez, and he quite explicitly said that it is up to the housing authority and ruled out the notion that it was the kind of problem I think you gentleman are mentioning.

If you choose to elaborate on that, I think that would be very helpful. Again, the Section 8 voucher program in some parts of the country is a good one, and it ought to be part of the program wherever we do it. But the notion that it is sufficient and you don't need a production program is really central to the debate we are having, and I would appreciate anything you have to say on that.

Thank you all.

Chairwoman ROUKEMA. I believe Congressman Watt has some questions.

Mr. WATT. Thank you, Madam Chairwoman.

I want to applaud these witnesses for coming and being forthright in their assessment of the problem, and to help us reinforce something we have said over and over and over again, that even the most committed of the Members on our subcommittee sometimes lose sight, such as the Chairman and Mrs. Kelly, for example. You can't just authorize a program and have that solve the problem. If you don't commit the resources to carry out that authorization, it does not work.

I know we don't commit resources in this subcommittee. We think once we have authorized a HOME program, the concept is fine, that solves the problem. But when the appropriators or the policymakers or the President chooses to use the funds in some other way and not make the financial commitment to it, then the problem still exists.

In fact, some of the programs that we authorize can be counterproductive to housing, and HOPE VI in particular in my community has resulted because of decrease in concentration. I support the program, a great program. But when you decrease concentrations, unless you rebuild low-income housing somewhere else, what you have is a net loss of housing units. When you have the problems that you have, as I do in parts of my congressional district, not in other parts, with Section 8 vouchers, then you can't transfer those people over and allow them to use Section 8 vouchers to solve the problem.

So some of our own authorized programs sometimes have unintended consequences.

Let me try to reconcile, since we are trying to get information that will help us authorize programs that work, there seems to be a difference of opinion between Mr. Patterson and Mr. Skinner, and maybe it is just I am reading into it.

Mr. Patterson, on page 3 of his prepared comments says: "We note that the Bush Administration proposes a $200 million set-aside within HOME for a down payment assistance program to be administered by State housing finance agencies. We are opposed to this set-aside."

Mr. Skinner says: "COSCDA supports the creation of a new rental housing production program administered by State agencies chosen by the Governor and modeled after the highly successful HOME program."

Are you all in conflict with each other, or can you help me reconcile what you all are saying, so as we start to write legislation we are clear on what it is you are saying?

Mr. SKINNER. No, I don't think there is any disagreement. What I was saying, two things: One is that we, COSCDA, believe that we need a new housing production program. But, second, the HOME program has been a very effective program, and I actually agree with Mr. Patterson's view that there should not be a set-aside within HOME. As he indicated, HOME currently can be used for down payment assistance, and both State and local governments do that now. I don't think there is any dispute at all.

Mr. WATT. We are talking about authorizing a program here that the President—or the possibility of authorizing a program that might have an unintended consequence, if I understand what Mr. Patterson is saying.

If you set aside $200 million of HOME money for down payment assistance, and you don't replace that $200 million for production of new units, am I missing something here?

Mr. PATTERSON. You are correct.

Mr. WATT. That is your problem with it.

Mr. FRANK. You are missing $200 million.

Mr. WATT. That is right. And that is your problem with it, Mr. Patterson. And you agree with that, Mr. Skinner?

Mr. SKINNER. I agree.

Mr. WATT. You agree with it, Mr. DeStefano?

Mr. DESTEFANO. Why you wouldn't let us make those decisions locally is beyond me. Let us make them locally about allocation of HOME funds and CDBG funds.

Mr. WATT. All right. But if you are interested in production of new low-income house——

Mr. DESTEFANO. Put more money into it.

Mr. WATT. That is my primary concern, and I am not always happy with the decisions that get made on the local basis because they think it is great, the greatest thing since sliced bread, to do down-payment assistance and do other things. I keep saying we have got to produce more housing, otherwise this is not going to work.

Mr. DESTEFANO. But if you are paying for it by taking resources away from, let's say, modernization from public housing, or from our ability to rehab other units, it ends up netting the same. I think it just comes down to a resource allocation issue.

If you feel that strongly, then do create a new $200 billion dollar program for housing production.

Mr. WATT. I like that B as opposed to an M.

Chairwoman ROUKEMA. Mr. Watt, have you concluded?

Mr. WATT. I am finished.

Chairwoman ROUKEMA. OK. So, in other words, it is "show me the money."

Mr. WATT. Show me the money. That is part of the problem.

Chairwoman ROUKEMA. All right.

Now we have Congresswoman Jones from Ohio.

Mrs. JONES. Thank you, Madam Chairwoman. Again I want to compliment you on hosting these hearings on affordable housing.

Good afternoon, gentleman. I want to go first to the mayor. You spoke about not walking away from public housing. At a prior hearing with our Secretary of Housing, I raised the question of the reduction of the drug elimination program. What impact will that have on public housing in your communities?

Mr. DESTEFANO. It diminishes the quality of life. It provides less security in these developments, makes them less attractive for people to live in, and it writes down the value.

Again, I would think a cornerstone of any affordable housing program in America would be support of our public housing developments.

Mrs. JONES. I agree wholeheartedly with you, but I wanted somebody else to be on the record saying the same thing I was accused of saying.

Mr. DESTEFANO. I speak for 3,000 families back in New Haven. Absolutely.

Mrs. JONES. I hope I can frame this question. I want each of you to respond to this. Is changing the percentage of median income that qualifies a family for some of these programs enough to provide for greater affordable housing in our communities? Solely changing; I guess that is the question I wanted to ask.

Mr. PATTERSON. Are you speaking short of additional appropriations?

Mr. JONES. Short of additional appropriations.

Mr. PATTERSON. In my opinion, simply changing the level of median income would not resolve the basic issue. A perfect example, quite honestly, is the Section 8 home ownership initiative. We really are having a difficult time finding banks to participate, because you are really talking about a subsidized mortgage with a Section 8 home ownership program based on an annual appropriation, and you are looking at putting people in homes with very varied median-income levels. So the issue of simply raising the median income would not resolve the issue of lack of dollars to provide additional units.

Mrs. JONES. Hold on one second. I want to follow up. You were saying the banks are having a problem with the subsidized mortgages. What are they saying they need to be supportive of a program?

Mr. PATTERSON. The Section 8 program is based on an annual appropriation. You are asking a bank to commit to a 30- or 20-year mortgage with an annual appropriation. They are having a difficult time reconciling those two issues.

Mrs. JONES. Section 8 is supposed to be solely for down payment assistance.

Mr. PATTERSON. Actually, the Section 8 rental assistance can be used as a mortgage payment. The current proposal is to also permit the use for down payment. But the existing legislation permits you to use Section 8 for a mortgage payment.

Mrs. JONES. OK.

Mr. Skinner.

Mr. SKINNER. I agree. If I understand the question correctly, it is changing the median income requirement really doesn't help on the production side, as Mr. Patterson just said.

Mrs. JONES. Speak to the whole problem of lack of affordable housing for very-low-income people, just again for the record for me, would you please? What suggestions, other than the programs that you have, other than your statement, do you have?

Mr. SKINNER. I think all of the studies that have been done throughout the country, including what we have seen in Maryland, indicates that the greatest need is in families at 30 percent of median or less. Many of those families pay an exorbitant percentage of their income, 50 percent or more, for housing, and in many cases live in conditions that are not up to standards. So I think that is where the need is, and that can be met either through a new production program or expansion of some of the existing programs that can be targeted to the extremely-low-income.

Mrs. JONES. Lastly, Mr. Mayor, you made a statement that the issue is a larger issue than solely building more housing. Do you want to elaborate on that for a little bit?

Mr. DESTEFANO. Did you ever walk through a neighborhood where people are poor, but they are working, and then walk through a neighborhood where people are poor and they are not working? There is a difference.

When you walk through a neighborhood that is characterized by not just poor housing, but also lack of employment, lack of ready access to retraining, lack of access to, frankly, what we would consider middle-class role models is the only way I could put it, you get a different kind of neighborhood and you get a different set of expectations in that neighborhood. It just is not a housing problem at that point.

At some level, particularly in those kinds of neighborhoods—you mentioned drug elimination grants. Well, you know, it doesn't take a rocket scientist to figure out what makes for a good neighborhood, you know? It has got to be safe, it has got to be clean, it has got to be orderly, it has to have some social fabric, businesses and churches. That is why I am sure we have all cut ribbons in our political careers on housing and then come back 5 or 10 years later and say, something misfired here.

Mrs. JONES. In the course of my work in my congressional district, one of the things that I have said, I am for community economic development, which is more than just housing. When I was a kid, I could walk to the corner and there were 25 businesses on the main street from my house, and therefore I saw people who were at business and people had little jobs doing different things. It doesn't exist anymore. We need to develop communities. I agree with you and I thank you very much, Madam Chairwoman. I am on time. OK.

Chairwoman ROUKEMA. Thank you. Will we bring those communities back? I don't know. That is a good goal and a good picture, vision, a vision for us.

I would like to thank all of you for being here today. I think this has been a very productive hearing. It is the second hearing of our subcommittee, and I truly believe, as you have heard or as you saw originally, there was more representation here of Members than we have had on different subjects before the full committee and other subcommittees, which shows the intensity of interest in this subject.

So I fully expect we are going to be able to work toward some sort of bipartisan agreement with legislation, hopefully in this Congress, if not this year. I would like to think it would be this year, but it may be delayed until next.

But in any case, you have made a valuable contribution to this, and I do want you to know that you have, I believe, 15 days to submit for the record any additional information, after-thoughts or expansion, because of the time limitations, that you have not been able to expand on some of your answers and some of the data that you presented to us. So there are 15 days open to you to submit for the permanent record so that it will be available to each Member of the subcommittee, and it will be part of the permanent record.

With that, I thank you, and the hearing is adjourned.

[Whereupon, at 12:25 p.m., the hearing was adjourned.]

HOUSING AFFORDABILITY

THURSDAY, JUNE 21, 2001

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to call, at 9:35 a.m. in room 2128, Rayburn House Office Building, Hon. Marge Roukema, [chairwoman of the subcommittee], presiding.

Present: Chairwoman Roukema; Representatives Green, Barr, Kelly, Miller, Grucci, Tiberi, Frank, Carson, Schakowsky, Jones, Capuano, Waters, Watt and Israel.

Chairwoman ROUKEMA. Thank you. I believe we will get started. I am hopeful there will be more Members here shortly. But I will call this hearing to order. The Subcommittee on Housing and Community Opportunity. This discussion will of course be the third in a continuing series on housing affordability. I will read an opening statement and then see if we have other opening statements from Members of the subcommittee.

I certainly thank all of you for being here today. This is the third, particularly for those panel members and those who are listening today in the audience—this is the third in a series of hearings that this Subcommittee has scheduled.

Our first hearing on May the 3rd witnesses defined the parameters and the complexities of the problem and outlined some potential solutions. At least they gave us some idea of the problems. At the second hearing on May 22nd, our witnesses testified regarding the public-private initiatives that address housing affordability, which of course I believe that there is a good constituency in this Congress for exploring further public-private initiatives.

But in any case, we also want to work with community development block grants and home investment partnership programs, the so-called acronym of HOME. And I think those have lots of possibilities in developing and expanding home ownership and rental opportunities.

Today's hearing will focus on the underutilization of Section 8 vouchers as well as the specific problems faced by the homeless and disabled populations in finding affordable housing. And here I'd like to acknowledge, and I think Mr. Barney Frank will acknowledge as well, the fact that we had worked for numbers of years and certainly I worked closely with our deceased colleague, Bruce Vento, who was such a wonderful leader in this area.

This country is obviously facing a growing affordable housing crisis for low- and moderate-income families and for those with special needs. Through these hearings, I hope to better define the problems that are faced by many of our families and to determine solutions, if not solutions, at least improvements directing us down the correct path to build a foundation for reaching those solutions.

I would hope—and we shall see how realistic it is—I would hope that we could come up with a bipartisan approach to this, not that we'll all agree on everything, but at least we sometimes can agree to disagree and in the end have a bipartisan solution which is somewhat of a compromise that complements each other.

The Section 8 program, as we all know, provides direct financial—I'm sorry, Federal housing assistance to low-income Americans and it serves more than three million Americans. The program provides subsidies in two forms: Tenant-based assistance, which is the Section 8 vouchers, and assistance to owners to develop and maintain Section 8 projects, those so-called project-based assistance.

The Section 8 voucher program provides vouchers to families to rent a residence in the private rental market. In certain communities, voucher underutilization is a significant problem and seems to be growing. Underutilization of vouchers has been attributed to various causes, including the tight rental market, poor performance of public housing authorities, and the targeting of a large percentage of voucher to very-low-income individuals, low Fair Market Rents, and the rent caps of 40 percent of adjusted monthly income. I think we're going to have to go through those in detail with our panelists.

But in any case, we don't pretend to understand fully why this has been—well, we understand why it's been a growing problem, but how we can positively and constructively address these different components, we shall look forward to hearing from this panel, particularly our first panel, and trust that their experience in the field will be more than just theory, but will be actual proven understandings of what happens in the field.

And so we will look for your suggestions to help us determine, with specificity I hope, how we can improve the voucher program.

The witnesses on the second panel will share with us information on the problems faced by the homeless and disabled in our country. I know that we are keenly aware of the growing homeless crisis facing this country and it is interesting that in some areas of the country it hasn't seemed as though it's a growing problem, but without question, across the country it is a growing problem, although not quite as serious I don't believe as when we first started down this route in the mid-1980s to correcting the problem.

It is astonishing to note that according to some estimates, between 2.3 and 3 million people are homeless, at least some part of the year. It seems that there are chronically homeless of probably 200,000. It seems as though the reasons for these are the demolition of existing units and the neglect of public housing authorities and there doesn't seem to be the kind of upkeep that is necessary and the high cost of housing. The effect of a relatively good economy has been that there has been acute shortage of moderate to low-income housing and the dramatic rise in expensive housing.

Now the individuals that need housing are not only poor, as we will hear from the second panel, but they also suffer from some of the chronic health problems such as mental illness, alcoholism, drug abuse and/or HIV/AIDS problems. Secretary Martinez has signaled an interest in shifting responsibility for the care of the homeless with mental health substance abuse problems to HHS.

I don't know how realistic that is, but it has been out there as an idea, and I look forward to working both with Secretary Martinez and Secretary Thompson. By the way, I haven't yet discussed this with Secretary Thompson, but I fully intend to. But we look forward to working with both of those cabinet members determining the appropriate way to deliver the services so desperately needed.

Finally, I would like to take a moment to recognize the leadership of our Vice Chairman here, Mr. Mark Green. Last year, Congressman Green authorized a provision that was passed by Congress as part of the Lazio bill that would expand the Section 8 home ownership rule to make the program more accessible to people with disabilities. His provision—I won't go into it. Maybe he'll want to make reference to it in his opening statement, but his provision provided a 3-year pilot program for disabled individuals to use Section 8 housing.

And yesterday, the President announced that HUD would be moving forward to implement Congressman Green's provision, and we were very happy to hear that.

In any case, we look forward to this hearing. There are no easy answers, but we will be looking for your advice and counsel based on your experiences in the field. And with that, I will turn to our distinguished Ranking Member, Congressman Barney Frank.

Mr. FRANK. Thank you, Madam Chairwoman.

Let me point out to the witnesses and others who are interested that while I can't say that hearings focusing on poor people ever have the drawing power than fights between extremely rich people grouped in various competing businesses, we sometimes do better than this. The problem is that we're on a new schedule in Congress. We don't have votes before 6:00 on Tuesday and then we have no votes after 6:00 on Thursday, which means that the days on which Members can come together when we have to interact have now shrunk to two. And this has caused a severe—I think people haven't fully understood this. We used to have three and even 4-day weeks. We now have 2-day weeks in terms of our ability to schedule things. And I regret that for a number of reasons. But one of them is it means that Members are unduly squeezed, and that's why fewer Members are now at these kind of important hearings.

This is a particularly important hearing. I'm especially pleased that we have the people who have the commitment and willingness to actually administer these programs. I think that the people who serve the country by administering housing programs in various ways are heroic. They have been doing a very difficult job in this society with too little resources. The resources have been shrinking, and I am glad that they are having a chance to speak, particularly since—and my fundamental difference that's emerged so far with the Secretary of HUD is his insistence that the problems with the

Section 8 program are virtually exclusively the fault of poor management. He has specifically said that he just believes that a good management can deal with it and rules out other factors. I think that's quite wrong for a couple of reasons, and I'm glad we have people who will be able to address that.

There were two substantive points I want to add. I notice just leafing through some of the testimony, people quite correctly say, well, if you were to do X then you would, within the current context, reduce Y. And that is true. If you accept the current budgetary allocation for housing as something that we can't change. And I realize if you're out in the field, yes. That's given to you. Then it is true, increasing fair market rents could mean a decrease in the number of people who benefit, and so forth.

What I think this demonstrates is the economic and moral insufficiency of the current housing budget. We all agree that we have serous housing problems. The gentlewoman from New Jersey just talked about our increasing homeless problems. Money doesn't solve everything. I understand that. But what I've noticed is when people denigrate the notion that we should increase funding for a particular program with the cliche, you can't solve a problem by throwing money at it, they are almost always talking about a problem with which they are not too concerned. I have heard very few people in this institution say that we cannot make America stronger by throwing money at the Pentagon. Indeed, when the budget process starts, if you get between the Congress and the Pentagon, you are likely to be hit by projectiles as the amounts in large degree are thrown at them.

In fact, money means resources, and resources are a necessary but not sufficient condition. Certainly it is true that if you spend money unwisely, you may not help the program nearly as much, although I did note quite correctly I think, it was in Mr. Olsen's testimony, he said look, if you've got a problem of an insufficient utilization rate on vouchers, if you increase the number of vouchers, you're going to increase the number that are used. I mean, the fact is, money always helps. It helps much more if it is used well.

And so in the richest country in the history of the world, a society which has created wealth fortunately through our free enterprise system which has worked so well at a greater pace than any of us thought possible, it is simply morally unacceptable that we do so little to help people who are in need of basic housing.

And when we talk about helping children and leaving no child behind, we should understand that when you insufficiently fund public housing and other housing programs, wholly innocent children are among the major victims. They are the ones who are forced to live in inadequate conditions, and living in inadequate conditions and the tensions that are thereby generated contribute to the problems that we face when they show up at school to be educated.

Secondly and correlated to this, I want to make things work better, but I object very much to the double standard that we have. People say well, you know, everything would be fine with the money we have for housing if every housing program were administered perfectly by paragons of absolute virtue. I will admit that people who run the housing programs are not perfect. Neither am

I, so I don't condemn them for that. But we have this notion where we hold people in the business of trying to help the very poor to a very high standard. And if, in fact, they fall short of perfection we say, see? It's their problem. We don't apply that to NASA. We don't apply that to the Pentagon. We certainly don't apply that to agricultural programs. Yes, when complex human problems are being addressed, people will do them imperfectly. But to use that as an excuse to insufficiently fund the program is unacceptable.

And I will just add as I began, in my experience, the people who have volunteered to work in public housing authorities, to administer public housing, to administer the Section 8 program, to work with people who need housing, are dedicated and intelligent people who do a very good job. And the notion that, because given this very hard job to do, they aren't always able to do it perfectly, is somehow a justification for reducing or holding back on resources is one I reject.

I would say I think that the hearings that we have held so far—and I thank the gentlewoman from New Jersey, the Chair, for doing this—I have been impressed by the wide variety of people from various points of view who have said that we need to get into a production program and increase the resources available for housing while at the same time making the voucher program work better.

So I am glad to have this chance to have this hearing, because I think those are the points that need to be emphasized.

Chairwoman ROUKEMA. I thank my Ranking Member. Now in order in which they have arrived, do any of my colleagues have opening statements?

Vice Chairman, Mr. Mark Green.

Mr. GREEN. Thank you, Madam Chairwoman. Let me begin by thanking you for your kind remarks in your opening statement. I appreciate it very much. Also I would like to commend you for holding these hearings on housing affordability. You've demonstrated once again your great interest in finding ways to make housing more affordable, more accessible to people across the spectrum.

I think the hearings that we have had on housing affordability to date have been very productive. And I think along with the hearing today they will provide us with some good ideas, a good map for the direction in which we can move.

You were kind enough to make reference to legislation which we passed last year designed to help people with disabilities better use Section 8 dollars for housing affordability. And I was very proud to have President Bush reference that just recently along with his signing of the Olmsted Executive Order which I believe will go a long way to helping people with disabilities.

I appreciate the remarks of the gentleman from Massachusetts when he talks about how we do need more resources in order to meet our housing challenges. I agree with that. But I also believe it is not just the resources that we provide. It is making sure that how we provide them is done so in a flexible way, in a way that makes sense and can be tailor made to the particular problems of the people we're trying to help. And that's part of what we did last session with respect to people with disabilities in housing.

Right now in the general population, about 70 percent of the general population has home ownership. And yet, as we've all discovered, that among people with disabilities of working age, that home ownership rate hovers around 5 percent. And so we tried last session to look at what the barriers are that prevent them from having that chance at the American Dream of home ownership and tried to make slight changes to the Section 8 program to do so.

So what I'm looking forward to working on under the leadership of our good Chairwoman in these coming months is not just making sure that the resources are there, because they must be there if we're going to meet our challenges, but also making sure that we think in an innovative and creative manner and take some of the programs that we have and adjust them and make them flexible so they can meet local needs and the needs of particularized sectors of the population.

I think that there are some great changes that we can make, and I'm excited again about these hearings, and I'm very excited about the great panels we have lined up today. I believe it'll be an informative, productive hearing. Thank you, Madam Chairwoman.

[The prepared statement of Hon. Mark Green can be found on page 378 in the appendix.]

Chairwoman ROUKEMA. Thank you.

I will remind our Subcommittee Members that we have a 3-minute rule for opening statements and you will see the yellow light kind of warn you at the speakers' table, the panelists' table that your time is almost up.

Thank you. Mr. Watt, do you have a 3-minute opening statement?

Mr. WATT. Thank you, Madam Chairwoman. And I'll try to take less than 3 minutes.

I think I have made to everybody on the Subcommittee, probably not the panelists, but everybody on the Subcommittee is aware of my concerns about some of the problems that Section 8s are having in my congressional district. And the unique thing is that in some parts of my congressional district, Section 8 vouchers are working as they were intended to work and serving a very, very important purpose.

The problem is that we tend to think of Section 8 vouchers as being the greatest thing since sliced bread, and that they will solve all problems. And in some parts of my congressional district, they simply are not working. They are not working because demand is so much higher than supply that rents have been driven up well beyond the Section 8 voucher limits, and there's just no space available to use the Section 8 vouchers.

They're not working in those parts of my district because what tends to happen is the Section 8 vouchers are used primarily in vulnerable, primarily African-American neighborhoods that themselves are in transition and the people coming out of public housing using Section 8 vouchers make the communities more vulnerable. In some parts of my congressional district, you can't use a Section 8 voucher in what is a "white neighborhood." So Section 8 vouchers tend to further segregate an already segregated housing situation in parts of my congressional district.

So I'm anxious to get some good ideas about how we solve some of these problems and retain the value that Section 8 vouchers are having in lower demand, lower cost sections of my congressional district, but also solve the problems that they are presenting in the higher cost, higher demand parts of my congressional district.

And with that, Madam Chairwoman, I'm sorry I did take 3 minutes, but not much more. I yield back.

Chairwoman ROUKEMA. Thank you. We'll forgive you for that. Let me now call on—I'm calling on Members in the order in which they've arrived. Congressman Grucci. But may I also say I neglected to say at the beginning that the record will be kept open for all Members' opening statements to be inserted into the record if you so choose.

Congressman Grucci.

Mr. GRUCCI. Thank you, Madam Chairwoman. It's a pleasure to be here again and to listen to this panel. It's going to be very enlightening. Certainly affordable housing and access to it, whether it's affordable housing or affordable rentals, is a very important issue for all of us throughout the country, and specifically in the region that I come from, where the cost of living is higher and therefore the access to affordable housing becomes even more difficult, because sometimes they don't meet the parameters that have been set out as far as accessibility to the program goes. And I'm hoping that we'll hear a little bit about that today.

And one of the things about our Section 8 program that I remember from being a supervisor of a town that administers the program is simply the enormous waiting lists of people who need the help and the limited amount of help that's available to those Section 8 programs. And I'm encouraged by this panel, and I see some of them are prepared to talk about that today.

So I look forward to the discussion. I'm going to have to step out of the hearing for a short period of time. Unfortunately, there is a scheduled Science Committee hearing that I'm a Member of as well, and I'd like to hear the briefing from the Secretary of Energy on the energy problems, but I will be back, Madam Chairwoman, and I thank you for giving me this opportunity to speak this morning. And I yield back the remainder of my time.

Chairwoman ROUKEMA. Thank you very much.

Mr. Israel, Congressman.

Mr. ISRAEL. Thank you, Madam Chairwoman. I would like to submit into the record a series of *Newsday* articles that appeared this week on the issue of homelessness and children on Long Island.

[The information referred to can be found on page 382 in the appendix.]

Mr. ISRAEL. I'd like the subcommittee to note that there are nearly 1,500 homeless children in Nassau and Suffolk Counties, 1,100 in Suffolk County alone. Over the past 4 years, Nassau and Suffolk social services departments recorded a 93 percent increase in the number of homeless children.

As we continue to look at housing affordability issues, we must look at the devastating impact that this crisis is having on our children and our families. Because fair market rent on Long Island for a two-bedroom apartment is $1,200 a month, a family would need to earn an annual income of $46,000 a year or more than four times the minimum wage to meet their rental costs. Many people just can't afford their rent, causing immediately homelessness with many living day-to-day out of motels.

I thank the subcommittee, the Chairwoman and the Ranking Member for exploring these issues, and I look forward to hearing today's testimony. And I yield back.

Chairwoman ROUKEMA. Thank you very much.

Congressman Miller.

Mr. MILLER. Thank you, Madam Chairwoman. I agree with Mr. Frank on one thing, that we are here a few days a week. But I'm also convinced that if we were here 7 days a week and just continued to talk about a problem rather than addressing the problem, it wouldn't make any difference at all, and all we tend to do is talk about the problem on the surface and yet never deal with the cause of the problem.

We talk about Section 8 vouchers, and that's good. There's a place for Section 8 vouchers. But many of the problems we have in housing are the result of Government red tape. Until we're willing to address that, nothing is going to change. Many problems in housing availability are related to the loss of property rights. I mean, courts have changed what the law really was intended to be on property rights where it's such that if a property owner is denied the use of his property, as long as there is some value left in the property, the court has ruled that that's not a taking. And if a property owner disagrees with that, it takes 8 years to get into Federal court for him to have his hearing, and most people can't even afford to get into Federal court.

We need to consider issues of fish and wildlife that we've never addressed. We tend to focus on inner city housing and inner city housing is good and there is a need for it. But we also need to understand that property within inner cities is very expensive, and in most cases, to utilize property within inner cities takes redevelopment agencies to put tax dollars into it and Federal dollars also have to follow that in order to be able to build a product that individuals can live in within an inner city area that is affordable.

We have never attempted to address the concept—we've talked about it—that in order to have an affordable housing market, you have to have a move-up housing market. I mean, people have to have someplace to move to in order to be able to find housing that's affordable in some areas. And yet we have done nothing from the Federal perspective to reestablish the principles of property rights and enable builders who want to provide housing at affordable rates to be able to build those homes. But you can't have a situation where a property owner makes application with a tract map and he waits 8-, 10-, 12- or 15 years to get approval. And then we sit back and say "why are houses so expensive to buy?"

And until we address the true cause of the lack of affordable housing and the crisis we face, we're never going to do anything except put Government bandaids over the problem and try to give Section 8 vouchers to put people in housing that they just can't afford without other than Federal help or local help from the redevelopment agencies. So Madam Chairwoman, I'm looking forward to getting to the day when we debate the real issues.

Mr. FRANK. Would the gentleman yield?

Mr. MILLER. My time is up or I would.

Mr. FRANK. I doubt that.

Chairwoman ROUKEMA. That having been said, I think there will be a lot of time after the panel testifies for that continuing dialogue.

Mr. FRANK. The gentleman had 20 seconds left, I may note.

Chairwoman ROUKEMA. May I now call on Congresswoman Kelly.

Mrs. KELLY. Thank you very much. I appreciate the fact that we're holding the hearing today, and I appreciate the fact that the panel is willing to spend their time.

In my home county, the median price of a house is $412,000. That's up 32 percent from $313,000 in the first quarter of 1999. HUD has declared that a fair market rent in my home county for a two-bedroom apartment is $1,144. That's higher than New York City. As of February 8th, there are 13,207 people on the Section 8 waiting list, yet the county and communities aren't able to use all of their Section 8 vouchers because of a combination of a lack of available housing units and the inability of the Section 8 vouchers to cover the fair market rent for the area.

I can't help but feel frustrated when I think about that problem. We have a program in place with extra vouchers to assist families, and we have a very long list of families who have applied for the assistance, but they're not able to use it because they're priced out of the market. The dilemma poses a very real problem for the working poor and the businesses in my area.

I have an article here from one of my local papers, the *Journal News*, from May 25th. I'm going to ask unanimous consent to have this made part of the record.

[The information referred to can be found on page 392 in the appendix.]

Mrs. KELLY. The headline of this article is, and I'm quoting: "Housing Challenges Businesses." In the article, it quotes a real estate person as saying that housing prices deter some companies from even considering relocation in this county. The article goes into detail about the lack of affordable housing.

One of my foci today is to look at what else Congress could be able to do to strengthen existing programs that are having positive results in addressing the need for affordable housing and especially the need for veterans' affordable housing. With most legislation, I believe a balanced approach is necessary. I think we've got to continue to ensure that effective programs receive all the support they deserve. But I really do think we've got to make sure that those programs are focused in a more regional way.

I thank you very much, Madam Chairwoman, for holding this hearing and I yield back the balance of my time.

[The prepared statement of Hon. Sue W. Kelly can be found on page 380 in the appendix.]

Chairwoman ROUKEMA. Thank you. I appreciate everyone has been quite cognizant of our time limitations here.

And now we are ready to hear from our first panel. I am going to introduce you each individually as it is your turn to testify, but I would like to remind you of the rules of engagement here. Your written statements will be made part of the record, your full written statements. But you will be recognized for a 5-minute summary of your testimony. And then of course there will be questions from our Members to the total panel after each one of you has testified.

And with that as introduction, I would like to recognize Barbara Sard who has requested that she be the first to testify because she has another engagement. Barbara Sard is the Director of Housing Policy for the Center of Budget and Policy Priorities. The Center's housing work focuses primarily on the intersection of housing and welfare reform and the voucher program. Ms. Sard, you are an attorney, as I understand, and represent Greater Boston Legal Services.

Ms. SARD. That was my prior job.

Chairwoman ROUKEMA. So maybe you're acquainted with Mr. Frank here. All right.

Ms. SARD. He's my Congressman.

Chairwoman ROUKEMA. Thank you. Ms. Sard, you have the floor for 5 minutes.

STATEMENT OF BARBARA SARD, DIRECTOR, HOUSING POLICY, CENTER ON BUDGET AND POLICY PRIORITIES

Ms. SARD. Thank you very much. And thank you very much for holding this hearing. I think it is remarkable and encouraging that this subcommittee is looking into what can actually be done to improve the effectiveness of the voucher program rather than everyone just complaining about it.

It is important to recognize that the increased difficulties that families are having in some areas, as many of you have addressed, in using vouchers, particularly in better neighborhoods, as Representative Watt mentioned, have a number of different causes that require a range of solutions. This is not a one-size-fits-all kind of problem or solution.

In some areas if one looked at the data, it looks like there are enough units that people with vouchers could afford so that vouchers should be able to be more effective. But the problem is that families are not able to find efficiently the units that are available or there are not enough owners who are willing to participate in the program. Owners in certain neighborhoods may hold their units out of the program for reasons that may have to do with how they think the program operates and in some cases for reasons that really may be a cover for racial or other discrimination.

In other areas, again, there are units, but they're too expensive. Many of you mentioned that there have been escalating prices, and the voucher program has not kept pace. And I will talk a little about what some of those rules are and what some of the solutions might be.

And in still other areas where there are such low vacancy rates that paying any amount for a voucher is not going to get someone a unit, we simply need to produce more housing, as some of you have mentioned.

My written testimony contains a wide range of proposals designed to address these four really quite different situations and many things HUD could do within the existing statutory framework. HUD may need a prod from this subcommittee. It may be important for the subcommittee to encourage HUD to take certain steps or to require them. Other measures can only be accomplished by some statutory changes.

What I'd like to focus on in my few minutes remaining is to illustrate that the problems can be solved by making more housing available to poor families. It is not necessary to try to solve the problem by making families pay more when they use a voucher or by redirecting the program to serve higher income families. And I'm afraid that we didn't quite blow this chart up enough, but we've given each of you copies.

Chairwoman ROUKEMA. Yes. We each have them. Go ahead. Continue.

Ms. SARD. What I've done is develop an example based on the Trenton metropolitan area in New Jersey, which is the median cost area in terms of rents under HUD data for New Jersey. It has the fair market rent set at the 40th percentile. You'll hear some of my colleagues address that. For a two-bedroom unit, that fair market rent is $862 a month. You can see that a family making $13,000 a year—that is an extremely-low-income family—can rent a $900 unit under the program, though they have to pay a little more out-of-pocket than the standard 30 percent. They have to pay 34 percent of their income. But they are not allowed to rent the $1,000 unit because of the effect of what's called the 40 percent cap: that a family is not allowed to pay more when they first rent a unit than 40 percent of their adjusted income.

Now if the word "adjusted" in the statute were just changed to "gross" so that that rent cap was measured by gross income rather than adjusted, this $1,000 unit would be within the family's reach. And in general, more of those $900 units even would become available to families if agencies were able to do more to help families search and to bring more owners into the program.

But, if the agency raised its payment standard to 110 percent—which is allowed under current law, but only about a third of the agencies are at 110 percent or more—then the $1,000 unit would be available to them, and even the $1,100 unit would come within their reach if the 40 percent cap was changed from adjusted to gross income.

Most significantly, if the law were changed or HUD policies were changed so that the agency could set its payment standard at 120 percent of FMR, all of these units would be available to this poor family. I'm about to run out of time, so I won't take you through the example with the family with double the income.

But if you look at Chart B, if the family has $26,000 of income instead of $13,000, it can reach a few more units. But the important point is, you don't have to go there. You can keep the program targeted at the families with the greatest housing needs if you give agencies the ability to increase the amount that is paid by a voucher. Thank you.

[The prepared statement of Barbara Sard can be found on page 394 in the appendix.]

Chairwoman ROUKEMA. Thank you. Thank you very much. You made your point very directly and within the 5-minute time limit.

Our next panelist is Steve Renahan. Mr. Renahan has worked for the Housing Authority of the City of Los Angeles and he is testifying before us today in his capacity as the Vice President for

Housing for the National Association of Housing and Redevelopment Officials. He has extensive experience with the national low-income housing issues as a member of the Crisis Task Force and the Housing Coalition Section 8 Task Force. Mr. Renahan.

STATEMENT OF STEVE RENAHAN, SECTION 8 DIRECTOR, HOUSING AUTHORITY OF THE CITY OF LOS ANGELES ON BEHALF OF THE NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

Mr. RENAHAN. Thank you, Madam Chairwoman.

Good morning. My name is Steve Renahan and I administer the Section 8 program in Los Angeles, California.

Chairwoman ROUKEMA. Excuse me. Could you speak a little closer to the microphone?

Mr. RENAHAN. We administer over 40,000 Section 8 vouchers in Los Angeles, California. I am testifying today in my capacity as the NAHRO Vice President for Housing. NAHRO members administer over 93 percent of housing vouchers in the country.

Thank you for this opportunity to offer our remarks regarding Section 8 utilization. Section 8 is a market program, and it needs to respond to market changes.And I'd like to focus on two initiatives that would go a long way to achieving full utilization of Section 8 in the country.

First of all, we've been through a major change in Los Angeles in the rental market in just the last 3 years. Three years ago we had a 10 percent vacancy rate and Section 8 was very popular with landlords. Now we're down to a 3 percent vacancy rate, which means there are fewer units available, and landlords have a lot of other choices. What that's meant for Section 8 voucher holders is that 3 years ago, 90 percent of the families we issued vouchers to successfully used them. Now only 45 percent of the families we issue vouchers are able to access units and get a Section 8 subsidy.

What has changed is not a lot of program rules, not the Administration, not the need of the voucher holders. What's changed is the market. And the program needs to respond to those market changes. Now fortunately, we do have examples of efforts that work. We administer a lot of special-purpose versions of Section 8. Section 8 vouchers for homeless families, for families whose children are in the foster care system and can be reunited, an after care program for persons with disabilities. And what we do with those programs is partner with non-profits and other Government agencies who can provide supportive services to help the families who receive those vouchers overcome the barriers to using those vouchers.

What the families will need will vary, and often it is landlord outreach and negotiation with landlords. We may need to do some credit repair. May need to motivate the family to keep searching even though they have heard no over and over and over again. We may need to help with security deposits, with moving expenses, with transportation, with child care while the family is searching.

What's needed will vary family to family, but what is clear is that it works. While the success rate on our regular Section 8 program where families don't have access to those kind of services is down to 45 percent, in our special programs where the families have the toughest barriers to overcome, our success rate remains close to 90 percent. So it is clear that when those kind of services are provided, Section 8 utilization, high utilization results.

Now NAHRO recommends that you don't need a new appropriation to fund those kinds of services. In instances where housing authorities are underutilized, that means that housing authorities have housing assistance payments money that they're not using because they're not fully utilized. If housing authorities who are operating at less than 100 percent utilization were allowed to convert some of that housing assistance payments money into services money, whether provided directly by the authority or in partnership with non-profits and faith-based organizations, you will see a major dramatic increase in Section 8 utilization, even in tough markets.

But tough markets and rising markets are the areas where Section 8 utilization is the most difficult. And the fair market rent is crucial in making the Section 8 program work. The fair market rent is supposed to in most areas calculate the 40th percentile for non-luxury housing. It is a difficult calculation for HUD to do. I believe that in general what it does is calculate the 40th percentile on average for rental units in the area.

But voucher holders are not looking for an average rented unit. They're looking for a unit that's available for rental today. And in up markets what that means is that what the landlords are demanding for a unit will be far above what the average is for units in the market. And we've seen historically that the fair market rent changes that HUD publishes lag behind increasing markets.

So a simple, straightforward fix for this that NAHRO recommends is changing nationwide the calculation from the 40th percentile to the 50th percentile. That does not mean that the cost of every Section 8 voucher will go up. Housing authorities do a rent reasonableness test, a comparability test for every voucher contract we do so that we are not paying the landlord more than the landlord could get in the open market, and we will continue to do that. What that increase will do is allow voucher holders access to more units and allow the program to work better in changing markets.

Thank you for the opportunity to testify, and I welcome any questions.

[The prepared statement of Steve Renahan can be found on page 410 in the appendix.]

Chairwoman ROUKEMA. Thank you very much, Mr. Renahan. I appreciate your compliance with the time limitations, and you've given us a number of things to think about.

Now we have Mr. Roy Ziegler. As a Member from the State of New Jersey, since Mr. Ziegler is from the New Jersey Department of Community Affairs, I want to welcome him particularly here today.

Mr. Ziegler is the Assistant Director of the Division of Housing and Community Resources in the New Jersey Department of Community Affairs, and certainly he has a wealth of knowledge. With my own experience in the State of New Jersey, I know of his wealth of knowledge on this subject of Section 8 vouchers. Welcome, Mr. Ziegler.

STATEMENT OF ROY ZIEGLER, ASSISTANT DIRECTOR, NEW JERSEY DEPARTMENT OF COMMUNITY AFFAIRS, DIVISION OF HOUSING AND COMMUNITY RESOURCES ON BEHALF OF THE NATIONAL LEASED HOUSING ASSOCIATION

Mr. ZIEGLER. Thank you, Chairwoman Roukema. And good morning Ranking Member Frank and distinguished Members of the subcommittee. I really appreciate this opportunity to speak with you on behalf of the National Leased Housing Association today about the Section 8 housing voucher program.

My name is Roy Ziegler, and I am Vice President of the National Leased Housing Association and presently Assistant Director of the Division of Housing and Community Resources at the New Jersey Department of Community Affairs. I am accompanied today by NLHA counsel Charles Edson who is behind me.

The Section 8 voucher program is really a critical part of our overall housing policy for the country, and it allows low-income families the opportunity to use a portable subsidy to rent decent, safe and sanitary housing, either an apartment or a single-family home. And nationally over 1.5 million families are currently benefiting from this participation in the program.

In New Jersey, our Department of Community Affairs administers 18,000 housing vouchers. Over the years, the Section 8 tenant-based programs have improved dramatically. We have had your assistance in consolidating regulations, removing barriers to landlord participation, and also adding flexibility to enable voucher holders to find apartments with the aid of the program, and also to use family self-sufficiency programs and home ownership opportunities recently to provide additional housing for families.

For example, in New Jersey, the Department of Community Affairs currently has 1,200 families in our family self-sufficiency program. Over half of those families have already obtained employment and have established escrow savings accounts totaling $3.2 million. An additional 150 families have already successfully completed that program, and astonishingly, 90 of those families have purchased their first time home buyer situations. They are currently owners of their own homes for the first time. What is remarkable about this is that with the aid of the self-sufficiency program, the Section 8 program and network agencies, half of those families were homeless when they entered the Section 8 program and are now homeowners.

NLHA's members really appreciate your interest, the interest in this Subcommittee in helping us to sustain and improve this voucher program. And we really are seeking high utilization rates and top rate efficient programs. But as has been mentioned earlier, there continue to be a number of barriers which we hope you can help us with.

PHAs and other administering agencies in many communities are faced with outpaced rents that Steve Renahan had mentioned earlier. As a result, there are more vouchers out there in some cases than there are landlords who are interested in accepting those vouchers. And consequently, many agencies have had to issue three or four vouchers to get one successful family placed in a Section 8 program anticipating turnbacks.

Theoretically in reality, you can have 95 percent success rate in Section 8 as a program of utilization, but still have a 75 percent success rate overall in your program. And this is frustrating to families who are waiting for assistance. Not only frustrating for families, but it raises the cost of this program because it creates additional burdens and workload for PHA administrators.

You have already taken the important step of raising some of the rents in the country to the 50th percentile. What we are asking you to do is to really urge HUD to expand its 50th percentile authority to all the PMSAs in the Nation.

And Congress can also take steps to improve the ability of families to successfully use their vouchers by amending the statutory provisions of the payment standard.

Generally, PHAs set the payment standard at anywhere from 90 to 110 percent of the FMR. And we can go up to 110 percent of the FMR without HUD approval. What we are asking is the additional flexibility to do a statutory amendment here to allow administering PHAs to increase that 110 percent to 120 percent of the FMR that we currently have. This would significantly increase the number of units available in our communities.

Also the 40 percent cap has been mentioned, and I believe the 40 percent cap is another barrier to families in this Section 8 program. Take, for example, an elderly couple where one of them is deceased and the other remaining member suddenly has an incredible decrease in their annual income. That particular person would qualify for the Section 8 voucher, but under the 40 percent cap, if they are paying 41 percent of their income for rent. And after that income decreases, that family would not be eligible for Section 8.

And as a result, try to explain to somebody who has been living in an apartment for many years that they can't afford this apartment because they are paying 41 or 42 percent of their income for rent with a voucher, then they lose their voucher and wind up paying 60 to 70 percent of their income for rent. Now this is really a barrier to many families in the program.

Also the 40 percent has been mentioned as far as the income. And our solution is to calculate the 40 percent using gross income instead of adjusted income, as Barbara Sard had said. This would also open a number of opportunities for families who cannot afford the program at the 40th percent rate.

The current fee structure for administering the agencies is often inadequate to allow intensive tenant counseling, landlord outreach, addressing special populations. All these things that could be done with the current administrative fees. Formerly HUD had allowed us a preliminary fee. And we are asking that HUD restore this preliminary fee to allow us to do counseling and referral to get families into a better market and to expand the landlord base.

This has been proven with the Regional Opportunity Counseling Program in New Jersey which with this counseling under the Regional Opportunity Counseling Program, our success rate has increased to 95 percent.

Thank you very much.

[The prepared statement of Roy Ziegler can be found on page 425 in the appendix.]

Chairwoman BAKER. Thank you, Mr. Ziegler.

Now we have Mr. Michael Johnston, who is today testifying on behalf of the Council of Large Public Housing Authorities and is Director of the Cambridge Housing Authority Office of Leasing and Occupancy. He is an attorney and former CEO of a property management and real estate development company, and so you bring to this panel a little private sector understanding of the problems. I thank you very much for being here, and please adhere to the time limits. We are most anxious to hear you.

STATEMENT OF MICHAEL JOHNSTON, DIRECTOR OF LEASING AND OCCUPANCY, CAMBRIDGE, MASSACHUSETTS HOUSING AUTHORITY ON BEHALF OF THE COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES

Mr. JOHNSTON. Thank you, Madam Chairwoman, and I would like to thank the panel for having these hearings on behalf of us in the industry. I would like to thank also Congressman Frank for his remarks regarding public housing authorities in general and the support of our programs. It is much appreciated.

We, just like my colleagues here on this panel, are faced with the same problems. We have escalating rents. We have kind of a unique situation in the fact that we've recently lost rent control approximately 5 years ago. And our vacancy rate right now is about 2 percent. Individuals receiving Section 8 vouchers from our agency face the task of going out and trying to find units in a market where market rents right now average for a two-bedroom apartment approximately $1,800 a month.

HUD defines in our area, as far as what they consider the Fair Market Rent, they define it in our area at $979. We have an exception rent from HUD. We can actually go to $1,175 for a two-bedroom apartment in the city of Cambridge. But obviously, $1,175 does not make to the $1,800 level. Our contention is that the 40th percentile, the numbers that HUD is currently using, are not real. Certainly 40 percent of the units that come on the market are not available to individuals at a rent of $979. We would agree that a move to the 50th percentile would be certainly needed. But beyond that, there needs to be a look at how these numbers are calculated. How is HUD coming up with the numbers, the actual number of the 40th percentile, the 50th percentile? Why is there a necessity to go to 110 or 120 percent? There needs to be some thought in how to come up with these numbers.

In the fall we have actually seen proposed new FMRs for this coming fall. In our area we are seeing about a 7 percent jump in Fair Market Rents. But when you factor in the fact that rising utility costs are going to eat up about half of that increase, we're really only going to see about a 3 percent increase in Fair Market Rents. And it's certainly not going to be enough to cover what we need in our area.

We are, as a high-performing housing authority, we're actually a participant in what's called the MTW deregulation demonstration program with HUD. And in this program, we're actually allowed to kind of redesign the program to try to make it work, to make it more flexible for our area to meet our local needs. We have worked very hard in the past couple of years to try to find out how to make this program work in our area.

We've actually surveyed landlords, we've surveyed participants. We've asked them, why did you find a unit? Why did you not find a unit? And the bottom line is, whether it's a landlord, whether it's a participant, the bottom line is Fair Market Rents. You're not paying enough for the units in todays' market. Flexibility, you need to be more flexible. You need to be less burdened with regulations and bureaucracy.

We've tried to develop our program to rebuild our program to kind of cover some of this. In my written testimony we've covered some of these issues. But we actually have the ability to go over 120 percent of FMR when we need to. We still need to do rent reasonableness calculations, and we use this ability very sparingly. We do allow tenants to pay more than 40 percent of their income toward rent. And the rationale behind that is so that a family can preserve their current housing. We actually have situations where, because of the loss of rent control, families come to us paying 60 or 70 percent of their income to rent and after getting a voucher, it actually drops to 45 percent of their income to rent. But they can stay in their home. They can stay in their home where they've been for many years.

Just to sum up, as a Moving to Work authority, we found that the flexibility under that particular program has been very beneficial to us. In the past year we've actually added 108 new units onto our program through landlord retention and basically landlord outreach.

Thank you.

[The prepared statement of Michael Johnston can be found on page 433 in the appendix.]

Chairwoman ROUKEMA. Thank you. Thank you very much.

Mr. Ed Olsen is the final panelist here today. Mr. Olsen is a Professor of Economics at the University of Virginia, but has an extensive background, bipartisan background I might note, in housing policy. During the Nixon Administration, Professor Olsen was an analyst at the Housing Policy Review Task Force, as I understand it, and led an investigation into Section 8 certificate program. But he also worked as a visiting scholar at HUD during the Carter Administration, and he helped to evaluate and review the Section 8 program.

We welcome you, Mr. Olsen.

STATEMENT OF EDGAR OLSEN, PROFESSOR OF ECONOMICS, UNIVERSITY OF VIRGINIA, CHARLOTTESVILLE, VA

Mr. OLSEN. Thank you, Madam Chairwoman. I welcome this opportunity to talk with you and Members of your Subcommittee about housing voucher policy. I speak from the perspective of a taxpayer who wants to help low-income households, albeit a taxpayer who has spent the last 30 years studying the effects of low-income housing programs.

My oral testimony will focus on three questions: Should the policies for determining Fair Market Rents be changed? Should the current targeting of assistance to extremely-low-income households be modified? And what role should housing vouchers play in the system of housing subsidies?

Changing the policies for determining Fair Market Rents requiring 75 percent of vouchers to be targeted to households with extremely-low-income and limiting tenants to paying no more than 40 percent of their income on rent will affect voucher success rates and hence the workload of housing authorities. This may justify a change in the level of administrative fees.

However, if housing authorities respond appropriately to changes in the program's regulations by altering the extent to which they overissue vouchers, the changes will have no effect on voucher usage rates. The changes in regulations will also affect other important aspects of program performance, and these effects should be the primary bases for judging the desirability of changes.

For example, increasing Fair Market Rents would reduce the number of households that could be served with a given budget. Since the available evidence indicates that Fair Market Rents are considerably higher than necessary to rent units meeting the program's standards, and 70 percent of households below the poverty line are not currently offered housing assistance, and more than a million of our poorest households are in seriously inadequate housing, homeless shelters or on the streets, we should not be considering changes in the Section 8 voucher program that reduce the number of recipients. Indeed, we should move in the opposite direction, namely, decrease Fair Market Rents and use the money saved to serve the poorest unassisted households.

If Congress decides to make more money available for housing assistance, and I am not at all averse to that, it should be used to provide additional vouchers rather than larger subsidies to current recipients.

In 1998, Congress required housing authorities to target 75 percent of vouchers to households with extremely-low-income. The available evidence suggests that this rule will increase the program's success rate. But even if this is not true in every locality, it will have no effect on the voucher usage rate if housing authorities respond appropriately. Since I favor focusing limited housing assistance on the poorest of the poor, I urge you to retain this provision or even strengthen it.

The most important evidence concerning housing vouchers relates to their role in a system of housing subsidies. Many argue that we should use a mix of vouchers and production programs to deliver housing subsidies to low-income households. Currently there are calls for a new HUD production program. The systematic evidence comparing the effects of different housing programs lends no support to this view or this proposal.

Five major studies have estimated the cost-per-unit and the mean market rent of units provided by housing vouchers and certificates and important production programs, namely public housing, Section 236 and Section 8 new construction. They are unanimous in finding that housing certificates and vouchers provide equally desirable housing at a much lower total cost than any project-based assistance that has been studied.

We do not need production programs to increase the supply of units meeting minimum housing standards. The Experimental Housing Allowance Program demonstrated without any doubt that the supply of units meeting minimum housing standards can be increased rapidly by upgrading the existing stock even in tight markets. This happened without any rehabilitation grants to suppliers. It happened entirely in response to tenant-based assistance that required households to live in units meeting the program standards in order to receive the subsidy.

The available evidence also shows that housing vouchers enable us to move eligible households into adequate housing faster than any construction program under any market conditions. The consequences of using costly construction and substantial rehab programs has been that several million of the poorest households who could have been provided with adequate housing at an affordable rent with the money appropriated for housing assistance have continued to live in deplorable housing. We should learn from our past mistakes and not heed the call for a new HUD production program.

I appreciate the willingness of Members of the subcommittee to listen to the views of an ordinary taxpayer whose only interest in these matters is to see the tax revenues are effectively and efficiently used to help low-income households.

[The prepared statement of Edgar Olsen can be found on page 439 in the appendix.]

Chairwoman ROUKEMA. All right. Thank you. Thank you, Mr. Olsen. You went to the subject that I had in mind, and I'm not quite sure whether or not we can get anyone else on the panel to either agree or disagree with what has been said here. But my point to the other panelists before you made the explicit assertion was how are we going to pay for this?

Now your assertion is that we really don't have to do this, raise these FMRs. You are stating that the units are there. I don't know where they would come from, but your implication is that if you upgrade existing stock. So I hear you. I don't know if you want to talk more about the production side of it or the existing stock for just a moment, and then I'll go on and ask our other panelists related questions.

Mr. OLSEN. One thing I can say about that relates to experience from the housing allowance experiment.

Chairwoman ROUKEMA. Excuse me. The what?

Mr. OLSEN. The Experimental Housing Allowance Program was conducted from the early 1970s to 1981. In current dollars, it cost a half a billion dollars. About 40 percent of that was for research. The program was an entitlement housing program operated in two moderate size metropolitan areas, the Green Bay area and the South Bend area. About 20 percent of the population in each of those areas was made eligible for the program and any eligible person who came in would get the subsidy. It was just like food stamps.

One of the reasons that we had these full-scale programs operating in two markets was to determine whether there would be a rent inflation from them. The answer is definitive: No. What did happen was that many units which were slightly below the standards were very rapidly upgraded to meet the standards. That's why even with low vacancy rate it works. You can get these units upgraded. Even under the current Section 8 program, about 30 percent of the people qualify in place, many of them by upgrading the units.

Chairwoman ROUKEMA. Let me give you the opportunity for the permanent record to respond to my observation. You're referencing a time and place and a housing market that is very different from the existing housing market. But if you can substantiate that. We don't have any more time now. But please substantiate it and direct your data response to me.

Mr. OLSEN. Fine.

Chairwoman ROUKEMA. Will you do that?

Mr. OLSEN. You mean not now verbally, but in writing?

Chairwoman ROUKEMA. In writing, yes. Yes. Not only for my own information, but I will include it in the permanent record.

Mr. OLSEN. These two places were chosen to have different vacancy rates. One was 4 percent and one was 7 percent. So 4 percent is pretty low, but I'll do that.

Chairwoman ROUKEMA. All right.

Now I have questions for Mr. Renahan. I was very interested in your testimony, and certainly Mr. Ziegler. I don't know how you necessarily can substantiate your statements, but I hope you're right.

What can we do or how do we get Mr. Martinez and our own budgeting process to give us the new appropriations which I believe would be necessary, Mr. Renahan? Or are you denying that there would be new appropriations necessary in order to meet the vacancy rate requirements under your testimony? I didn't hear any reference to the new costs involved.

Mr. RENAHAN. Madam Chairwoman, clearly there would be an increased cost when the Fair Market Rents are increased or if you use the approach that Barbara Sard proposed and giving housing authorities more flexibility to go to 120 percent of the 40th percentile. There would be a cost associated with that.

What I am suggesting is that the way to calculate that cost is not to take the percentage increase and multiply it by every Section 8 voucher in the country. Because that cost would occur only in those areas where the housing authority and tenants need access to those higher amounts in order to be able to successfully use their vouchers.

Even within the city of Los Angeles, that's not all of my voucher holders, it wouldn't even be most of my voucher holders. Because housing authorities do a rent reasonableness test, a comparability test before we enter into Section 8 contracts with landlords. And most of the contracts that we do on behalf of Section 8 voucher holders come in below the current payment standard. We need the increase to make it possible for more of our voucher holders to be able to move to lower poverty neighborhoods, to access units with a larger number of bedrooms and so forth.

Chairwoman ROUKEMA. Can you document that for the record? I mean in actual numbers and not just generalities, but with specificity.

Mr. RENAHAN. I would be happy to document that.

Chairwoman ROUKEMA. And also you made a reference—and I guess my time is up, but you did make a reference and I want to acknowledge it if you have just a brief response—about how we can control these costs with partnerships with non-profits and faith-based. I don't think we've explored that nearly enough, and I would appreciate your experience in this and your recommendations in that regard.

Mr. RENAHAN. Well, what we've been able to do in Los Angeles is with limited numbers, been able to partner with non-profits that have other funding sources and are helping families with an array of needs and issues to use vouchers successfully. And it works. What we're suggesting is that without an additional appropriation, if housing authorities that are underutilized, which means they're not spending all the money they've been appropriated and are under contract with HUD to spend, to use a portion of the unused money to provide those kinds of services that are proven to work. And that alone without an additional appropriation——

Chairwoman ROUKEMA. Through the non-profits and the faith-based organizations?

Mr. RENAHAN. In Los Angeles we do it partly with non-profit and faith-based and partly directly with housing authority staff. So you would want to provide the flexibility for the local needs.

Chairwoman ROUKEMA. Any further information you can give us on that for the permanent record, please direct it to me and we will see to it that it gets in the record. Thank you very much.

Mr. Frank.

Mr. FRANK. Mr. Olsen, you were talking about your opposition to production programs. I would assume that logic would lead us also then to end existing production programs?

Mr. OLSEN. Existing production programs?

Mr. FRANK. Yes. Should we stop funding Section 202 and repeal the Low Income Housing Tax Credit?

Mr. OLSEN. I think you should—when the term of the use agreement comes to an end on these various projects.

Mr. FRANK. No, I'm talking about building new ones.

Mr. OLSEN. Yes, we should stop funding them.

Mr. FRANK. So you would no longer fund the Section 202 housing for the elderly?

Mr. OLSEN. I don't think I've given that enough thought.

Mr. FRANK. Well, it seems to me you have.

Mr. OLSEN. I'm not sure. It hasn't been studied carefully. That's what I'm telling you.

Mr. FRANK. But Mr. Olsen, here's the point. I mean, if production is not the answer, it just does not seem to me intellectually valid to say well, we shouldn't increase it. I mean, I don't understand where the logic is. We just happened by luck I guess to pick the right number. I mean, given your argument that it's much more expensive per unit to do production, it doesn't seem to me—it seems to me you have given that a lot of thought and that your conclusion has to be get rid of the Low Income Housing Tax Credit and stop the Section 202 production program. I mean, how can that not be the case?

Mr. OLSEN. Certainly, I agree that we should get rid of the Low Income Housing Tax Credit. Absolutely.

Mr. FRANK. I wasn't just asking you if you agree with me. I was asking you if you agree with you.

Mr. OLSEN. What?

Mr. FRANK. I was suggesting that you agree with you in being against the program. I'm not for that.

[Laughter.]

Mr. OLSEN. Oh, OK.

Mr. FRANK. But you would abolish the Low Income Housing Tax Credit?

Mr. OLSEN. I would.

Mr. FRANK. OK. Now what about Section 202? How do you justify supporting an existing Section 202, which is a housing production program?

Mr. OLSEN. I'm just not quite sure how well the private sector would respond to housing disabled people.

Mr. FRANK. Oh, I'm sorry. So Section 202 is for the elderly, not disabled. You would abolish the Section 202 housing program?

Mr. OLSEN. No.

Mr. FRANK. OK, the disabled, I understand. All right.

Mr. OLSEN. The program for the elderly is now called 811.

Mr. FRANK. All right. Thank you. Last question. You mentioned the programs in South Bend and Green Bay. And you said the current cost would be half a billion. Would that be if you nationalized this and made it a national entitlement? I mean, I gather from what you said——

Mr. OLSEN. I'm telling you if you take the cost of the experiment at the time and you increased it by the inflation that has occurred since——

Mr. FRANK. All right. That would be just for Green Bay and South Bend?

Mr. OLSEN. For those two cities.

Mr. FRANK. So it would cost a half-a-billion dollars a year for Green Bay and South Bend. If we, in fact, used that as the model for a national housing program and made it I gather an entitlement. You told me it was an entitlement if you lived in Green Bay or South Bend.

Mr. OLSEN. It was an entitlement, but for a much lower fraction of the population that are currently eligible for HUD assistance.

Mr. FRANK. But I thought you were saying——

Mr. OLSEN. It's the poorest 20 percent. Whereas, almost 40 percent of the population are currently eligible for HUD assistance.

Mr. FRANK. Your proposal is that housing policy, we get rid of the Low Income Housing Tax Credit, we get rid of housing for the elderly production, and we take this and make it an entitlement to that kind of help for the lowest 20 percent of the population. What would that cost roughly nationally right now? I might be for that.

Mr. OLSEN. I don't know the answer to that.

Mr. FRANK. But it would cost a half a billion if you did it just in Green Bay and South Bend.

Mr. OLSEN. Well, 40 percent of that was for research. The rest of it was for allowance payments.

Mr. FRANK. So $300 million, it would cost us $300 million to do it for South Bend. It sounds like a great idea, but I——

[Further clarification on this matter from Mr. Olsen can be found on page 448 in the appendix.]

Mr. FRANK. That's enough. I have to get to some other questions. But I am skeptical about its economic feasibility. Let me go now to the others. Secretary Martinez has been very clear that the problem with low utilization rate in Section 8 is you guys. What's your answer? I mean, he says it's not affordability, it's not the market situation. He said explicitly, a good housing authority can use all the Section 8's. He said that on the record. So are you guys not good housing authorities? What's your problem?

Mr. RENAHAN. The vast majority of housing authorities are well managed and well run. There are of course exceptions. There are a lot of housing authorities around the country, and there are some that need to do a little bit better administering their programs.

I think the response that I would give is the Los Angeles experience that we've had in the last 3 years. The market has gone from a 10 percent vacancy rate to a 3 percent vacancy rate. That's had a devastating impact on the success rate of Section 8 voucher holders. We're the same administrators. I'm the same guy. The rules are essentially the same. What's changed is the market.

Mr. FRANK. That's a very good point. Let me ask Mr. Johnston now. You heard Mr. Olsen suggested the voucher program by itself without any production program will be not only able to house people, but will be an incentive for a significant upgrade in the quality of the housing stock. What's your experience in Cambridge, a pretty tight housing market, in terms of the incentive effect of offering people Section 8's?

Mr. JOHNSTON. Someone with a Section 8, they have a very difficult time in Cambridge obviously finding units.

Mr. FRANK. I'm talking about the owners. Have you found—because what Mr. Olsen said was that these Section 8s, properly administered, are a great incentive for improving the property.

Mr. JOHNSTON. It's a disincentive. I mean, the bottom line is that the Section 8 program is a regulated program. It requires things that are much different than a market rate tenant. If I went to a landlord and a Section 8 tenant went to a landlord, there's more of a disincentive to rent to the Section 8 tenant, simply because——

Mr. FRANK. Should we do away with those things that are disincentives?

Mr. JOHNSTON. We're doing that in Cambridge. To answer your prior question, we are a high rated housing authority. Because of our rating, we actually became an MTW participant.

Mr. FRANK. Let me ask a question. Do you see a way that we could administer the Section 8 program? My problem is the Section 8 program is a year-by-year program. We don't have this kind of entitlement that we had in the thriving, teeming metropoli of South Bend and Green Bay, but we were in Boston and New York and Chicago and these similar municipalities. Would it be an incentive for people to upgrade their property if we gave them an annual contract for Section 8?

Mr. JOHNSTON. No.

Mr. FRANK. Thank you.

Chairwoman ROUKEMA. All right. Thank you. Mr. Little. I'm sorry. I'm sorry. Mr. Miller.

Mr. MILLER. I'll change my name, Madam Chairwoman. Thank you very much.

Chairwoman ROUKEMA. Sorry about that.

Mr. MILLER. I want to clearly state that I am not opposed to the concept of Section 8 vouchers. I'm not opposed to the concept that some people need help in life, but we have a welfare system that deals with that. But I am absolutely opposed to creating any system that creates a situation where people have to rely on Government day after day, year after year, decade after decade to exist in this country. And that's the problem we have.

Ms. Sard, you stated that voucher assistance has not kept pace with housing costs. And then you said we need to produce more housing for poor families. And I'm going to come back to that. I want you to think about who "we" is and how production occurs.

Mr. Renahan, you talked of providing various expenses, moving expenses and many other options for people to help them to get into houses. And you stated that landlords demand more for rent than renters can afford, and you said that vouchers should be increased and you said that we are down to 3 percent vacancy in apartments in the L.A. Basin, which means we're 100 percent rented out, because 3 percent of 100 units is going to be recarpeted or refinished or painted or under repairs waiting for somebody else to move in while somebody moves out.

And Mr. Ziegler, you mentioned that there are more vouchers than landlords are accepting.

And my concern here is in the Los Angeles Basin area. We have created an environment in local government where we have allowed the concept of property rights to be usurped, allowed radical environmentalists to put pressure on local city council members by threatening them with recall, threatening to oppose them in their next election. Many city council members—and I have a lot of good friends who are on city councils—are afraid to approve housing projects in the community, because they're afraid they're going to be thrown out of office by a few people who create rumors and stories that are untrue about them in order to get them thrown out of office.

We need to reinforce the principles of property rights in this Nation to generate new housing construction for people, and remove the pressure applied by radical environmentalists on people who are trying to address local needs by serving on city councils. Barney Frank and I agree on many things. I think he has the historical perspective that it's been tried in the past and he supported it in the past to enforce zoning rules and regulations and there wasn't support here in Congress to deal with it. And my frustration is more directed at us in our inability and unwillingness to do what's right to resolve this problem. And instead of doing that, we just increase Section 8 vouchers and try to get people by from day-to-day, rather than addressing the cause of the problem.

But Ms. Sard, you said we need to produce more housing. Who are "we" and who is doing the production?

Chairwoman ROUKEMA. Excuse me.

Mr. MILLER. Oh, she's gone now?

Chairwoman ROUKEMA. Yes.

Mr. MILLER. Mr. Renahan, you talked about the 3 percent vacancies and landlords demanding more rent than people can afford. What do you propose doing about it?

Mr. RENAHAN. Well, NAHRO does support a production program, because clearly there are markets in the country where there just aren't enough available units.

Mr. MILLER. Do you not agree with the idea that the private sector is far more capable of producing reasonable, low-rent units than the Government is without subsidies?

Mr. RENAHAN. I believe the problem in high-cost areas is that it just doesn't pencil out for a private-sector developer to produce housing that's affordable for families working at or above minimum wage.

In Los Angeles, the wage that would be needed by a family to afford decent housing that's not overcrowded is $17 an hour. So that means that that family would need at least three full-time minimum wage earners in order to be able to afford an apartment without a subsidy.

Mr. MILLER. You're right. But I'll give you an example. I live in the city of Diamond Bar, California, and you know where that's at. People at church last Sunday came up to me and said they lived in the Daisy Apartments on Grand Avenue right up the street from the church and their rent is being increased to $1,200, and just a few years ago it was $800. And the reason for the increase in their rent is there is not an apartment being built in our area, because nobody will approve the construction of new rental units.

And no matter what we do, no matter how we increase the Section 8 vouchers, no matter how much we make people more reliant on Government to have a place to live, until we address the core problem that we're facing, and that's reasonable use of their property by property owners and a reasonable timeframe in which the process must occur for approvals, we are never ever going to solve the problem of housing affordability and availability. All we're going to do is charge taxpayers taxes who work very hard so that Government can give it to people who need it, and that's socialism, and I'm absolutely opposed to it.

We need to address the needs of communities by addressing issues that will lead to the production of new housing for the people you are trying to help. And until we do our job here in Congress and we're willing to take the burden and the onslaught that we're going to receive by doing our job, this Nation is never going to help low-income people get into affordable housing, because the requisite housing units will never be built. And my time is up, Madam Chairwoman, I believe. Thank you very much for your patience, because you are a most patient Chairwoman.

Chairwoman ROUKEMA. I'll give you 20 more seconds if you'd like.

Mr. MILLER. There are so many things we're not addressing here. Mr. Olsen, you were exactly correct in many things you stated. We Representatives considered and acted upon the intent of the Founding Fathers for this Nation and for Government, we would not have this problem. And if we could get the California Department of Fish and Game to read an EIR in California, rather than drafting letters that say that you did not address this issue, which is in part clearly laid out in the EIR—if we could get them to do their job—we could produce much more housing in California. Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. All right. Thank you.

Congressman Watt.

Mr. WATT. Thank you, Madam Chairwoman.

Members of the panel, I regret that Ms. Sard left, because I had some questions for her. She seems to think that—in her testimony she says, in fact, I agree with Secretary Martinez' statement that a central cause of the current underutilization of vouchers is inadequate administration of the program by some PHAs.

I'm not going to get you to comment on that part, but I do want the two gentlemen, Mr. Johnston and Mr. Renahan, who are actively directly involved with administering these programs to get your comments on some of what she has suggested.

One thing she suggests is that the number of administrative agencies is too high so that you have an average of more than 50 administering agencies per state. Texas has more than 400 according to her. The number of administrators who need to learn complex program rules and policy interactions is multiplied, economies of scale are not obtained, dah, dah, dah, dah, dah. And then in her recommendations she said program reforms should be designed to reduce the number of administering agencies. Can we do that at the Federal level? If local communities have housing authorities, does HUD now or should HUD have the authority to say we're going to contract—we're going to deal only with a regional concept as opposed to a city-by-city or housing authority-by-housing authority process? Does HUD have that authority now?

Mr. RENAHAN. Congressman, I believe HUD has that authority when housing authorities are not performing to standard. I agree with Barbara Sard and NAHRO agrees with Barbara Sard on much of her analysis, but on this one she's a little bit off.

There are a lot of advantages to having locally based housing authorities administering the Section 8 program. The Section 8 program enjoys local support throughout the country in large measure because it is administered locally. And the statute does allow some flexibility in the local administration of the program. It makes it possible for us to make the kinds of partnerships I described earlier with non-profits and other organizations to address the special needs of Section 8 voucher holders. In particular, it's made it possible for housing authorities across the country to administer successful family self-sufficiency programs.

Mr. WATT. Sir, I understand you're talking about the advantages of local. She's talking about the disadvantages of this localized system. I'm talking about something between those two things, and that's the practicality of it. Can we, should we as a Federal Government be saying to local communities, we won't allow Section 8 vouchers to be administered by small housing authorities because we don't think you have the expertise? Maybe we should set up one per state, an administering body state-by-state or one for each SMSA. I don't know. Is that practical? I'm not criticizing what she's saying. I'm trying to decide whether this something that we ought to be looking at as a practical possibility in this subcommittee.

Mr. JOHNSTON. Congressman, I guess my response to that would be in our area we actually have various regional housing authorities in addition to the PHAs, the public housing agencies. And we actually—you run into problems when you start having large regional housing authorities because you're dealing with a much larger bureaucracy.

Individuals coming up on the waiting lists. It's harder for them to get through the system. It's harder for them to get access to the services which they're supposed to get. It's harder for them to be mobile. I mean, if you're dealing with a regional housing authority that's located, for instance, in our State in Boston, and someone is coming from North Adams which is completely on the other side of the state, you would run into problems.

The Section 8 program works well because it does meet the local needs of the community. It houses the people that are in that community that need the services from the housing authority, and that housing authority builds a rapport with the community. We've built a rapport with our landlords. We've done outreach. We know our community.

Chairwoman ROUKEMA. All right.

Mr. WATT. Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. I believe that Congressman Frank has a comment in this context.

Mr. FRANK. Yes. I think that's a very important line of questioning. And one thing I've found because I have—I don't represent the city of Boston. I represent a number of communities. And we know we have difficulty sometimes in getting landlords to participate. The local housing authorities are often better at getting local landlords who after all can say yes or no to participate. There would be a reluctance to deal with a large metropolitan authority. And you've got some very good local housing authorities that are local people. And I have found that that's a help in trying to get the voluntary participation we need.

Chairwoman ROUKEMA. I might also comment that I'm sure New Jersey is not alone in this respect, but in New Jersey, for example, local control, zoning ordinance control, is extraordinarily important. And if we took that away, I believe that we'd eliminate—I mean, it would be a minus for any public housing or any voucher program. So it would have a reverse effect, an unintended consequence.

Mr. WATT. Madam Chairwoman, I just wanted to make clear that I'm——

Chairwoman ROUKEMA. But it's an important issue to be raised.

Mr. WATT. I wasn't being critical of any of this. I think the reason we have these hearings is to try to figure out whether there is some approach that can be a better approach.

Chairwoman ROUKEMA. Exactly.

Mr. WATT. But when somebody just represents that you can——

Chairwoman ROUKEMA. It was a very important question to ask. And if there's an ambiguity in the statute, we should address that. But I don't believe there is. But it is something we should investigate. Thank you very much, Mr. Watt. Mr. Barr?

Mr. BARR. Thank you, Madam Chairwoman.

Mr. Johnston, I apologize. I got in here late because of some other hearings. And I didn't get to hear your testimony, your initial testimony. But I was looking through your testimony. Your written testimony happened to be the first one I picked up here. And I'm just leafing through it. I have to tell you, it's right on point on a number of areas. When I meet with public housing officials in the 7th District of Georgia, the points that you mention in here are those that I hear from them and they're the same points that I hear not just from the public housing authority officials, but also from local investors who want to participate in the program, but the oppressive paperwork and regulations drives them away.

So even though there are a lot of landlords out there that would like to—or investors out there that would like to invest in housing and make them available for Section 8, they can't. We had a series of meetings just a couple of weeks ago in our District, and the one specific aspect of all this regulation and the lack of flexibility that I heard about more than any other was the lead-based paint regulations. If you could—and I apologize if this is repetitive. Could you just talk a little bit—I don't know how much detail you went into in your prepared remarks—about some of the regulations that we could be looking at to provide a little more of the flexibility? Or is there any way of doing this short of, as you say, is necessary, a complete overhaul of the program?

Mr. JOHNSTON. Well, thank you for your comments, Congressman. But I guess to answer your question, we have redesigned the program in our housing authority. Because we've been given the flexibility by HUD under this demonstration program in which we participate. And the flexibility allows us to alter the length of time of our leases. It allows us to pay over 120 percent if absolutely necessary to save a unit. Typically we tie that into a longer lease.

What we do is we actually front-end load annual adjustment factors to give a landlord more of an incentive to basically take a Section 8 participant. We've shortened the amount of time that it takes to get inspections done. We have reduced the amount of paperwork for owners. We've actually redrafted leases. We've made the whole process much easier.

I mean, the lead paint issue is a touchy issue, because I think everyone agrees that lead paint is a very serious concern, and we certainly don't want to get back into the problems we've had with lead paint in the past. But I guess my problem——

Mr. BARR. The context that I heard about it on the latest round of meetings that we had is with regard to senior housing, affordable housing for seniors. That's a serious problem in many of our communities and probably in other parts of the country as well. The presence of some lead-based paint in some of these older homes would not seem to present the same safety hazard to senior citizens who need those affordable housing as it would to affordable housing that's made available with children. Yet there doesn't seem to be any flexibility that would allow for a different standard based on the circumstances that don't present the same sort of danger. Is that something that could be looked at or should be looked at?

Mr. JOHNSTON. It should be looked at. I guess in general, for instance, the State of Massachusetts has a very stringent lead paint law. And our real concern is that we're now putting owners through an additional burden to go with Section 8 that they don't have taking a market rate person, whether it's an elder or a family. And it's only going to hurt utilization. Utilization will be impacted. You know, other states may not have as stringent lead paint laws as we do. And I think it's a State issue. I think it's an issue that needs to be looked at by each individual State versus the Government in general.

Mr. BARR. What I'd like to do, if you don't mind, is correspond with you, write you. And I'd like to get if you have some additional material with some additional details on what you've done within the framework of the existing restrictions to make a program work a lot better than it has been, if you have some material. I'd like to receive that so I could look at it and also share it with some of our folks down in Georgia.

Mr. JOHNSTON. I'd like to share that with you.

Mr. BARR. Thank you. Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. Thank you.

Next Mr. Capuano.

Mr. CAPUANO. Thank you, Madam Chairwoman. I guess I'd like to just start off by first of all thanking the panel for coming today. But at least three of you I think will go away unhappy, because I can pretty much guarantee you there will be no housing production program this year.

Just yesterday, this House decided to rescind authorization for over $100 million worth of Section 8 certificates. So that's not a great record to begin on. But, Mr. Olsen, you will go home happy. You're getting what you want.

I guess some of the questions that have been asked—I mean, I got here late because on many of these issues, I was the mayor of my city beforehand, and I have pretty firm opinions on these things, though I respect your opinions, you're probably not going to change mine too much just because I've lived through it. But I do want to ask a few questions as a follow-up to what Mr. Miller asked.

Mr. Johnston, I live in the next town to where you work. You know that. Cambridge has produced an awful lot of housing in the last 20 years. They have produced thousands of units at North Point—hundreds of units at North Point, thousands of units in East Cambridge, a couple of thousand units around Harvard Square. During any of that construction, have rents gone down?

Mr. JOHNSTON. No.

Mr. CAPUANO. I knew that answer, but I just thought I'd ask. Have housing prices gone down?

Mr. JOHNSTON. No.

Mr. CAPUANO. I'm not going to ask, because I'm not going to put you on the spot. But I know the answer. I don't know if you realize that Cambridge and its surrounding area is probably one of the most densely populated areas in the country. Right now Cambridge is around 14,000 people per square mile. Somerville was about 18,000. Boston is around 14,000. Belmont, right next to the west of you, is about 10,000 people per square mile. Are there are lots of open tracts of land somewhere in the Greater Boston area that I've missed?

Mr. JOHNSTON. No.

Mr. CAPUANO. Do we have an opportunity to build a whole lot of new housing, though we'd like to? I mean, where are we going to put it?

Mr. JOHNSTON. No, we don't.

Mr. CAPUANO. Except to build high rises. And there are those people in the world, a few of us, who may not want to live in high rises. We don't mind two- and three-family homes, which is by far the bulk of our housing stock, but there's certain limits to what we want, and it goes back to what the Chairwoman said earlier, that some people want some control over what happens next door to them. I think that's fair.

So I don't buy all this nonsense in some areas. And again, I don't speak to every neighborhood. And I actually think that the argument that we need to break this down, these rules and these regulations down on a much more localized level, because even with the SMSA, our housing issues in the Greater Boston area are not the same as some of the areas just outside of Boston, 20 miles out. The SMSA is pretty big.

So it's not the same. And it should be different. And in some levels, HUD has started to go in that direction. But I was actually most interested in some of your written testimony—I don't know if you did it verbally—on the actual rents. Even with HUD bending over backward and giving Cambridge and a couple of the other communities in that area the opportunity to go above the Fair Market Rent numbers to the tune of 20 percent above, we're still $700 a month below what an average two-bedroom apartment is.

Now I don't know why the rents are all that high. It's actually kind of nice on one level that everybody seems to want to live in my District.

[Laughter.]

Mr. CAPUANO. That's great. But that drives housing prices up. And I guess, you know, Professor Olsen, it's nice to hear you say that you're an average American, but though I come from a place that has 31 degree-granting colleges and universities, still my average constituent is not a professor of economics. So I don't mean to be disrespectful, but you're not the average taxpayer. The average taxpayer is a truck driver or a bus driver or a cop or a firefighter or a teacher or a tenant in public housing, not a professor of economics at a university.

And I guess—I'll put a little challenge out to you and to any one of your professors—full blown, I don't know—I assume you're a full blown professor, a tenured professor at the University of Virginia. I would ask that on your—whatever it is you get paid, I'm sure it's above the average pay of my constituent, I would ask you, I would challenge you to come to my District and whatever house you're living in, whatever apartment you're renting in Charlottesville or its neighborhood, to come to my district and find anything near comparable for whatever it is you're paying. And if you can do that, you might change my opinion. Until that time, the rents in the real world are a lot different than in the ivory tower. And I strongly challenge you to get out of it and go see the people that these people service. Go talk to my mother, who lives in subsidized housing. And you explain to her and to the seniors across this country why they haven't deserved the opportunity to live in decent, affordable housing when they did everything they were asked to do by society. To say that to me is—and I know you don't mean to be—but it's very offensive to me.

I think this Congress has not paid enough attention to the needs for affordable housing. I think we need to make the right to decent, affordable housing a top priority in this country. We haven't done it. And to say anything less than that I find offensive to most of my constituents and to the people who care about their well being and the well being of their children and their mothers. Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. Congressman Capuano, I see that you understand you time is up. You do not have a specific response in mind here. Is that correct?

Mr. OLSEN. Was that a question?

Mr. FRANK. But don't register to vote there.

[Laughter.]

Chairwoman ROUKEMA. I didn't hear that, but——

Mr. OLSEN. I favor serving more low-income people.

Chairwoman ROUKEMA. We've opened the record for any specific response that any of the panel members would like to make for the written record. But I would like to point out to all those who have just recently arrived and did not hear the rules that I outlined at the beginning of the hearing that we'll try very desperately to limit our questioning period to 5 minutes apiece, and I've been trying to enforce that regulation, especially since we hope to be able to conclude this hearing today before we are interrupted on a regular basis with votes on the floor. So let's try to get not only through this panel, but the next panel that is waiting to be heard.

And with that having been said, Congresswoman Schakowsky is the next.

Ms. SCHAKOWSKY. Thank you, Madam Chairwoman.

I'd like to associate myself with the comments made by Congressman Capuano and feel also very strongly that the United States Government does have an important role to play. And I think that there is not a family in the United States that would declare themselves to have a surplus if they didn't have a good roof over their head. And this American family has done just that and has not made providing or even helping in a public-private partnership sufficient housing for millions of Americans. Many of those Americans live in Chicago.

We have a 4.2 percent vacancy rate in Chicago below HUD's 6 percent vacancy tight housing market definition. And in my district we face rising real estate prices, as many communities do, and you've talked about that in your testimony. And a number of project-based Section 8 units that are talking about opting out right now.

I wanted to ask you about a specific proposal. When a building opts out, the tenants receive vouchers. And as long as the building stays a rental unit, we now have enhanced vouchers in parts of our community. But if the building goes condo, the tenant will still get the voucher, but it won't maintain its enhanced status. So they have to often be looking for places outside the community. And let me just put as a footnote, we're short about 150,000 affordable housing units in the Chicago area. And it is really a crisis.

I wanted your reaction to a proposal that these enhanced vouchers be extended to the wider community so that a person in that building that goes condo would be able to take an enhanced voucher in a broader area to shop around for housing. Anyone?

Mr. RENAHAN. That is a big issue for housing authorities across the country. In Los Angeles we've assisted over 1,000 families who've been in the situation where the owner prepays or otherwise opts out and we administer then the tenant-based Section 8 voucher. It works when the building owner or new building owner wants to continue in the rental business. The enhancement has been crucial because the buildings where owners opt out are the ones that are in appreciating markets that are normally beyond the reach of Section 8.

And what that means for tenants who have to move, either because the building has gone condo or for any other reason is that even though they've gotten a voucher, they will be moving to a higher poverty neighborhood in all likelihood. Their accommodations will not be the same as what they had before the owner opted out or prepaid. And that's just the economics of it. Because owners of buildings that aren't in such good shape that are in lower income neighborhoods don't opt out. They don't prepay. It's only the properties that will do better on the open market.

So in those cases where tenants are forced to move, it's very, very difficult. And I should point out that a majority of the tenants that we've dealt with in this situation are senior citizens. And it's a very traumatic experience for them.

So allowing the enhancement to be used outside of the subject building makes a lot of sense to me as a human gesture to the families who thought their affordable housing situation had been remedied for life, particularly the senior citizens thought that they—one aspect of their life they didn't have to worry about was their affordable housing. And then they go through this upheaval.

Ms. SCHAKOWSKY. I am going to propose legislation to that effect. I know that this has been——

Chairwoman ROUKEMA. Excuse me.

Ms. SCHAKOWSKY. Oh, am I done? I'm sorry.

Chairwoman ROUKEMA. Go ahead. You have a few more seconds.

Ms. SCHAKOWSKY. OK. Well, one of the things that I'd also like to explore, in Chicago we have the Chicago Affordable Housing Trust Fund. We just this week had the 11th annual meeting of that. And one of the comments made by landlords, by tenants, by lenders, is that it's so easy to access. That there's none of the bureaucratic hurdles. And it seems to me that what I hear from landlords—it's just that it's not—that it's so hard to deal with HUD. That it's just a hassle. That even, all other things being equal, that they might consider opting out because they've done their 20 years and they have had it already. And it seems to me that if we could sit down and figure out and I think that others on the panel have been asked—and Members, if we could figure out ways to at least diminish if not eliminate those bureaucratic hurdles that we'd step forward.

I guess that's a comment. I'm done.

Chairwoman ROUKEMA. Perhaps the panel could feel free to address that particular question and submit it in writing for the record, please, not only for Ms. Schakowsky, but certainly to my attention as well.

Chairwoman ROUKEMA. Congresswoman Kelly.

Mrs. KELLY. Thank you, Madam Chairwoman.

I'd like to ask this panel what suggestions they have for increasing the number of property owners that will accept Section 8 in their housing, particularly in a really tight market like Westchester County. When landlords really are able to find tenants easily, they are not—they are seemingly unwilling to open some of those units. I'd like to ask what your suggestions would be to get those units open.

Mr. RENAHAN. Well, Congresswoman, one thing that has to be there is an adequate Fair Market Rent that will allow us to pay a fair amount to the landlord so they don't take a financial loss for participating in the program.

Mrs. KELLY. Excuse me, sir. But having been very familiar with the rental market in that county that I'm referring to, I also know that in some areas Section 8 drove up the cost of housing when it went in, and it can still occur. So I'm not so sure that we're talking Fair Market Value here. So can you—every single person that I heard on this panel simply said the answer is more money. I'm wanting something beyond asking for money.

Mr. RENAHAN. What also is necessary and works is the kinds of creative approaches that I had described that we used with our special needs households. An important component of that is outreach to landlords. There are landlords in Los Angeles who are wiling to participate in Section 8 for a family for a family with a person with a disability. There are other landlords who participate in the Housing Opportunity for Persons with AIDS Program. There are others who have helped when we administered the welfare-to-work program.

Landlords can respond to a human approach, to a request that they offer one unit or two units in a large apartment complex for a family that strikes a chord.

Mrs. KELLY. So you feel that outreach is going to answer—I don't mean to interrupt you, sir, but I don't have a whole lot of time and I need to get to the meat of this. In other words, you feel that landlord outreach is going to resolve this problem?

Mr. RENAHAN. It's part of the solution. It's part of the solution.

Mrs. KELLY. Mr. Ziegler, do you have anything you want to say to that?

Mr. ZIEGLER. Yes. I think the answer is to treat the landlord in a Section 8 program like the landlord would be treated by anybody else who is not in a Section 8 program, which means you need to look at the rent structure, but you also need to look at service to landlord. In New Jersey, for example, we established a Landlord Liaison Office that will troubleshoot problems with landlords with regard to paperwork, inspections, and so forth.

I think when you do this kind of thing the owners understand that you're working with them, not against them. I think that's a real important part of this. And it's increased the number of—we have 17,000 families in our Section 8 and 14,000 landlords. And with the Regional Opportunity Counseling Program that I mentioned earlier with even educating landlords as to what kind of assistance is available to them.

We have tons of mom-and-pop owners in New Jersey who have two-family houses and rent one of the units out. And a lot of them don't even understand landlord-tenant law. So getting education to landlords with regard to State services, landlord-tenant issues, lead-based paint. The New Jersey Supreme Court, for example, has ruled that it's illegal in New Jersey to refuse a Section 8 voucher.

And working with the New Jersey Apartment Association has been very important in showing them that we are there working with them, and it has produced a tremendous amount of benefits and increased the numbers of landlords in the program.

Mrs. KELLY. What about building? I mean, is there any impetus to try to get landlords to when they build new apartment buildings to include with the idea of having mixed housing so we have some Section 8 people mixed in with other people that are paying full rent? Is there any kind of an outreach in that direction?

Mr. RENAHAN. There is a statutory provision that allows a portion of Section 8 vouchers to be project-based. And HUD right now is working on a new rule that will make that a little more flexible and make it possible for localities to do exactly what you're describing.

Mr. ZIEGLER. And on the project-based issue, if I may add, there's a large number of non-profit organizations who are very interested in working with the project-based program. They have services, they provide services. But they need operating costs. And the assurance of Section 8 voucher for their particular buildings will increase the number of families they can serve. And they're serving essentially the homeless and very-low-income families.

Mrs. KELLY. I would also like to ask what extent the current regulatory scheme contributes to the housing affordability and availability. Do you feel that the regulations are actually a chill factor?

Mr. ZIEGLER. I don't understand the question. I'm sorry.

Mrs. KELLY. There are regulations controlling what you do with Section 8. Are the regulations a chill factor in your ability to deliver Section 8 housing to the people who need it?

Mr. ZIEGLER. Yes, in some situations they are. And I think we mentioned them earlier. Certainly the ability to address the rent structure that's set in the community and to deal with owners on a one-to-one basis, to do inspections in the units carefully, to allow some flexibility in repairs with the units, if we're in the 30-day period of time. To make the Section 8 program essentially work like the other non-Section 8 rental units in the community. Those regulations that we can strip away that would do that would certainly help the program work better.

Mrs. KELLY. Thank you very much. I'm out of time. Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. I thank you.

Now we have Congresswoman Carson.

Ms. CARSON. Thank you very much. A lot of the Members of Congress have already raised some of the issues that I have. In my particular city of Indianapolis, Indiana, we find myriad problems with persons who are Section 8 eligible getting placed. And I think a lot of it is perception. Landlords don't want Section 8 people, because there is some perception that they're criminals, that they will destroy your property and all of that.

And I was wondering if any of you have some process in your communities that sort of allay some of those fears that would enhance the possibilities of persons with Section 8 being placed, and whether you know of any creative kinds of things that are underway in your community that will elevate the opportunities for low-and middle-income people in terms of getting placed in housing that they can afford.

In Indianapolis we went to a major historic preservation kind of effort. And the consequence of that was devastating for low-income people. People that had been living in low-income communities woke up and found that their blocks had been put on the landmark and historic places, and the consequence of that was devastating for low-income people. I mean, they couldn't afford the right paint. They couldn't afford the right design on a new door that they needed on their house, and the tax rate just skyrocketed. And it caused all kinds of problems just overnight. And these people were here minding their own business.

But in my neighborhood, which, you know, I always declare that the only historic part about my neighborhood is me, and I don't want to be on the landmark and historic places.

[Laughter.]

Ms. CARSON. In deference to the neighbors in my particular neighborhood, the home that I live in—I've been there 35 years. I bought it for $6,000. And over the years, we fixed it up and painted it and my house, the one that I bought for $6,000 35 years ago, is now appraised at $300,000. And the tax rates, of course, skyrocketed as a result of it. That's why I hang around Congress so I can afford it. Since there are only 435 of us, not everybody can come to Congress to afford to live in most neighborhoods around this country.

Do you know of any creative efforts in your local communities that accommodate—that have been started up that accommodate the people with this kind of need in terms of—well, they've already talked about living in a place that turned into a condominium. But in neighborhoods where you can enhance the supply of affordable housing. What do you do to reach that mark?

Mr. ZIEGLER. What has really worked for us in our State is openness to the community, openness to landlords. Just about every complaint that we get about a Section 8 situation, when we investigate it, it turns out to be not a Section 8 family. Section 8 families are painted with a very wide brush. And we are open to community organizations, homeowners associations who question, who criticize and say your Section 8 families are the worst families in our development. And when we go out and actually look at the address they give us, they're not Section 8 families in more than 95 percent of the time.

I think when owners understand how the program works and how the families are selected for the program. For example, we prioritize persons with disabilities for our program, persons who have $6,000 income, for example, at a maximum, and will have that probably for life, because they have severe disabilities or chronic mental illness. These are people who will never be able to live without some kind of support. We also prioritize families in self-sufficiency programs.

So if you look at the overall scope of 18,000 families, roughly about 20, a little less than 20 percent of those families are families who have welfare or tenant's assistance. The rest are disabled persons. The rest are working poor families. Some who are working their way out of the program with self-sufficiency benefits, and some who will need the services on an ongoing basis. And when owners understand the kind of families that we're assisting, they're much more acceptable to working with the program. When the understand the entire picture.

We have monthly meetings in our offices with landlords. We bring the landlords in and answer any questions and resolve any problems. And with an ongoing to liaison to work just with landlord issues that arise, we have been able to develop the number of owners that we have in the program, which now exceeds 14,000 landlords.

This is something that I'm seeing other housing authorities duplicate, and I think as that happens, we're going to get much more acceptance of the program.

Mr. JOHNSTON. If I could continue. I agree with the landlord side of outreach, because we certainly do the same thing. But at the same time, you need to look at how is the participant marketing themselves? How are they going out and portraying themselves to the landlords?

We found that we actually have an allocation of vouchers strictly for individuals with disabilities. And for those individuals we actually supply housing search services. We've contracted with a nonprofit to assist those individuals in going out and finding units. And the success rate for those individuals—and these are individuals with some type of a disability and low-income—the success rate is actually higher for these individuals than it is for our family participants that are going out without any assistance.

So it has to do not only with how you're approaching your landlords as an agency and how you're selling the program as an agency, but it really has to do with how is the participant approaching the landlord? How is the participant selling the program? And I think that's where housing search services are important.

Ms. CARSON. Yes, but I think there's just such a bad image of Section 8 because people misunderstand who it is that's causing the problem. They're not Section 8 recipients. My aunt is 85 years old. She still sings in the choir. I don't know how well, but she still sings in the choir. She can't get any housing in Indianapolis with a Section 8 voucher and she's 85 years old, because people don't want Section 8.

Mrs. KELLY. [Presiding.] Thank you very much, Ms. Carson.

Next we have Ms. Jones.

Ms. JONES. Thank you, Madam Chairwoman.

To the panel, I was talking to State legislators and mayors before at a session this morning and I missed what you all had to say, but we were talking about housing and affordable housing at the session we were in as well.

My first question is to Mr. Johnston. How are you, sir?

Mr. JOHNSTON. Good.

Ms. JONES. Good. Totally different subject, but has to do with housing. I'm just curious. What impact did the reduction of or elimination or what impact will the elimination of the drug elimination program have on your housing authority? Is that something over which you have some jurisdiction?

Mr. JOHNSTON. Yes. It's more going to impact public housing.

Ms. JONES. You don't do public housing, sir?

Mr. JOHNSTON. Well, I do. I do tenant selection for public housing.

Ms. JONES. OK.

Mr. JOHNSTON. And certainly I think our agency has worked very close with the local police department in putting together police details. We actually have a security force that handles complaints and issues that happen in public housing. And the elimination will certainly have an impact on the housing authority in how we can protect the residents and of our developments.

Ms. JONES. Thank you. I don't know what I did I with my list of where you guys come from. I apologize. What about the impact on New Jersey, Mr. Ziegler? If you're familiar. If you're not, you can say no.

Mr. ZIEGLER. We operate only a Section 8 program, so it doesn't have any direct impact.

Ms. JONES. OK. Great.

Was it you, Mr. Ziegler, that said that the New Jersey or some court just found it to be illegal to refuse a Section 8 voucher?

Mr. ZIEGLER. Yes. In New Jersey, like Massachusetts, the Supreme Court has ruled that it's contrary to the Fair Housing Act for a landlord to refuse to accept a Section 8 voucher solely because it's a Section 8 voucher. I mean, the owners are still able to refuse families if they don't pass the regular application standards that owners normally accept. But in cases where it's just that I don't accept Section 8, it is illegal for most owners in the State to do that.

Ms. JONES. Do you remember what the facts were in that particular case?

Mr. ZIEGLER. It's a source of income act, Chuck tells me.

Mrs. KELLY. Excuse me, could you speak up a little louder on the last point that you made? I didn't quite hear that.

Mr. ZIEGLER. Yes. The Supreme Court ruled that it's contrary to the source of income, discrimination as a result of a source of income whereby the owner cannot refuse a Section 8 voucher.

Ms. JONES. OK. Thank you.

Mr. EDSON. I would like to add something.

Mrs. KELLY. Excuse me, yes.

Ms. JONES. I don't mind.

Mrs. KELLY. Excuse me. I think in response to your question there is another point to be made here.

Ms. JONES. Please come forward and tell us your name.

Mr. EDSON. Madam Chairwoman, I'm Charles Edson, counsel to Leased Housing Association, and I did participate in that New Jersey case so I'm quite familiar with it. Many states have what is called a source of income law which says you cannot discriminate against a potential tenant because of the source of income. New Jersey had such a law. There was a real question of interpretation of whether it also meant to include Section 8 vouchers. It originally was intended to deal with alimony payments, welfare payments and the like. The New Jersey Supreme Court extended that to Section 8 payments. So in New Jersey, you in effect have a take none/take all. In other words, every owner in effect is obligated to accept vouchers. I believe several other states have reached that conclusion. Some courts have taken an opposite view.

Chairwoman ROUKEMA. Ms. Jones, I'm very glad that you asked that question. I feel as though I was derelict in my own responsibility being from New Jersey that we didn't observe that earlier. So I appreciate your questioning.

Ms. JONES. Not a problem, Madam Chairwoman. The only further thing I would say is I don't want to be repetitive in the responses or in my questions that my other colleagues haven't asked, but I am a supporter of affordable housing. I come from the city of Cleveland, Ohio. We've done a pretty good job with our community development corporations developing housing, but we need a lot more.

And I just would thank you for coming, encourage you to continue to work on providing affordable housing, because I believe that having a safe house and a decent house is the beginning of having a decent lifestyle and making a decent living. And I would just encourage you to continue to do the work that you do. And on another occasion I might ask you some more questions. Thank you. I yield the balance of my time, Madam.

Chairwoman ROUKEMA. I thank you.

Congresswoman Waters, I believe you were next.

Mr. Tiberi does not have a question.

Ms. WATERS. Thank you very much, Madam Chairwoman. I don't know what else can be said. The fact of the matter is, this budget eliminated the drug elimination program, cut the capital fund, cut the HOME program, cut CDBG and reduced Section 8 reserves from 2 months to 1 month. Everybody knows that.

We also know there is a housing crunch. We also know that the vouchers are buying less and less. The message is clear. We could have 100 more hearings. It's documented that we have a real crisis, and this budget exacerbates that crisis, and we need to get on with the business of trying to do something about this problem and this housing crisis.

Let me just ask about the reduction of Section 8 reserve from 2 months to 1 month. Can somebody tell me what that means?

Mr. RENAHAN. What that means is that housing authorities who are trying to lease to 100 percent to assist as many families as possible who are faced with changes in their average housing assistance payment, which can occur because rents are going up in their area so that their contract rents are coming in higher, or if the family incomes are decreasing so the family portion gets smaller and the housing assistance payment gets higher, will have to be more concerned that if they aim for 100 percent lease up that they will run out of money at the end of the year and not be able to make payments to landlord and be in violation of their contract with HUD.

So what it will mean is that the utilization rate across the country will be adversely affected by a cut and the program will work less well and serve fewer families in precisely the housing markets where families need it the most, the housing markets where rents are accelerating and it's tougher to use Section 8 vouchers.

Ms. WATERS. So in addition to all of the other problems that you have, this reserve, as you are describing it, significantly impacts your ability to utilize what you already have? You have to live in fear that if you utilize your Section 8 to the max that you could run into trouble and not be able to pay the landlord?

Mr. RENAHAN. That's precisely it, Congresswoman. And the 2-month figure was arrived at under a negotiated rulemaking which involved HUD and housing authorities and advocates and others interested in the program. And initially going into that, to be frank, I was arguing for a 6-month reserve. But HUD hired an accounting firm. They went through the numbers nationwide looking at the possible impacts on urban authorities, suburban/rural authorities, big authorities, small authorities, and it turns out that 2 months is adequate to make it possible for housing authorities to shoot for 100 percent utilization without living in fear that they're going to be in violation of their HUD contract and we really didn't need more than a 2-month reserve. But less than a 2-month reserve will result in a lot of housing authorities either getting in trouble or not utilizing as much money as they could and not assisting as many families as they could to avoid getting in trouble.

Ms. WATERS. Thank you very much. Let me just say that to those of you who are managing these large public housing authorities, I salute you. You have a lot of problems, and many of you are doing a very good job despite the fact that the resources are not there. Someone asked today how can we solve these problems without money? You can't. It costs money to manage these housing authorities and deal with all of the problems.

I am still of the opinion that we need to have social service agencies inside all of these large public housing authorities that deal with not only people representing public welfare and probation, parole, health, all of that. Some of these large public housing developments are like little cities. And all of the problems that any city would have that is basically a city of poor people of limited income folks, and you're expected to manage them, keep them going, keep down the crime, keep the renovations up, keep the place looking decent when you're faced with all these cuts and all of these problems, I don't know when we're going come to grips with what it takes to provide housing and to deal with this crisis.

I salute you. And we're going to do everything that we can to help you. We don't think we have an ear in the White House. We think that some of the Members on the other side of the aisle are sympathetic and they would like to do something. We want to work with them to try and get something done. But just keep championing the cause and keep your voices out there. Hopefully, we'll be able to undo some of the cuts that have been wreaked upon you with this wrongheaded policy. Thank you.

Chairwoman ROUKEMA. [Presiding.] Thank you. I do want to express my appreciation for this panel. And not that we're trying to get rid of you quickly, not at all. However, I'm looking at the clock and I've been advised that there will be a series of votes up in the near future and hopefully we can get to the second panel.

But again, I ask that you submit in writing your additional responses if you haven't had a chance to elucidate and amplify on your answers. And obviously we're going to be going through these issues again as we go through the appropriations process this year I'm quite confident.

Again, I'd like to have our member of the panel who is very sensitive to the cost effectiveness and to the budget priorities as well as those here on the panel who are concerned about the implementation, the proper implementation of the law under existing financial circumstances and whatever improvements we can make for greater functioning, greater efficient functioning in the future.

I thank you very much. We'll stay in close dialogue and communication.

The next panel, please. I will take the opportunity to introduce each of the panel members as I did on the previous panel individually when it is your turn to testify. I would also like to remind you I believe you were here when we opened the hearing, but remind you that we'll try to limit each introductory statement to 5 minutes The Members then will have 5 minutes in which to question you. And hopefully, we'll complete this before there are any interruptions from the floor.

Now this panel is representative of a good number of consumer groups and public interest groups, and we're happy to have you today. Nan Roman is the President and CEO of the National Alliance to End Homelessness and a leading national voice on the issues connected with homelessness. Certainly the Alliance, as I understand it, the National Alliance is the country's largest nonprofit, non-partisan membership organization. And so we're very anxious to hear from you, particularly with charitable work that you're doing, as well as your on-the-ground, in-the-field operations. Thank you very much.

STATEMENT OF NAN P. ROMAN, PRESIDENT, NATIONAL ALLIANCE TO END HOMELESSNESS

Ms. ROMAN. Thank you so much, Madam Chairwoman. I want to thank you for your concern about housing affordability and for holding these hearings and also I want to thank you for the subcommittee's past leadership on the issue of homelessness.

I've been asked today to address the extent to which homelessness is a housing issue. And the answer there is simple. Homelessness is caused by the lack of affordable housing, notwithstanding all of the other problems or illnesses or disadvantages that homeless people might have. They are homeless because they can't afford a place to live. If there was housing that they could afford, there wouldn't be widespread homelessness.

Is there some special type of housing homeless people require? The answer to that question is yes and no. There are two major groups of homeless people, and I think it's important to recognize that when we're assessing the impact of housing affordability on homelessness. Eighty percent of people who become homeless enter and exit the homeless assistance system relatively quickly and don't come back. These are people who are having a housing crisis.

It can be said that the homeless assistance system in one way is managing the churn in the bottom of the housing market. This 80 percent of people are largely indistinguishable from other poor housed households in terms of their mental health, their substance abuse, their education levels, numbers of children and so forth. But they are families and individuals who have had a housing crisis, and they need somewhere to go while they are resolving that crisis.

The homeless assistance system is providing such a place. Taken as a whole, this group, 80 percent of the homeless population, does not need any special type of housing. They just need housing that's affordable. The remaining 20 percent of people who become homeless in the course of a year—and I should say about 3.5 million people become homeless in the course of a year—have a different experience and have different needs. This group tends to be homeless for a much longer period of time, living in the homeless assistance system, sometimes interspersed with stays in hospitals, jails, prisons or on the streets. They virtually all have chronic disabilities: mental illness, chronic substance abuse disorders, physical ailments or HIV and AIDs are the predominant ones. Because of their illnesses, permanent supportive housing, housing that is affordable and also linked with services, is the most cost-effective and successful housing model for them. And as you mentioned in your opening statement, we estimate that there are 200,000 to 250,000 units of such housing needed to essentially end chronic homelessness.

In summary homelessness is a housing affordability issue and notwithstanding all of the other problems that homeless people might have if there were an adequate supply of appropriate affordable housing, there would not be widespread homelessness.

Based on this, the following are our recommendations. First we recommend that we need a housing production program that will significantly address local shortages of affordable housing units.

Second, if there are not enough resources to meet the housing needs of all people up to 120 percent of area median income, as has been recommended by many previous witnesses in your housing affordability hearings, we must respectfully request that there be substantial targeting of housing assistance to meet the needs of people who are most severely impacted by this affordability crisis, even to the point of becoming homeless.

Third, we believe that 200,000 units of permanent supportive housing could end chronic homelessness. Resources are available to provide this housing via the HUD Homeless Assistance Grant Program, but only if two things are done. The first is to ensure that 30 percent of these funds are spent on permanent supportive housing for chronically homeless people. The second is to renew such housing from a source other than the Homeless Assistance programs.

This subcommittee has in various ways and on a bipartisan basis, over the past few years recommended these steps. Based on your approach, the appropriators have included provisions that address these issues in the last several appropriations bills. But it would be preferable to have these provisions authorized.

Finally, much media attention has been given recently to Secretary Martinez's suggestion that homeless people are the responsibility of HHS. We concur that, for the disabled group in particular and for other homeless and very poor people, services are best delivered by HHS using HHS resources. Housing, however, is the root of the problem for homeless people, and housing is best delivered by HUD. We support getting HHS to assume its proper responsibility to pay for services with its funding, freeing up the Homeless Assistance Grant Program money to pay for housing for the 3.5

million people who have become homeless because they don't have it.

We do not support transferring the HUD money to HHS to pay for services. HHS is not the only agency responsible for homeless people.

Madam Chairwoman and Members of the subcommittee, we are grateful for your concern and your leadership and we are anxious to work with you to make progress on this issue.

[The prepared statement of Nan Roman can be found on page 483 in the appendix.]

Chairwoman ROUKEMA. Thank you very much.

The next panelist is Barbara Poppe. Ms. Poppe has been the Executive Director of the Community Shelter Board in Columbus, Ohio since 1995. That gives you considerable experience. The Community Shelter Board is a nationally-recognized non-profit organization charged with funding and planning coordinated access to shelter and essential services. And evidently you have been an advocate for the homeless since 1985. So you have some experience up and down and up again. Thank you very much, Ms. Poppe.

STATEMENT OF BARBARA POPPE, EXECUTIVE DIRECTOR, COMMUNITY SHELTER BOARD, COLUMBUS, OHIO

Ms. POPPE. Thank you, Madam Chairwoman, Members of the subcommittee. I am pleased to be here today. I wanted to let you know about our experience in Columbus and Franklin County, Ohio where we operate as a true public-private partnership to provide a collaboration of funding, services and coordination to assist anyone who has a housing crisis resolve that.

We are the Community Shelter Board committed to ending homelessness in our community, and we work toward that end. My Board of Trustees includes corporate executives from banking, insurance, retail, manufacturing and the home building industry. So we have a strong business presence.

Along with our partner agencies and our public funders we have created an infrastructure in Columbus and Franklin County that meets the immediate needs of homeless people, providing a roof over their head, food and health care. Our efforts have been successful. We do believe it is unacceptable to turn any family or single adult away from our sheltering system, and we continue to work toward that end each day.

But unfortunately, as hard as we have worked, the Franklin County homeless system cannot end homelessness. Why? Well, the system doesn't control the number of people who become homeless. And second, while most people exit the homeless system quickly, others virtually live in it. And for people who are chronically disabled and very poor, emergency shelters have unfortunately become their home. We concur with the assessment of the National Alliance to End Homelessness that so far we have accomplished much, but the end is not yet in sight.

Homelessness is a major problem in Columbus and Franklin County. I want to report to you that since 1990, more than 100,000 different households have been homeless in our community. We did a random telephone survey and we found that 10 percent of all people in Franklin County had experienced homelessness. Another 18 percent had a family member who had experienced homelessness. The annual number that we've sheltered in the last 5 years I am happy to report is finally on the decline. Since 1995 to 1999, we decreased family homelessness by 50 percent. That decrease was possible, though, because we put substantial resources into our Homeless Prevention Initiative.

The number of single homeless women has remained relatively constant, and we've been able to decrease the number of single homeless men by about 3.5 percent in our community. However, there is still much to be done. Our system works well for those 85 percent who have a short-term homeless problem, but there are 15 percent of our homeless people who have chronic entrenched problems that our system is simply not resolving.

Toward that end, we have committed that our community will be targeting for priority expansion, the strengthening of permanent housing options with services for the hardest to service populations in our community, those persons with chronic disabilities.

Some of the innovative features in our Franklin County community are, as I mentioned, our Comprehensive Homeless Prevention Program which annually serves 1,100 households preventing them from becoming homeless. We also have worked to improve our emergency shelter safety net so that people who have short-term needs can get back on their feet and out of it. What we've done is to disperse our facilities throughout the community. Not all are located concentrated downtown. We've put in place rigorous shelter certification standards and a requirement for good neighbor agreements. We also are providing on-site employment resource centers.

As part of a new initiative, we are developing 800 new units of permanent supportive housing for long-term homeless people. And finally for families, we're focusing on a direct housing initiative that quickly moves families out of shelter into permanent housing but provides transitional services. That program has been 95 percent successful in working with all families, and none of the families in our 2-year operation have ever returned to shelter.

But despite this impressive and innovative continuum of services, we still lack the most important component to end homelessness. That is accessible and affordable housing. Homeless families and individuals are a subset of very poor households in Franklin County who cannot afford decent, safe housing. A typical homeless family, while more are working than ever before, still has an average income of only $630 a month. They need an apartment that rents for less than $200 a month, and that does not exist in our community.

We are a model community in terms of the level of cooperation and coordination among providers and funders both public and private. We know what works. We can document success. We are committed to ending, not just managing homelessness. But we really do need a strong Federal partnership so that we can be successful.

We believe that what we need is affordable housing production. We also need subsidies. This is not an either/or circumstance for Franklin County. We need to both produce affordable housing and to have the subsidies to make it possible. Homeless people are earning around 15 percent of the area median income in our community. So without the type of operating support available through the Section 8 program, we simply won't be able to move forward.

We do believe strongly in these public-private partnerships. There's no deal in Columbus that gets done without investment from our private community as well as the Federal, the State and the local governments being partners. We would like to work with you in any way that we can to solve homelessness across the Nation and also in our community in Ohio. Thank you.

[The prepared statement of Barbara Poppe can be found on page 490 in the appendix.]

Chairwoman ROUKEMA. Thank you very much.

Now, Ms. Ann O'Hara, a co-founder and now the Associate Director of the Technical Assistance Collaborative, Inc. She has over 23 years of experience in the development and administration of affordable housing programs at both the national, State and local level.

I believe also, Ms. O'Hara that you have a national reputation for working with affordable housing opportunities for those people with disabilities, whether physical or mental disabilities if I understand it. We're very interested in hearing of your experience and your recommendations for us. Thank you.

STATEMENT OF ANN O'HARA, ASSOCIATE DIRECTOR, TECHNICAL ASSISTANCE COLLABORATIVE, BOSTON, MA; ON BEHALF OF THE CONSORTIUM FOR CITIZENS WITH DISABILITIES HOUSING TASK FORCE

Ms. O'HARA. Thank you, Madam Chairwoman and Members of the subcommittee. I would also like to thank you very much for holding this very important hearing on the critical housing affordability problems that people with disabilities, including homeless people with disabilities, face today in the United States.

I'm here today to testify on behalf of the Consortium for Citizens with Disabilities Housing Task Force. They are a Washington-based coalition of over 100 consumer advocacy provider and professional organizations who work for and on behalf of people with disabilities of all ages and their families. The CCD Housing Task Force includes the Alliance for the Mentally Ill, Paralyzed Veterans of America, Easter Seals and many other groups.

I want to mention a few key points from my written testimony, including data on housing affordability that we are just coincidentally publishing today, some discussion of the need, and then some critical housing policy issues.

Today the Technical Assistance Collaborative, and the CCD Housing Task Force are releasing findings from a new study entitled "Priced Out in 2000." It's a comprehensive analysis of housing affordability for the poorest of our Nation's citizens, those people with severe disabilities who are receiving SSI benefits. In 2000, these Federal benefits were equal to $512 a month. Today, over 3 million adults with disabilities are receiving SSI benefits.

This study compares SSI to HUD's Fair Market Rents in all housing markets of the United States and shows that the housing problems, the affordability problems of people with disabilities have never been worse than they are today. People with disabilities receiving SSI benefits continue to be the poorest people in the Nation and on average across the country have an income equal to only 18.5 percent of the one-person median household income.

As a national average, people with disabilities receiving SSI have to pay 98 percent of their monthly SSI benefit in order to rent a modest one bedroom apartment which is priced at the HUD Fair Market Rent. That leaves $11 a month left for all other essentials like food, clothing, transportation and over-the-counter medications.

In the year 2000 there was not one single housing market area in the United States where a person with a disability receiving SSI could afford to rent a modest studio or one bedroom apartment and pay 30 percent of their income toward that rent.

So I will echo the comments of my two colleagues here to say that it is absolutely essential that for the poorest people, people with incomes below 30 percent and particularly below 20 percent of median that we need operating subsidy funds or project-based assistance or vouchers in order to make the housing affordable.

Just before Secretary Cuomo left office, he released the latest worst-case housing needs report. That housing needs report showed that while housing needs had declined by 8 percent from 1997 to 1999, that decline occurred in elderly and family households. It did not occur in households representing people with disabilities. HUD's data show that housing need among people with disabilities actually went up between 1997 and 1999.

So in line with those needs figures, what we need to do is look at what the critical policy issues are and make recommendations. One problem we have is that the supply of subsidized housing, housing with an operating subsidy or a project-based subsidy for people with disabilities continues to decline. That decline began in 1994 with elderly only policies and continues to this day. Each year housing authorities designate thousands of units for elders, and that means that people with disabilities no longer can access that housing.

We estimate that as many as 200,000 units have been lost and only 40,000 Section 8 vouchers have been created to make up that loss.

Another problem we have is the public housing authorities, not all, but many public housing authorities are not applying for new Section 8 vouchers to help people with disabilities get into housing. PHAs also have difficulty knowing how to modify their programs and their policies so that the Section 8 program can be effective for people with disabilities.

It's difficult to use Section 8 to find accessible units. It's also difficult to get exceptions from HUD on these policies. There are some housing authorities doing a good job. We need to export their practices, such as the State housing authority in New Jersey, and the housing authority in Cambridge, Massachusetts. We need to take what they have done for people with disabilities and make that information available to other housing authorities.

I want to speak also just briefly about the Section 811 program. As the need for housing for people with disabilities has increased, the appropriations for Section 811 have gone down by almost 50 percent. The program also needs reform so that lower density and more integrated housing can be developed. Currently, the Section

811 program is full of red tape and bureaucracy. It has components such as the single-purpose corporation requirement that really are a disincentive for non-profit organizations to work with the program.

I also want to mention briefly that the HOME and CDBG programs typically do not target people with disabilities. Again, that's because neither of those programs is used in connection with an operating subsidy or project-based subsidy in most cases.

We support the National Low Income Housing Coalition's production program with very-low-income targeting. We also support the National Alliance to End Homelessness recommendations to put at least 30 percent—and ideally much more than 30 percent, of the McKinney Homeless Assistance funding at HUD into permanent supportive housing to resolve homelessness for people with disabilities.

[The prepared statement of Ann O'Hara can be found on page 499 in the appendix.]

Chairwoman ROUKEMA. All right. I thank you very much. I don't quite know how to begin this except to make an observation, and you do not have to be compelled to answer me. But we'll have to work on this together because I have a background where I've worked directly not only on homelessness, but also on all kinds of disabilities, particularly mental health disabilities, alcohol and drug abuse disabilities. And it seems to me as though you're all pointing in the direction as though there's no difference in needs here. In fact, I believe Ms. Roman said we do not need special housing.

And then of course you reference, Ms. O'Hara, the 811 and I'm not quite sure exactly how that gets defined in the real world of the local community. But I'm just saying that I believe it is much more, much different from low-income housing needs, much different. Because if these people were able to deal with their disabilities—I'm not talking about the physical disabilities. I'm talking about drug abuse, alcohol abuse and mental health problems. They wouldn't be in such dire financial straits, of course. So I think it's a combination of things. But I also believe that there's a requirement here to, as I said in my opening statement, to work with HHS as well as HUD to get the kinds of service needs and the treatment needs that are necessary. We can't ignore it. And that's where I want to direct my attention in terms of this component of our problem. If you have a quick response, particularly Ms. Roman, since I used your name, we shall do that. But then we'll turn to our Ranking Member here. Yes, Ms. Roman?

Ms. ROMAN. I just wanted to clarify that I said that 80 percent of people who become homeless essentially are just poor people who are having housing crisis. But 20 percent of the homeless population is disabled with mental health and substance abuse disorders for example, and is chronically homeless. They do need a special kind of housing, and that is supportive housing that's connected with services.

Chairwoman ROUKEMA. Then I totally misunderstood you.

Ms. ROMAN. I'm sorry.

Chairwoman ROUKEMA. I took your statement out of context evidently. Go ahead. Continue.

Ms. ROMAN. And they also need low threshold entry points into that system because most people are not going to go from the street into housing, so there have to be low threshold shelters or safe haven models where people can enter into the system.

Chairwoman ROUKEMA. Thank you. I appreciate that.

Ms. O'Hara, very briefly.

Ms. O'HARA. I think we're all starting from the same point in terms of how the housing resources work. And the issue of how you link services I think is very different depending on the extent of the disability as well as the nature of the disability. But service provision is an overlay to the basic issue of can you afford the housing. And I think that's where we're having the difficulty. The services are actually easier to—well, some people may disagree with that.

Chairwoman ROUKEMA. And I note that Ms. Poppe has nodded her head in agreement. All right. Thank you very much.

Our Ranking Member, Mr. Frank.

Mr. FRANK. Thank you. I apologize for my absence. I had a previously scheduled commitment to address the constituents of our colleague, Ms. Capps, on housing issues. This is very useful testimony.

First of all, I welcome what seems to me the unanimity that one of the things we have to do, by no means the only, though, but one of the most important things is simply to increase housing production programs for low-income people. And as you know, there have been people who have argued that the voucher program will take care of it, and I think you helped make the point the voucher program is almost irrelevant for many of the people you're here worried about. And, yes, we clearly have to increase the production program, and this very wealthy country has the resources to do it.

I do have some specific issues, though. Intellectually that's an easy one. Politically it's harder. So I do want to talk, and I appreciated, Ms. O'Hara, the question of disability. And I was very concerned. There was an unstoppable tide for taking people with disabilities out of elderly housing. And frankly I think, yes, it is hard to justify that people who have got emotional or other kinds of problems should be housed among part of the population probably least able to cope. That's why we created at that time that separate program for the Section 8 disabilities. Now I am hoping that Secretary Martinez is going to reconsider the zero funding of that. And that's of course a minimum.

But I appreciate your pointing out some problems with that. And I hadn't fully realized this. One of the things it seems to me you were suggesting on page 6 is some PHAs don't take advantage of it. Have we not made it, or if we haven't it seems to me we should, make it a condition that if you, in fact, are going to designate some of your elderly housing to exclude the disabled, then you must as a condition of that be willing to apply for and administer the Section 8's. Is that not the case?

Ms. O'HARA. No, it's not the case at the moment. It's an option, but it's not a requirement.

Mr. FRANK. Well, I am prepared to insist. And I will try to do that legislatively. That's an oversight on our part. We should have done that. Maybe I thought we were doing it. I don't remember.

But yes, I do think that ought to be a condition of a housing authority designating units as elderly only. They then have to agree to provide this.

I also was impressed with your argument, and presume the others agree, that the 811 program ought to be pumped up. And I was struck when you note that in the CDGB and HOME and other programs, people don't do enough for the disabled. And I'm wondering, you know, there is this tendency to want to get the biggest bang for your buck. Doing the disabled programs right, as you point out, might be more expensive per unit. For example, the elderly like living together, the disabled don't. One of the legislative ways to deal with that might be to give a bonus so that in effect there is now a disincentive to use some of these programs for the disabled because the per unit cost is higher and you would at a given level have fewer units.

And I am prepared if you'd like to work with us to suggest some—I don't know whether we're going to get this done right away or what the situation is—but I would be prepared to offer a bonus to communities who incurred a higher per cost unit program to the extent that they had a higher per cost unit program because they were adequately housing disabled people that they be held harmless against that in their allocation. Does that seem to you?

Ms. O'HARA. Yes. I think that's an excellent suggestion. And I also think that communities that have agreed to target the lowest income people, including homeless people, like Boston, they've created set-asides in their HOME programs, and they find developers are very willing.

Mr. FRANK. And I guess they ought to be doing that for the homeless in general. But as I think you've all pointed out, there's a subset of the homeless population that is the disabled homeless population. The general homeless population should be taken care of by appropriate targeting and proper funding of a production program. The disabled population has special needs in this case, literally. There is where I thought you might want to give some kind of incentive.

Let me just ask in terms of the people who have been homeless, one of the things we changed a few years, and I'm wondering how well this has worked and whether they have to do more, it turned out that you couldn't get into family public housing unless you were more than one person as a family. And I do remember that we changed that, I mean in the bizarre way in which legislative counsel referred to it, we decided that one person was a family.

Because obviously one of the real problems for those who think that economic progress in the gross domestic product is an undifferentiated blessing for all, I started my political career representing the Back Bay and Beacon Hill of Boston in 1972 and my staff director for us on this side, Kay Gibbs, was in the South End, and we have seen in those neighborhoods economic progress drive out what was a very important housing source for people who are now homeless in many ways, the single room occupancies, a very appropriate form of housing for some people who weren't either ready or willing or able to live in more than that. The single room occupancy. The loss of that has been a terrible downside of progress.

Now one of the things we then found was that these people were excluded from public housing if they lived alone, and we did change the law so they would be eligible for family public housing. I'm wondering if that's something that was worth doing? Is it something we should be improving on? In some cases you have some waiting lists. In some cases we had vacancies in the family public housing. Let me just ask for a response to that last question if I could.

Ms. O'HARA. Briefly, Congressman Frank, the biggest problem——

Chairwoman ROUKEMA. There is a vote on the floor, so we'll quickly get this response.

Ms. O'HARA. The biggest problem is that most of the units in family public housing are two-bedroom and three-bedroom units. So that to have one person——

Mr. FRANK. And you can't deny that to a family, I agree.

Ms. O'HARA. That's a problem.

Ms. POPPE. Our experience in Columbus was that was a very positive change because we had senior high rise public housing that was not being fully utilized. We've now been able to convert some of that into mixed population housing that has both working households as well as disabled folks living together under a good rent structure.

Mr. FRANK. Well, I thank you. Let's work on those other issues. I would be glad to do that, particularly, and I would welcome your support in changing the law so that you have to apply for those disabled Section 8's, if we can get the Secretary to reinstate them, if you're going to segregate the housing.

Chairwoman ROUKEMA. All right. Now let me ask Mr. Frank and your colleagues on your side of the aisle here. We have no more questions on this side. Do you want to return after this vote?

Mr. WATT. Madam Chairwoman, I'm perfectly willing to pass in the interest of allowing our witnesses not to have to sit here and wait on us.

Chairwoman ROUKEMA. All right. Thank you. Yes?

Ms. JONES. Just for the record, Madam Chairwoman, I'd like to welcome Ms. Barbara Poppe to the Hill. We were scheduled to have a meeting after this. And unfortunately, I'm not going to be able to do that. But my staffer is here and this is the area that I'm particularly interested in. Angela over here will be talking with you. And thank you so much for coming up. It's an important issue for Cleveland as well. Thanks.

Chairwoman ROUKEMA. Thank you. I think you can tell by the level of questioning we have here that you have met with a lot of approval and a lot of sympathy and understanding and empathy for what you have to deal with and what we'll all have to deal with in trying to improve this program, so that we will conclude this hearing, but also invite you if you have subsequent additions to make based on any of these questions or perhaps any misunderstandings you think there have been or additional recommendations, please direct them to Mr. Frank and myself and we'll include them in the record for all the Members. We greatly appreciate it. We're not dismissing you, but this happens all the time in the Congress and we're just fortunate that we were able to hear you in full before the bell rang. Thank you very much.

[Whereupon, at 12:15 p.m., the hearing was adjourned.]

HOUSING AND AFFORDABILITY ISSUES

TUESDAY, JULY 17, 2001

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to call, at 9:35 a.m., in room 2128, Rayburn House Office Building, Hon. Marge Roukema, [chairwoman of the subcommittee], presiding.

Present: Chairwoman Roukema; Representatives Miller, Grucci, Frank, Carson, Lee, Schakowsky, Jones, Watt, and Israel.

Also present: Representative Jim McDermott.

Chairwoman ROUKEMA. Good morning. I will officially call this hearing to order. I'm Congresswoman Marge Roukema, the Chairwoman of this subcommittee. And I must acknowledge the fact that scheduling it so early on a Tuesday when we haven't had any votes as yet has diminished the number of Members here at the hearing. But I do want you to know that all the statements will be made part of the record and certainly will be widely distributed to Members.

I am sure that they will, because they are Members of the sibcommittee and have an intense interest in senior issues, they will brief themselves and become familiar with the record, and we will not diminish in any way the importance and the significance and the contribution of those who are here today.

But in any case, I will make an opening statement and we will hear from other subcommittee Members. And without objection, all Members, either present or those that are not yet present, all Members will have their opening statements made as part of the record of this hearing, without objection.

Now I thank everyone for coming this morning, and certainly my colleague Mr. Frank and our colleague, Congressman McDermott, from whom we'll hear very shortly. But in any case, this is a panel, a fourth in a series of hearings that this panel is scheduled on the subject of affordable housing and a whole panoply of issues related to housing.

At the first hearing which we held which was in May, early May, May 3rd, witnesses defined the parameters and the complexities of the problem and outlined a wide range of potential or possible solutions. At the second hearing in the latter part of May, the 22nd, witnesses testified regarding—and I thought this was especially close to my interest level—regarding public-private initiatives that address affordable housing and community development block grants in the HOME investment—HOME the acronym—investment partnership programs. They I believe are particularly constructive in leading us into the future here, and I would hope that we would have more emphasis on public-private initiatives.

The third hearing focused on the underutilization of Section 8 vouchers as well as the specific problems faced by the homeless and the disabled populations in fighting affordable housing.

I might also interject here that the first hearing that we held really in the committee was with Secretary Martinez where we discussed the budget questions that are connected with the housing issues, and Secretary of HUD Martinez did stress some of his priorities in the context of the budget hearings, and so we will continue to keep in close communication with him.

Now today's hearing is, as you know, focusing on elderly housing and the difficult problems faced not only in finding suitable, affordable housing, but also coordinating with the services that are so urgently needed. According to the Department of Commerce and the Bureau of the Census, the statistics document what we all know through our own family and community experiences, and that is that the aging population, that is, the number of 65 and over, is growing exponentially. And although it's 35.5 million now, we fully expect it to be at least, in the next 30 years, well over 70 million. People are living longer and really healthier than ever before in history, but that gives us an added responsibility here.

The HUD statistics also indicate that only one-third of the low-income citizens who are in need of affordable housing actually receive it. Furthermore, the high cost of housing is the most widespread housing problem for older Americans.

Now we talk loosely about partaking in the American Dream. Well, that is not only for young families, but it is also, in my opinion, the American Dream of affordable housing for senior citizens as well, and all Americans. But along with decent housing, seniors need the supportive services and the lack of options such as assisted living for low-income seniors who want to age in place in their communities, which I think is a positive goal for all of us, but this is a real and obvious problem and one that we want to focus on today and in the near future.

Clearly, legislation in this area is inadequate, although over the years non-profits and faith-based organizations have worked with HUD to develop creative ways to meet the needs of the vulnerable in our society.

But our population continues to age exponentially as we said, and we need to develop new ways of meeting those needs.

There's no doubt that we must do more to increase production and to preserve existing elderly housing stock, renovation, and so forth. But the solution to this fundamental goal will not be easy, and it deserves our deliberate consideration. It's not only cost, it's a number of policy questions that we have to deal with, the whole range.

First, we must look at the existing HUD programs, as is very obvious, and this panel today will help us with that. And I believe we need to have greater flexibility in the programs in order to maximize their utilization. We'll ask our people here today for some advice and counsel based on their own experience in that regard.

We need to make sure that HUD has the trained staff and tools to properly administer the programs. I'm going to repeat something here that has been talked about a lot, particularly by Members on my side of the aisle, and that is the question of bureaucratic red tape that often slows the process and frustrates the recipients. And I know that Secretary Martinez, because we have discussed this, is committed to this goal, and certainly we here stand ready to work with him and really inspire him and give him incentive to accelerate the process of reducing the bureaucracy and red tape.

We know that it's more cost effective to provide services such as meals, transportation, personal care and health care to the elderly in their homes rather than moving them into costly nursing facilities. So it's not only good for them mentally, but it's good for them physically as well as being economically sound.

Now, last year, the committee recognized the need to address the crisis and it created—and I want to stress here—it created the Commission on Affordable Housing and Health Care Facility Needs in the 21st Century. This commission was very well devised for the purpose to provide an estimate of the need for affordable housing, assisted living facilities, and so forth, as I've already outlined, that whole range of issues. But it was also to identify methods of encouraging private sector participation and investment in affordable housing for the elderly.

Unfortunately, the commission, which was scheduled to submit a report to Congress on its findings this June I believe, unfortunately, the commission members were not appointed until just recently, and 2 weeks ago this committee approved legislation to extend the life of the commission so that they could complete their important work.

I know all of us look forward to receiving that report when it is completed, and I speaking for myself now and I'm sure other Members of this Subcommittee and full Committee will be doing everything we can to help them expedite an in-depth study and make that report to us.

Well, I don't know what happened to my friend, Mr. Frank, but—all right. Mr. Frank, the Ranking Minority Member, Democrat on the Committee I understand has yielded to Congressman McDermott, our colleague and friend who has a constituent of his from Washington—Seattle—here, and so I will yield to Mr. McDermott, Congressman McDermott.

[The prepared statement of Hon. Marge Roukema can be found on page 525 in the appendix.]

Mr. McDermott. Thank you, Madam Chairwoman. I walked into this room today and felt reminiscent of when I used to sit down in that chair way down there in the third row.

Chairwoman Roukema. You remember that well.

Mr. McDermott. You are to be commended on having this hearing. I think it's an issue that's going to grow and grow and grow.

As members of the public look at this congressional panel up here, anybody who looks about my age has been struggling with this problem. It used to be that when you got to be 60 or 65 or something, you didn't have to worry about your parents. My mother and father—my father died just a year or so ago at 93, and my mother is 91. And I have been through the search in Seattle for housing. So the issue that you are raising here is extraordinarily important to Members of Congress as well as to everybody else. And I think you couldn't have anybody better here to talk about that than Harry Thomas.

Harry has been—I was one of many who suggested that he be the head of—the Executive Director of the Seattle Housing Authority back in 1987. And with the exception of 4 years that he spent in the Governor's office, when Mike Lowry was Governor, as the housing expert, he has been the Director of the Seattle Housing Authority. At the same time, he has also been on the Board of the Federal Home Loan Bank, was Chairman from' 95 to' 99, and still is on the Board.

He has been the recipient of the 1995 Distinguished Alumnus Award from the University of Washington and the 1999 National Institute of Senior Housing Sidney Spector Award. So he has been recognized nationally for what he is, which is a strong and very powerful advocate for senior citizens. And if the rest of your panel is up to that level, you've got a really strong panel here, and it is my great pleasure to introduce Harry to the subcommittee. Thank you.

Chairwoman ROUKEMA. Yes. It is my understanding that you couldn't remain for the second panel, Congressman McDermott, but we do appreciate your introduction and appreciate the fact that you have helped us get this kind of informed witness here today.

Yes, Mr. Frank.

Mr. FRANK. Mr. McDermott has to leave to get back to Ways and Means in the hopes of trying to retain some money in the Federal Treasury so that we can build housing, although the odds are against him in that regard in the current context.

I thank you, Madam Chairwoman, for convening this latest series. I think what we have had under your direction is a very important series of hearings that are I think constructing a very useful record. I have been struck time and again by the great degree of agreement among the witnesses; namely that increased production efforts must be a part of an effort to deal with the housing crisis.

There has been an acknowledgement that the very prosperity which has been of such great benefit to the country as a whole and to so many individuals has exacerbated the housing crisis in many ways, because it has driven up the price. And second, that a production program is an important part of it. So I look forward to hearing further testimony along these lines, and I look forward to our then working together to come up with a program.

And I do have to say, I was particularly pleased to note that testifying on behalf of the Association of Homes and Services for the Aging, a very important group, and as Mr. McDermott pointed out, one of the things we need to do is to develop a better range of services for people who are somewhere between a nursing home and complete independence. But I was very pleased to see that the spokesperson for that is the president of the National Church Residences. Because there are people who have argued that until and unless we pass the faith-based initiative, churches wouldn't be able to participate in social services. And I'm glad to have strong evidence that under existing law and existing practices, there is a very vital role for faith-based institutions. And I'm delighted that a representative of a faith-based institution association is here speaking before us today. Thank you.

Chairwoman ROUKEMA. Thank you. I'm glad you made that point, because I am one of those who do not—because of the experience we've already had with faith-based organizations in a whole range of issues, particularly in housing—do not understand why the question is now being raised as to whether or not this is Constitutional. But we won't go into that now.

Mr. FRANK. Well, not Constitutional, but you just did raise it, and I do have to respond. And the answer is, what we object to is not funding faith-based institutions, which is being faced, but empowering them to ignore anti-discrimination policies. And if that can be resolved, then this is a non-controversial issue.

Chairwoman ROUKEMA. I don't think—well, that's the point. But that was not raised initially. It was a comprehensive.

Mr. FRANK. Well, no, excuse me, Madam Chairwoman. No, excuse me. I have a procedural——

Chairwoman ROUKEMA. I'm sorry. Excuse me——

Mr. FRANK. No, I'm sorry, Madam Chairwoman. I am sorry. You cannot use the privilege of the Chair to raise a debating point and then shut off debate. There's nothing in the rules that allows you to do that. You can't make unilateral interventions and then announce that they're not to be discussed further. The fact is that the bill introduced does empower people to discriminate, and that's what we're going to be debating.

Chairwoman ROUKEMA. Mr. Miller, please.

Mr. MILLER. Thank you, Madam Chairwoman. I'm glad to see my good friend Mr. Frank is just as calm as ever, and not passionate about any of these issues. He talked about increasing production efforts, and I absolutely agree with him. I think many of the problems we face today in production of housing units are directly associated with the Government. In fact, I am firmly convinced that the problems today we have with production are Government.

And we need to be more creative. The creative use of Section 8 vouchers is a great opportunity for us. There are people who qualify for Section 8 vouchers and who are going to use Section 8 vouchers, yet we limit those to rental housing. And I think we need to be broader in concept. Why shouldn't such people be able to use a Section 8 voucher to buy a home? We have, for some reason, determined that we are going to lock people into the rental housing market when there should be more creativity on Section 8 vouchers that are used so that in 3 to 5 years an individual or family will become an active participant in the housing market and become empowered by that involvement.

I know in the 1980s in the early stages of the congregate care concept, I was doing a lot of work in that area and I developed for over 30 years. And the thing I found in housing that most merchant builders, as you would call them, have is entitlement. And I seem to be very good at entitlement working with Government agencies. So most of my work through the 1980s and 1990s was basically getting entitlements on projects so merchant builders could go out and build affordable housing.

But senior housing has changed dramatically from when I was a child. When I was a kid, you thought of people in their sixties as old. I'm 52. People in their 60s today are not old, and when I was involved in congregate care in the 1980s, you had to design a product for individuals who did not necessarily want to own their own home anymore, but were very mobile. And basically, we were designing cruise ships on the land that provided all the services that people would receive on a cruise ship, but they received such services as part of their lifestyle. They were active, yet they did not want to live independently, but they were completely ambulatory.

And we have a huge growing crisis, I believe, in the housing market. There is a huge crisis in affordability, and much of that crisis is directly due to the impact Government places on property owners wanting to develop their property, such as habitat set-asides. I have some friends in Southern California that want to develop 640 acres in an area that should result in affordable housing, but for them to develop the acres, they have to set aside 5,000 acres in some other location as habitat.

It's very difficult to go out and purchase 5,000 acres to develop 640 acres and then at the same time produce affordable housing. And that's something we're going to have to deal with. And with an aging senior population, the demands are growing, and we're going to have to be able to address that proactively, and we're doing a very poor job being reactive to the crisis I believe Government has caused and allowed to exacerbate over the years. And I'm encouraged by some of my friends and colleagues on the other side of the aisle, on the other side of the Chairwoman here. Is my time up, Madam Chairwoman?

Chairwoman ROUKEMA. Yes. I'm afraid it is.

Mr. MILLER. You are so patient with me, but I thank you very much for that patience.

Chairwoman ROUKEMA. Thank you. And by the way, I will simply repeat that for those that weren't here at the beginning that I have unanimous consent that the opening statements of all Members will be included in the record.

In order of your appearance, Congresswoman Schakowsky is next.

Ms. SCHAKOWSKY. Thank you, Madam Chairwoman. First I would like to associate myself with the remarks of Ranking Member, Mr. Frank, particularly in regard to the need for production of affordable housing. Production, production, production.

And Madam Chairwoman, I would like to say to you that I would very much like to work with you on the issue of bureaucracy. Many of the developers that I talk to, people in the private sector, are very concerned about this, and I've been promising them and would like to fulfill that promise to work on the issue of reducing some of the paperwork involved. So I hope I can participate with you on that.

A couple of things I wanted to say. Seniors all across the country and in my district too are asking the very same questions: Will I able to stay in my home? In my district we have the expiration of project-based Section 8 contracts, and people are wondering where they're going to go, will there be affordable and safe housing in my community? Will I be able to get the services I need to remain independent? Will I be able to get home-based services or access to a quality assisted living facility if necessary?

For senior citizens and their families, these are not problems to be solved in the future. They are today's problems and they need immediate and effective answers.

I hope this hearing and the activities of the Subcommittee and the dedication of housing advocates around the country will help us get to those answers.

As the Chairwoman has already pointed out, today more than one in four households that receive Federal housing assistance is headed by an older person, yet only one in three low-income seniors in need of affordable housing is getting assistance. Older women are particularly hard hit, not only because they live longer, but because their median income continues to lag behind that of older men and the rest of the population. Even those older women who own their own homes face enormous challenges just to hang onto those homes, to avoid the trap of scam artists and predatory lenders, to cover expenses such as maintenance, property taxes, and any physical modifications they need as they age in place.

As the older population grows, in particular the number of persons over 85 years of age, this problem will only get worse. We need to recognize that the older population is not monolithic. That a healthy 65-year-old has different housing and support needs than a frail 90-year-old. That's why I'm glad that we're looking at a continuum of housing and support needs today. We need to make sure that financial assistance, services and protections are in place to allow senior citizens to remain in their homes and in their communities. As we move toward greater emphasis in naturally occurring retirement communities and assisted living, we need to promote resident rights and guard against potential abuses.

Meeting the housing needs of older Americans is a multi-level challenge that starts, but clearly does not end with the need for creating additional housing stock that is affordable, safe and accessible. Expanded information and financial counseling, transportation, housing, nutrition and other needs must be part of the mix. We need a national commitment to implement an affordable housing policy, and I look forward to hearing from the witnesses on how to meet that goal.

Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. All right. I thank you.

Now Congresswoman Carson, please.

Ms. CARSON. Thank you very much, Madam Chairwoman. I would like to thank you for convening the hearing today. I would like to thank all the witnesses and welcome them for their input.

Since we began this series of hearings earlier this year, virtually everyone agrees that we face an affordable housing crisis nationally in every region of the country. Similarly, we are aware of HUD's annual reports that have shown a steady rise in worst-case housing needs.

While Social Security and other programs have done a great deal to alleviate poverty among the elderly, the elderly remain more likely than any other adults to be poor or near poor. In addition, the proportion of the elderly in the population is increasing, creating a need for a more comprehensive approach to housing and caring for the elderly. We need to focus on affordable options to keep seniors in their own homes or in enriched housing such as in assisted living. This helps seniors maintain independence and avoid the lower quality of life and higher costs that are often associated with nursing home care.

For seniors, housing is much more than just a roof over their head. It allows them the dignity and respect that they deserve.

Perhaps the most powerful lesson I learned, Madam Chairwoman and Members of the subcommittee, was before I was elected to Congress is I served in the Office of Senate Housing Trustee in Indianapolis, which handled poverty for that particular township. We learned poverty can truly happen to anyone. One person in particular comes to mind, an elderly person now, well educated, white, male, once rich and very powerful lobbyist. I remember him giving lavish parties that impressed even the leaders of the community's political and financial institutions. But tragically, this young man had a stroke, lost his job, his house, his cars, and all of his fancy friends left as a result. He now lives in Government-subsidized housing which I acquired for him, and on occasion he still calls me and asks for money to enable him to survive for another few weeks because he is too embarrassed to ask anyone else.

If the people who feel that poverty only happens to unwed mothers could have seen the embarrassment in his face or heard the humiliation in his voice as he asked for a few dollars to help him get through the month, they wold have realized that a social safety net is important for all members of our society. We never know when we ourselves may become the least of these.

It is for this reason that I have fought and will continue to fight to ensure that affordable housing is available to all, especially the elderly And as my dear friend Jan Schakowsky pointed out earlier, women, and particularly minority women, face a crucial situation in terms of their poverty levels and their lack of affordable housing accommodations.

Last year we passed a number of innovative policy provisions to give us more tools to meet the growing challenge. Yet the proposed Administration funding level for elderly housing is apparently static. With the rising costs of construction, this means fewer affordable housing units will be built under Section 202, with the same being true for Section 811 disabled housing programs. As rental prices increase, Madam Chairwoman, as our elderly population grows, we should be expanding not contracting our efforts.

I appreciate again, Madam Chairwoman, the time that you are taking today, the interest that you have demonstrated in this very crucial issue that faces our Nation's elderly, and trust that we as a committee and as a Congress will be able to counteract the growing shortage of affordable housing for our elderly.

Thank you very much, Madam Chairwoman. I yield back the balance of my time.

Chairwoman ROUKEMA. Thank you very much.

Congressman Watt.

Mr. WATT. Thank you, Madam Chairwoman. I will be very brief. I really hadn't intended to make an opening statement on the issues before us. I did, however, walk into the middle of your discussion with Ranking Member Frank about the faith-based initiative. And I hope that the Chairman will aggressively look at the proposal that is being advanced I think this week on the floor. The faith-based initiative debate is not about whether the Government will be involved in or whether religious institutions will be involved in providing services that the Government provides. Religious institutions do that now, and they do it without impediment, other than having to set up a 501(c)(3).

This debate is not about that. If that were what the debate was about, there wouldn't be a debate. There would be a 435-to-0 slam dunk. This debate is solely about whether religious institutions will be allowed to discriminate in employment in the delivery of the Government services. And there are some of us who feel strongly that we should not be called upon to vote to allow religious institutions or anybody, any institution, to use Government funds to discriminate in employment.

And so I hope the Chairlady will look very carefully at the proposal that is being advanced and look beyond the rhetoric. The rhetoric is where you and Mr. Frank were engaged in the debate. But the substance of the bill is not about whether religious institutions deliver services. They already do that. The substance of the bill is about whether religious institutions will be allowed to discriminate in the delivery of those services in their employment practices.

I yield back the balance of my time.

Chairwoman ROUKEMA. That debate will take place at the appropriate time in the appropriate venue. Congresswoman Barbara Lee.

Ms. LEE. Good morning. Thank you, Madam Chairwoman. And I would like to welcome our panelists today. The problem that we are discussing is very, very critical. The fastest-growing segment of our population, the elderly, actually pitted against a severe housing crisis throughout the country, and particularly in urban areas like for instance in my district, the City of Oakland and Berkeley in California.

From the testimony submitted, I understand that one-third of the 1.3 million people living in public housing are elderly or disabled. This is another reason why of course some of us were outraged when the Administration cut funding for the Public Housing Drug Elimination Program, which really does directly impact the safety of our elderly and the disabled.

The housing crisis is terrible for everyone in my district in the Bay Area, and it is more devastating for the elderly who are on fixed incomes, burdened with of course as you know increased energy costs, and are really less able to move about and deal with transient housing options.

So I look forward to your testimony today so that we can hear what your opinion is on how effectively our Federal housing programs are working for the elderly and how we can improve them.

Now I know that there are many model communities around here with regard to affordable housing for our senior citizens. One community, for example, which I have the privilege to visit quite often is Sun City, Arizona. But in Sun City, Arizona, of course, there are many—or the majority of senior citizens, they can afford to live there, and so they have these options. But they do have wonderful affordable housing actually in that area. Some of the housing is intergenerational, which I think makes a heck of a lot of sense as we look at how we develop affordable housing for senior citizens.

One thing actually rings clear from every one of our hearings on affordable housing, and that is the need for subsidized programs of housing production. Now funding of course is critical for housing production. So I support using the excess FHA and Ginnie Mae funds as well as increased appropriations to address this issue which is really crippling our communities.

I urge this Subcommittee to really look at viable and well-funded housing production plans that are very creative, as I mentioned earlier, some that we know that are working in our country, as we move forward to ensure that our elderly have decent and affordable housing.

I thank the Chair for conducting this hearing, and I look forward to the testimony.

Chairwoman ROUKEMA. I thank you.

Now it is my understanding there are no other Members who wish to be heard. And with that, we will welcome our first panel, and they are at the table. But first I would like unanimous consent to insert into the record written statements submitted to us by the Health Care Financing Study Group who are not here today to testify, but they have submitted a statement, as well as the National Association of Housing Cooperatives. Without objection, their testimony will be submitted to the record.

I welcome the panelists here today. I will not spend the time giving lengthy introductions. But I do want to acknowledge that in each case we have members—panelists here who are experienced and highly knowledgeable on these subjects from a very practical, in-the-field experience.

Mr. Thomas Slemmer has been with the National Church Residences for the past 25 years, a long experience, and served as its President and Chief Executive Officer and has been the Chief Executive Officer since 1989, as I understand. He s a member of the Board of Trustees of the National Affordable Housing Trust and is very active with the American Association of Homes and Services. And you are testifying for them today.

Mr. Slemmer, will you please continue, and understand that the full text of your testimony will be in the record. However, if you can, please limit your oral statement to 5 minutes. Thank you.

STATEMENT OF THOMAS SLEMMER, PRESIDENT, NATIONAL CHURCH RESIDENCES; ON BEHALF OF THE AMERICAN ASSOCIATION OF HOMES AND SERVICES FOR THE AGING

Mr. SLEMMER. Madam Chairwoman, Members of the subcommittee, thank you very much for inviting us. I am here today representing the American Association of Homes and Services for the Aging. I might say that I am on the Board of Trustees and Chair of the Housing committee this year.

Mr. WATT. Madam Chairwoman, could you get him to pull the mike a little bit closer to him?

Mr. SLEMMER. AAHSA's members, as you may know, operate 300,000 units of housing, mostly federally assisted. Over 50 percent of our members are faith-based, and we're proud of the record that we have of basically being the organization that serves most of the Section 202 sponsors in this country. It has been a very successful program working with AAHSA members. We think not-for-profit housing sponsorship really makes a difference.

We represent members that represent seniors in their communities and are really an enduring presence in their communities for housing needs.

We have a lengthy written testimony that I'll just refer to. But after listening to the opening remarks, I think the mathematics are simple. There is doubling of the senior population that's going to happen in the next 30 years. There is low production. The Section 202 program is only funded at around 5,000 units a year. We're really disappointed in last week's mark of the appropriations bill where they kind of leveled the funding for Section 202 again next year. We're concerned about that.

But more importantly, there's a loss of senior housing units going out of the system. We don't have exact breakdown on this, but there are estimated to be about 300,000 affordable housing units that have been lost in the last 2 or 3 years due to opt-outs and cancellations of contracts.

This is a crisis. You talk about production. I'm not sure production is the biggest issue. The loss of this kind of housing is very, very significant and very discouraging. If you think about what's going to happen in the next 30 years in this country where we've talked about the largest demographic shift in any country in history.

The AARP has just conducted a study about the Section 202 program alone, and I believe that they are showing nine people on the waiting list for every Section 202 unit. I can tell you from my 25 years' history, that's the largest waiting list that we've ever seen. It's getting worse, and we really urge your attention to that.

So the solutions? Well, again, we're disappointed with the appropriation levels on Section 202. We really encourage you to look at that. How can we double the population of seniors and not do something about production?

In 1995, there was $1.2 billion allocated for Section 202, and it's down now, I think down to 679. We're really encouraging you to consider a 10 percent increase. Let's get on with more housing production. And also redoing all the Section 8 contracts. That's been something that you've been doing. We certainly need to not take our eyes off that very important piece of legislation.

Not only production, but the modernization is really important. Think of the number of housing facility units out there for seniors that are getting older. You expand that out for the next 30 years and you've got some really serious situation. The low income elderly 236 portfolio is in dire need of renovation and retrofit and rehab. AAHSA is recommending let's get started with this. Let's recognize this is a problem, and let's allocate at least $250 million this year toward that effort.

I think one of the most critical issues, however, and perhaps maybe the quiet issue facing us is preservation of affordable housing. There are again a loss of significant number of affordable housing. We worked in California last year, Congresswoman Lee and Congressman Miller. The city of Pacifica, California, City Manager Dave Carmody came to us and asked whether we would participate in trying to preserve his senior housing facility that was built in a prominent location in Pacifica that has been serving low income seniors for 20 years. That community experienced a new owner buying that facility, issuing eviction notices at 3:00 a.m. in the morning to the senior residents there. And that city, to their credit, decided to really fight that. They took the property through eminent domain, spent over $300,000 in legal fees, and we were able to participate with the county and the city and the State to preserve that as affordable housing for seniors. Where would those seniors have gone? In California, it could be 60, 100 miles away before you could find other affordable housing.

So the preservation is a really important issue that's affecting senior housing right now. We have to get HUD concentrating on preservation. We've got to make sure our legislation focuses on preservation. In many ways, it may be the bigger issue than production even this year.

We also worked with the city of Manhattan, Kansas on a similar project. Twenty-year-old senior citizen building downtown Manhattan, Kansas, owner opting out. And the city is really concerned about the loss of that housing.

We heard a disturbing report out of Michigan 3 days ago that in the midst of all of the housing production issues, there are over 500 units of affordable senior housing that were just foreclosed on by HUD, lost forever to the low-income portfolio.

We urge you to consider production, modernization, preservation as well as the social service coordination. We think those four components really make a big difference in doing what we need to do to provide quality housing for our seniors in the next 30 years.

Thank you.

[The prepared statement of Thomas Slemmer can be found on page 531 in the appendix.]

Chairwoman ROUKEMA. Thank you.

Now we have Ms. Jane O'Dell Baumgarten. Ms. Baumgarten is here from North Bend, Oregon and is a member of the Board of Directors of the AARP, for whom she is testifying today. She has also formerly served on the Governor's Commission for Senior Services and was a delegate in 1995 to the White House conference on aging. We do appreciate your being here today and look forward to your testimony.

STATEMENT OF JANE O'DELL BAUMGARTEN, MEMBER, BOARD OF DIRECTORS, AARP

Ms. BAUMGARTEN. Good morning, Chairwoman Roukema, Ranking Member Frank and Members of the Subcommittee on Housing and Community Opportunity.

In addition to serving on AARP's Board, I am also privileged to serve on the Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century.

Today, my remarks will represent only the views of AARP. AARP appreciates the tradition of strong, bipartisan support for housing programs serving older Americans that has characterized this Subcommittee's work. We hope that the same bipartisan spirit will extend into the future as the Subcommittee examines and prepares to address issues associated with housing affordability and availability.

There are powerful demographic forces at work in our Nation. Projections by the U.S. Census Bureau estimate that by the year 2020, the number of persons aged 65 and older will grow to over 53 million people, up from 34 million estimated for 1998. Changes in the age distribution of the Nation's older population are also occurring. Presently, the age of the older population is driven by large increases in the number of persons age 75 and older.

Housing affordability and availability are major problems for many older Americans, and especially for those who rent. AARP's analysis of the 1999 American Housing Survey indicates that approximately 25 million households were headed by a person age 62 or older. Of these, nearly 5 million or 20 percent were renters. The same survey analysis indicates that 57 percent of the older rental households paid 30 percent or more of their income on housing, compared to 39 percent of younger renter households who paid 30 percent or more on their housing.

And many of these older persons, especially those who live alone, eventually will need some supportive services to remain independent in their homes. The availability of these services varies widely due to the residential distribution patterns of older Americans. Such dispersion presents formidable challenges to the efficient delivery of services such as transportation, in-home health care, home-delivered meals, and other necessary services.

It is especially relevant for the purposes of today's hearing to recognize that as the elder population increases, the proportion who have difficulty performing one or more basic activities of daily living, such as bathing, dressing or eating, will also be increasing. The Census Bureau's 1995 Survey of Income and Program Participation indicates that approximately 40 percent of persons age 62 or older live in subsidized rental housing units and have at least one activity of daily living limitation, such as moving around the room, transferring from a bed or chair, bathing, eating, dressing, and using the toilet. Or they have one instrumental activity of daily living limitation such as telephone, using the telephone, keeping track of bills, preparing meals, taking medicine, and getting outside the home. This compares with 28 percent of older persons in unsubsidized rental property and 19 percent of older persons in owned homes.

These figures capture the essence of the challenge before us. The experience of the Section 202 supportive housing program for the elderly helps to illuminate issues, challenges, and most importantly, the need for supportive services. It also helps to demonstrate the importance of viewing housing as the effective point-of-service delivery.

I would like to briefly summarize several key findings from a recently released extensive AARP-sponsored study of the Section 202 program. Comparisons of the 1998 Section 202 survey findings with those of the 1988 survey document that:

Section 202 units for older persons continue to be in high demand, as suggested by low vacancy rates—1 percent for one-bedroom units—and have long waiting lists—9 applicants waiting for each vacancy that occurs in a given year.

Residents are older and frailer than was indicated in the earlier research. The average resident age increased from 72 in 1983 to 75 in 1999. And 39 percent of those residents were over the age of 80.

Capital reserves were generally viewed by managers as inadequate——

Chairwoman ROUKEMA. Ms. Baumgarten, can you summarize your remarks?

Ms. BAUMGARTEN. I'm going to.

Chairwoman ROUKEMA. Yes. Thank you.

Ms. BAUMGARTEN. If you would just let me finish this one, two sentences?

Capital reserves are generally viewed by managers as inadequate for retrofitting projects to meet the changing needs of aging residents.

Section 202 housing needs to meet the changing needs of residents, because for them, the critical difference is remaining in their apartment, in a supportive community, with their belongings or admission to more expensive nursing home care.

And I thank you for this opportunity to testify, and we look forward to working with the subcommittee.

[The prepared statement of Jane O'Dell Baumgarten can be found on page 541 in the appendix.]

Chairwoman ROUKEMA. Thank you, Ms. Baumgarten. May I just ask you, you held up that report. Do you want that submitted for the record?

Ms. BAUMGARTEN. I believe we have submitted this.

Chairwoman ROUKEMA. All right.

Ms. BAUMGARTEN. And if not, we will see that it is submitted.

Chairwoman ROUKEMA. With unanimous consent, that will be included in the record.

Mr. Robert Yoder is with us today, and he has had extensive experience for the Warrior Run Development Corporation, right? Where you have developed and managed more than 1,400 low- and moderate-income rental housing units in Pennsylvania.

You are testifying here today as a representative of the Council for Affordable and Rural Housing. And I believe you were Past President of the Council for Affordable and Rural Housing, and that's a component of this discussion that we must hear from. Thank you very much, and we yield.

STATEMENT OF ROBERT P. YODER, SR., VICE PRESIDENT OF YODER BUILDERS AND WARRIOR RUN DEVELOPMENT ON BEHALF OF THE COUNCIL FOR AFFORDABLE AND RURAL HOUSING

Mr. YODER. Madam Chairwoman and Members of the subcommittee, the Council for Affordable and Rural Housing, CARH, C-A-R-H, and I thank you for the opportunity to speak and for the subcommittee's interest in the needs of rural America and our elderly citizens.

The real issue that faces America is how to facilitate efforts to provide decent, safe and affordable housing. We believe that this an ongoing process that requires us to adequately maintain the existing affordable housing stock, provide for development of new housing in areas that need it, and provide services for elderly people typically in need.

As a rural developer myself, a lot of my portfolio has in the past been financed by the Rural Housing Service or the U.S. Department of Agriculture, the past Farmer's Home Administration.

First of all, the Rural Housing Service in the early 1990s, had a budget of $972 million, to this year which has declined to $114 million. And what that relates to in what housing can be produced is that in 1990, that money produced about 16 projects in Pennsylvania for housing for both low-income families and elderly. Today it produces less than one.

The problem is—and as a matter of fact, this year it produced zero in Pennsylvania. The competition—there will be no Rural Housing Service projects in Pennsylvania. One of our concerns is is that the money be, at least some of the money be restored to the rural areas. Because the Rural Housing Service is the entity that finances projects in areas that are below 20,000 population.

Second, in light of the shortage of funding, we have analyzed ways to utilize Federal funds to achieve maximum financial leverage. Our best suggestion, outside of restoring the budget funds, is to leverage Federal appropriations through new programs under the Federal Home Loan Bank System.

The banks and their members are an appealing source for financing, because members are largely located in or near rural areas. In our experience, members also tend to be familiar with the development of rural housing.

Third, making the tax credit program more compatible with the Rural Housing Service program and more flexible to meet rural housing needs.

Fourth, provide targeted Section 8 vouchers to rural areas to actually produce housing.

Number five, restore unified standards to the Rural Housing Service. Today the Rural Housing Service States operate as a separate entity. The State directors answer to the Undersecretary and not to the Administrator. We are asking that at least it be looked at as HUD does as it has a chain of command where the Administrator actually can be Administrator to the States rather than the Undersecretary, which we lose communications in that chain.

And remove the financial barriers such as exist today, as you heard other panelists talk about, the transfer, which is the exit taxes from private investors under the IRS Code. Exit taxes are extremely high. And also the prepayment restriction that was levied in the early 1980s for owners that are seeking to continue affordability. Those two really go together, because if you can't refinance it to take out the people that are there, the problem is is that we end up with a project that keeps going downhill.

I appreciate the opportunity to present our concerns, and I would be happy to answer any questions. Thank you.

[The prepared statement of Robert P. Yoder Sr. can be found on page 563 in the appendix.]

Chairwoman ROUKEMA. I thank you, Mr. Yoder. I don't have a specific question, but I do want to make an observation here. Certainly you've made a case on the rural housing, something we will have to look into. And I will personally be looking into what the implications are of your recommendation with respect to the Federal Home Loan Bank Board. I will observe that and look into it and see about those regulations that were changed during the Clinton Administration, as you have identified them in the last year or two.

But I would also like to point out that in any way we cannot look forward to a huge burst in spending, but we've obviously have got to recognize the cost effective case that has been made very definitively here, and that it is very cost effective if we are to meet the housing needs of the elderly as well as the incentives for not only production and modernization, but also for treatment in the homes and living assistance that is highly cost effective. There's no question about that.

So I will simply observe that I'll be more than happy to work with you. I don't know how we make the case in terms of not only the authorizing of new programs, but also the appropriation of money to—the funding of that money. But we'll try. The case is there, and our hearts and souls are with you. Now we have to put our minds to work on getting the money and proving the cost effectiveness of the programs. And with that I'll yield to Mr. Frank.

Mr. FRANK. Thank you, Madam Chairwoman. And let me pick up where you left off, because I agree we have an obligation, all of us, to do the best we can within the current budget. And I salute the ingenuity and determination of the people who are represented here to do that.

But it is also clear from this hearing as in the previous ones that we achieved what we called a surplus to be able to afford a tax cut that we put through in part by squeezing housing programs. We've heard this kind of testimony about the reductions, rural housing down from, what, 600 million to 100 million at a time when inflation alone would have sent you in the other direction. Section 202 being cut back.

The preservation program. Mr. Slemmer correctly pointed out that one of the problems has been that we've been losing affordable housing, and we've been losing it partly because of budget constraints that were imposed on the preservation program. I wish they hadn't designed those programs the way they did years ago that allowed developers to opt out.

The courts have made it very clear that the rights that developers acquired to opt out and to change were basic legal rights that couldn't be simply abrogated, they had to be paid for if we were going to get them to change them. And this Congress did, and this Subcommittee took the lead in putting into place programs that would have minimized displacement and prepayment, and then those were changed when control of Congress changed, and money was withheld.

So I think we should be very clear. Yes, we want to spend this money thoughtfully. But the single biggest problem we face here is a national decision to withdraw resources from the production and rehabilitation and preservation of housing for the elderly, and that's what has exacerbated this crisis.

Now it's fashionable for some people to blame the Federal Government and say, "Well, what we need to do is let's just cut back and free up the resources." In some cases, that works well. In the area of housing production for older people, I think it has not worked well. And that doesn't mean everything should be 100 percent Government. It means the private-public cooperation. But you can't have private-public cooperation if there is not on the part of the public sector some money brought to the table.

And housing for older people is an especially important point in the debate we have philosophically over the role of the Federal Government. Those who talk about the Federal Government is always making things worse. People who believe, as Ronald Reagan said in his first Inaugural, that Government was not the answer to our problem, but the problem. People who like to point to Government's failures have a real problem when it comes to housing for older people. Because the Government has, the Federal Government has helped build a good deal of housing for older people over the years, some directly through public housing, through Government, Federal-local. Some through Federal-private. A whole range of things.

And judging by consumer satisfaction, the Federal Government's efforts in the field of housing for older people are one of the most successful things in our society. Someone gave the figure out, nine people on the waiting list for every unit. Who gave that? Somebody had that figure. Who had that? Ms. Baumgarten, you had that figure? Would you repeat that?

Ms. BAUMGARTEN. Which figure are you talking about, Senator?

Mr. FRANK. There was a figure about 9 people on the waiting list for every unit.

Ms. BAUMGARTEN. Yes.

Mr. FRANK. Would you repeat that for me?

Ms. BAUMGARTEN. Yes, of course. It was in the summary. I'll read the statement again if it's OK with you.

Mr. FRANK. Fine.

Chairwoman ROUKEMA. Could you speak into the microphone, please?

Ms. BAUMGARTEN. Oh, yes. I'm sorry.

Chairwoman ROUKEMA. We're running out of time here, so go ahead.

Mr. FRANK. The one thing you never have to apologize for in these halls is repetition. Please go ahead.

[Laughter.]

Ms. BAUMGARTEN. The Section 202 units for older persons continue to be in high demand, as suggested by low vacancy rates, and that was 1 percent for one-bedroom units, and long waiting lists. Nine applicants waiting for every vacancy that occurs in a given year.

Mr. FRANK. Thank you. That's all I needed. Because remember, we are talking now about a Federal program funded with Federal dollars. And I think that is the most direct repudiation of people who assume that the Federal Government can't be helpful, that it is possible to get—consumer demand tells us that there is a great deal of satisfaction with this program.

So we have a need, a need that's going to get worse with the demographics. We have the resources in this wealthy Nation to do it. We have a track record of the Federal Government doing it well. And the only thing that stands in the way is the political refusal of the executive branch and the legislative branch to make the resources available, and I hope that people will continue to insist that we reverse this policy and in fact make the resources available with great success. Thanks to the panel.

Chairwoman ROUKEMA. Congressman Miller please.

Mr. MILLER. Thank you, Madam Chairwoman.

I think some of the Government programs we are implementing currently are working because we are absolutely unwilling, as a Government, to deal with the problem. So when we're talking about placing a bandaid over a sore rather than addressing the problem that caused the sore. Yes, you can say that some Government programs are certainly very successful and Government can continue to subsidize housing programs, thereby creating more affordability. And in essence, you can say that Government is successful in what it is doing. But we are unwilling and have been unwilling to deal with the source of the problem.

You, Ms. Baumgarten, talked about housing affordability and the problems we face with that. One of the speakers talked about the City of Oakland getting involved in a project to guarantee affordable housing.

Mr. Slemmer, were you the one that we talked about it?

Mr. SLEMMER. Pacifica.

Mr. MILLER. I've done projects in the San Francisco Bay Area and the fees are the most outrageous and the costs are the most outrageous in the State of California. And you cannot go out as an independent builder and build affordable housing in the San Francisco Bay Area, because it's impossible based on the fees they charge you to build in those areas.

So, yes, you can come in and we can say, Government can subsidize and Government can help create affordable housing, and that will create affordable housing for people, and I'm not arguing that Government has to do it, because Government has created such a disproportionate field for the building industry to work within that they cannot produce affordable housing.

Now, Mr. Yoder, you said targeted Section 8 vouchers are necessary to produce housing. You don't produce housing with Section 8 vouchers, you create demand with Section 8 vouchers. Not a dime of Section 8 vouchers goes to produce housing, so your verbal statement was incorrect and I think you made a mistake that Section 8 vouchers are necessary to be able to put people into affordable housing.

But it takes Government subsidies to rectify the problem created by Government. For example, I had a 500-unit apartment project in the San Bernadino County area. I wanted to build low- to moderate housing units for people. I could not do it, because the local government there charges the same fee for an apartment as they did for a single family residential home.

I could not build 500 affordable housing units in a community that needed those housing units, because Government fees were so outlandish that you could not afford to build them. Yet, we continue to put a bandaid over the problem.

I support the Section 8 voucher program, because there's no resolution to the current housing availability crisis until we deal with the problem, and that is the unreasonable demand placed on property owners by Government, such as the Endangered Species Act—you see what it's done to California and many other States.

You can't build on your property, because in order to develop 600 hundred acres, they want you to buy 5,000 acres somewhere else to set aside for habitat. You cannot purchase 5,000 acres for habitat and build on 640 acres, and then create affordable housing. It's impossible.

Yet, through Government enforcement of the Endangered Species Act, we've eliminated a huge sector of property out there that we could use for affordable housing. I support programs we have today to help people who cannot help themselves, but the problem we have is that Government has created the demand and the need in the affordable housing sector, because they place such outrageous regulation on property owners who cannot create affordable housing.

Until we are willing to look at the causes of the problem, and understand that the cause of the problem is Government—and I will sit with any Member of this subcommittee with a group of property owners and developers and show them exactly what Government has done to create the problem.

Until we are willing to address that, yes, we have to move forward with the Section 8 vouchers, but we need to be creative with those vouchers so people can use vouchers as an incentive to buy houses. But the problem needs to be addressed in this Nation, and part of the problem is that builders and property owners have become cash cows for Government, like it or not.

In many cases, there's no nexus between the fee charged to the builder and what the builder is doing. Until we are willing to face the fact that property rights no longer exist, because you can't prove a taking in Federal court, if you leave any value to the property, and you, as a property owner, know that Government can say, "Well, you can graze cattle on your property, so your property's still worth something even though you can't build on your property." That's outrageous, it's criminal, and we need to resolve the problem we have allowed to occur. And until Government's willing to do that, we are going to sit here year after year and listen to the needs of people who need help, and we need to help, but we are unwilling to be proactive and deal with the causes of the problem. We're just being reactive to a situation we have allowed to occur.

And God bless each of you who are trying to create affordable housing for people who need it, because seniors and young people are facing a crisis today, and that is, where do they live?

Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. Thank you.

Mr. Slemmer, did you want to react or comment on the specific concern expressed by Mr. Miller, and keep it brief.

Mr. SLEMMER. Yes, I wouldn't mind saying a few words. There are several concerns there. Part of it is bad Government can escalate the cost of housing, but good Government can do a lot to solve it.

The City of Pacifica, for example, saw the need. Developing Pacifica is not a matter of governmental problems, it's a matter of the really high price of real estate. High-priced real estate drives out low income folks. That happens not only in California, but along both coasts. That's the reason good Government needs to step in and really help out.

Madam Chairwoman, you talked about the cost problems, that you couldn't spend money, a lot of money on this. And I would suggest that it doesn't cost a lot of money to direct HUD to really participate in this preservation effort. It doesn't cost a lot of money to modernize your existing housing stock. It's a lot less expensive than new production. I'd really encourage you to look there.

Chairwoman ROUKEMA. I want to explain the only reason I called on Mr. Slemmer in reaction to Mr. Miller, who took his full 5 minutes and more, was the fact that Mr. Slemmer was addressed by name.

Mr. MILLER. I had a lot of questions, but I ran out of time, Madam Chairwoman.

Chairwoman ROUKEMA. I know, and isn't that too bad. Five minutes goes awfully fast when you're having fun.

Thank you.

Now, Congresswoman Schakowsky.

Mr. FRANK. Would the gentlewoman yield to me for just ten seconds? I just want to say with regard to the gentleman from California, that the Endangered Species Act is, of course, a Federal program, but in order to be clear, as he talked about these problems, the fees, and I would assume zoning, most of the problems in the area I represent are local, not Federal. So the question then is, when we talk about intervention, is the Federal Government going to step in and further regulate local affairs.

I'm for it, but I'm not sure exactly how much support we're going to have because, as I said, while the Endangered Species Act can be a contributing factor in some cases, overwhelmingly, the problem I hear from developers has to do with local zoning and the question of fees. That's entirely local. So the problem as to what extent is the Federal Government going to step in and overrule some local activity, I'm not sure he and I are going to be the most popular people in the world when we propose that.

Chairwoman ROUKEMA. Reclaiming my time.

Ms. SCHAKOWSKY. I just wanted to comment on the surplus question. There's not an American family who would say they, in their family budget, have a surplus if their parents or grandparents have no place to live. Yet, as an American family we have said that. We haven't acknowledged this basic need before we've declared ourselves as having surplus money that we can return to people who need it, who need it least.

The issue of preservation I would agree with you production and preservation are important. And in that regard, I wanted to ask both of you, Mr. Slemmer and Ms. Baumgarten, you talked about the study that for every available housing unit, there are nine people on the waiting list.

Mr. Slemmer, you advocated a $760 million increase in Section 202. Would that reduce the waiting list, or would it merely help us keep pace and maintain it, or how much would it reduce the number of people that are waiting for that affordable housing?

Mr. SLEMMER. What we're recommending I believe is a ten percent increase in the Section 202 production to get started with what we see as a tremendous problem that's going to be facing this country as we look out 30 years with housing stock coming out of production and with the escalation in the senior housing population.

So it would increase production, but frankly it's a drop in the bucket. It's the right drop to get started in this problem.

Ms. SCHAKOWSKY. So there might be a ten percent reduction in the number of people on waiting lists. Is that what you're saying?

Mr. SLEMMER. No, it would be much, much less than that. That would produce a few more units and——

Ms. SCHAKOWSKY. What would it take to eliminate that waiting list?

Mr. SLEMMER. I guess if you multiplied nine times the Section 202 portfolio, which is about 300,000 units, you would get a couple of million housing units. Obviously, that's not going to happen in the near future. That's why we're suggesting that we really increase incrementally, that we look at keeping a good, solid production program going; at the same time really looking at preserving this housing stock so we don't lose it. You can lose it a lot faster than you're building it, and you can preserve it at a lot less cost than it costs to produce new.

Ms. SCHAKOWSKY. One other question about preservation. I've been very involved in the issue of predatory lending and I'm wondering if AARP has looked into this issue on how the elderly are impacted by this growing problem, really exploding problem, of predatory lenders that are forcing some people, particularly older, more low income people, into foreclosure.

Ms. BAUMGARTEN. AARP has done quite a bit of work on predatory lending. And we are very, very concerned about consumer protections in that area. If you wish, I can have the people on our staff who work directly with that issue contact you and fill you in.

Ms. SCHAKOWSKY. I would appreciate it. Today, I'm going to introduce the Save Our Homes Act that deals with predatory lenders. I would appreciate it if you would do that so we perhaps could work together on that.

And finally, the Older Women's League, we're talking about regulations that Mr. Miller and Mr. Frank were talking about. The Older Women's League has identified local zoning laws as possible obstacles for innovative approaches, such as manufactured housing, and so forth. Have you found—looked at that at all and found that some of the zoning laws themselves are a problem and have any recommendations on how to deal with that?

Ms. BAUMGARTEN. At this point, AARP is not making any recommendations, because you have several things happening at the same time. You have two housing commissions, the Senior Housing Commission and the Millennium Commission, you have this subcommittee that's working, and this is the time to look at all of the issues and with the task force hearings that will be going on with the Senior Housing Commission, to find out what's happening out there and get the issues and the ideas and look at everything that's possible.

It's rather premature at this point to say one thing or another thing would be the solution to the problem, because many of these things are interrelated—and certainly, manufactured housing is something that would need to be looked into also.

Ms. SCHAKOWSKY. Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. Thank you.

Congressman Grucci.

Mr. MILLER. Would the gentleman yield, please?

Mr. GRUCCI. Yes, I would. I have no questions, Madam Chairwoman. I yield to Congressman Miller.

Mr. MILLER. Mr. Frank and I agree on I think the concept of property rights, and I want to be more specific on what I was talking about relating to the Endangered Species Act.

In California, specifically, we used to have the Subdivision Map Act, which gave you 50 days to respond to an application for a tract map. Then, because the State decided that Government needed oversight, just as the private sector needs oversight, they created CEQA, which is the California Environmental Quality Act.

Then the Sierra Club sued in court, with the position that if it's good for Government, it should apply to the private sector too. And now in California, because of the EIR process and CEQA, an application process can last 12, 15, 20 years on a piece of property for development, and the applicant can do nothing except wait for Government to act.

That's causing a huge crisis in California. I was a developer for 30 years. I know most of the major builders in this country, and specifically in California. The problem they are having, if they make application for a project, when they get through with the EIR application process, and they finish with Fish and Wildlife, and finish with all the locals, if they get that approved, then the Sierra Club or some other environmental group is going to challenge them in court, and they do it repeatedly. In fact, they all know it's going to happen.

All of these things are adding to the cost and affordability and availability of housing.

As a developer, I recently hired a zoologist, a person who majored in zoology. Why would you do that? Because he wrote his thesis on the gnat catcher. The gnat catcher is a huge problem in California. Yet, if you go down to South America, there's countless millions of these critters, but the environmentalists say, "Well, those are only cousins to the California gnat catcher."

Well, my cousin's still a human being. And I think the gnat catchers are lost in California. We need to put them in little cages and ship them back where they came from in South America and preserve those puppies.

But, if you look at last year's Fish and Wildlife proposal for habitat preservation for three species, a rat, a fly, and a longhorn sheep, it's 2.9 million acres in California. That does not mean that the species are on the property. It only means that the habitat on the property could sustain that species. And it looked like a checkerboard. And if you didn't own habitat, you owned associated habitat, and does that have an impact in housing in California and this Nation? Absolutely. And anybody who's unwilling to address this issue is being unreasonable if they are serious about doing something about the current crisis in housing availability and affordability.

I have two specific plans I've been working on for 12 years. I have no habitat for endangered species, I have no endangered species, I have no endangered flora and fauna on the property.

Yet, because of the process one must go through, and the EIR process, the city never has to address a project. One continues day after day, and the costs increase day after day, and a developer cannot produce affordable housing. We have to address this, and we have to stop blaming local government and we have to enact laws that guarantee individuals the right to due process on an application whereby the burden is taken off the locals.

Local officials should not have to worry about being recalled for approving a few houses in the community or being voted out of office, because a bunch of radical environmentalists go out and tell all these terrible stories about them.

Until we remove that burden from local elected officials, they're going to be forced to do the wrong thing time and time and time again, because of pressure from a few people that do not understand the needs of people to have a place to live.

Mr. FRANK. Would the gentleman yield, from New York yield?

Mr. GRUCCI. Yes, I'll yield.

Mr. FRANK. I'd like to ask my friend from California—that's very interesting—is he proposing then, he says that the problem is the local governments exercising their current authority are too pressured and we need to pass a law to take the burden from them.

Is he proposing a Federal law that then regulates what the local zoning people do and take some authority away from the local zoning people so they don't have to face local political pressures?

Is that a Federal law he's calling for.

Chairwoman ROUKEMA. Excuse me, you have 43 more seconds.

Mr. MILLER. James Madison, in the Bill of Rights, said that individuals should have the right to own and exercise the use and benefit from their property.

Mr. FRANK. So it's a Federal law overriding local zoning.

Mr. MILLER. We have allowed the rights of property rights to be diminished——

Mr. FRANK. Answer the question, Gary. A Federal law to override local zoning?

Mr. MILLER. A Federal law guaranteeing the rights of property owners to the use of their property, yes.

Mr. FRANK. Overriding local zoning?

Mr. MILLER. No, it doesn't override local zoning.

Chairwoman ROUKEMA. All right. Now Congresswoman Julia Carson.

Ms. CARSON. I need to know whether, I'm still concerned about these Section 8 vouchers. Is there a reticence among landlords to even accept them for fear that they'll be left holding the monetary responsibility of the unit? Do you know what I'm saying?

Mr. SLEMMER. I've heard that. I'm not sure how true it is, but I certainly have heard that. I think the bigger issue with landlords is that they don't get as much rent out of the Section 8 vouchers as they can get in the open marketplace.

Ms. CARSON. They don't get as much rent?

Mr. SLEMMER. Right. More red tape, less rent. Why bother?

Ms. CARSON. Guaranteed money. Thank you.

Chairwoman ROUKEMA. I believe now Congresswoman Lee is next.

Ms. LEE. Thank you, Madam Chair.

First let me just say, in response to my colleague from California, I personally believe that the Federal Government should be the safety net for the most vulnerable in our country. And yes, I believe we should look at some kind of law that guarantees the fact that vulnerable individuals, especially low income and the elderly, have a right to affordable and decent housing, whatever that means.

If that means looking at local ordinances and fees that prohibit that, then maybe we ought to do that. I also want to say that in my area, in the Bay Area, the problem with the cost of housing is quite frankly the high priced real estate and the fact that in the last few years, private property owners have been able to make huge profits as a result of either selling their property at huge enormous rates of return, or increasing the rental because of the fact that there is a tight market and not enough production.

Where we have our non-profits in partnership with developers we're able to build affordable and decent housing, and keep the rents at a reasonable level or the purchase prices at a reasonable sales price, but that's because quite frankly huge profits aren't being made. Reasonable rates of returns are being made, but not huge profits for private property owners.

So there are strategies that can be used, I think, and I've seen this occurring in the Bay Area where senior citizen housing is developed and remains affordable.

I wanted to just ask one of our witnesses, I guess Mr. Slemmer, what you think in terms of strategies we should look to with regard to Section 8 housing once landlords decide to convert Section 8 housing for the elderly to market rate housing, because you noted that in your testimony.

I have seen senior citizens being forced out of their rentals because the rent quite frankly has doubled because the market dictates that the rent can be doubled, and there are individuals with money who can pay that rent.

The basic bottom line is what do we need to do to ensure that if in fact landlords do double the rent, which they have a right to do I guess, given the nature of property ownership in this country, how do we ensure that elderly aren't kicked out of their places.

Mr. SLEMMER. I think there are several things that you can do. First of all, to encourage transfer to stable not-for-profit environments is what you want to do. I'm not sure it costs a lot of money. We are recommending that you look at eliminating the exit tax so that when a for-profit decides to transfer to a not-for-profit, they don't have the exit tax problems which is really often time the barrier to that transfer.

The other thing is HR 425 establishes a matching grant program that helps encourage that transfer into a stable environment. So you incentivize the for-profit owner to transfer. That can be helpful.

The other thing you certainly have to do is we have to keep pace with the vouchers so that when somebody does double the rent that there are vouchers in place that will help at least on a temporary basis.

In Pacifica, that was the enormous problem. The voucher-holders could not pay the rents that were going to be charged, so they really would have been displaced. And as you know, in the Bay Area, there's tremendous demand for affordable housing. You could be displaced for ten, 20, 50 miles before you could find other affordable housing. So HR 425 and that exit tax strategy really helps to stabilize that.

I really encourage a proactive stance from HUD to really get behind preservation efforts with all the vehicles they have available to them, because I think that's a lot less expensive than new production, especially in the high-priced areas like California.

Chairwoman ROUKEMA. Thank you, I appreciate that.

Now we have Congresswoman Tubbs Jones.

Ms. TUBBS JONES. Madam Chairwoman, good morning. I come from the City of Cleveland where we have what we believe is one of the greatest community development corporation networks going on for housing, and we build a lot of housing, but we still need a lot of housing, particularly affordable housing for seniors.

There's an organization in the City of Cleveland called the First Suburbs Consortium, and it's made up of all the entering suburbs, the older suburbs with the older housing. And one of the things that they recently did was to hire a consultant to see if they could retrofit some of—Cleveland has much more housing than apartments, as compared to New York or Chicago—but, retrofit some of these small bungalows that were built back in the 1930s and 1940s for senior citizen housing because they are no longer large enough for families with small children.

So they've hired a consultant to see, one of two reasons, to try and keep people living in the first suburbs or the entering suburbs, but second also to hopefully provide for affordable housing for senior citizens. So I'm hoping that works out to be able help us deal with the shortage of housing, affordable housing for senior citizens in my congressional district.

The second thing that I wanted to raise, in conjunction from AARP, I'm sorry, Ms. Baumgarten, in my community, as well, I had a discussion with someone from the Jewish Family Services who has submitted an application for rent that had been funded to provide for a social service person to come into this apartment dwelling to assist senior citizens to stay independent. If someone maybe comes in and coordinates their doctors visits, coordinates the food services and the like.

And what she said was that the owners of the building were happy to have someone who came in to assist them because it took away from the responsibility of the landlord to try and assist seniors in being involved in independent living.

Is that some of the dollars that might well come from the Section 202 dollars that you were speaking about earlier for elderly housing or not?

Are you familiar with that program at all?

Ms. BAUMGARTEN. What I was going to say was, in 1990 and 1992, legislation, payment for service coordinators, was possible for housing, and now I think you have about 37 percent of the units that have service coordinators. That was a step that was made earlier that has really helped, because service coordination is extremely important.

Sometimes it's done with the service coordinator there in the complex; sometimes it's done by utilizing the services that are in the community, but either way, putting the residents in touch with it.

There's a variety of ways it can be done, but the recognized need is that services need to be coordinated. You need to provide services. Housing, as a part of those services, is important because your citizens are older, more frail, and they're going to get older and they want to age in place.

Ms. TUBBS JONES. Thank you very much.

Mr. Yoder, any comments on what I raised or anything else you would like to say? I don't think I heard you say anything other than your opening statement since I came in the room.

Mr. YODER. Thank you. One of the issues that you just raised about the supportive services under the Rural Housing Service, which takes care of a lot of the very rural areas, small towns with less than 20,000, the Rural Housing Service, in their budget, will not allow for supportive services.

They tell us it's against the regulations to spend money out of the operating budget to either hire supportive services or even to use it to coordinate supportive services which, in rural areas, we have found in larger cities that there is the ability to hire a service group that will provide the services. In rural areas the services are there, but they are scattered and you need to have somebody to coordinate the services, not to actually supply them, but to coordinate them.

Ms. TUBBS JONES. So you're suggesting that there needs to be some amendment to whatever legislation or regulation that exists to allow them to be able to do that type of thing?

Mr. YODER. Yes. In my written testimony, that's one of the things that we talked about under rural housing services amendments.

Ms. TUBBS JONES. I would be supportive of that. There's no much rural stuff in Cleveland, but I would be supportive because it's important for all the elderly to be able to access services.

I see my time is up, Madam Chairwoman. Thank you very much.

Chairwoman ROUKEMA. Thank you.

I would just observe that I'm going to be looking into that certainly with a number of us, but I don't know whether that's a discretionary decision that's been made within the department, or whether that's compelling by the legislation.

You were not clear on that, or did I not hear you?

Mr. YODER. We are being told that it's legislative.

Chairwoman ROUKEMA. Is that right? We'll look into that, thank you.

I believe that concludes the questioning for this panel. We appreciate your patience and your forthcoming and beneficial testimony. We shall take it under advisement and get back to you if there are further questions.

Thank you very much.

Now, if the next panel will come forward. Hopefully, we'll be successful enough—if the next panel will come forward, I'll be here to call us to order in 2 minutes.

[Recess.]

Chairwoman ROUKEMA. Thank you, I appreciate your patience.

It is my understanding that Congressman Frank will be back within a short while, and we will continue with this hearing.

I appreciate the second panel being here. I'll introduce you as you are ready to testify.

Mr. Harry Thomas here is currently the Executive Director of the Seattle Housing Authority, which we heard about earlier with Congressman McDermott giving you a warm welcome, and of course he has served as the Executive Director of the Neighborhood Housing Incorporated, which is a non-profit social service agency.

Actually, you have a lot of experience with Seattle garden communities through the HOPE program, as I understand it. Mr. Thomas is currently serving as a member of the Commission on Affordable Housing and Health Care Facility Needs of Senior Citizens in the 21st Century, the Commission that I originally referred to.

Unfortunately, I'm sorry that you're not going to be giving a report to us sooner than December 2002. Hopefully, Mr. Thomas, with your help, we can expedite that Commission report.

Thank you. We appreciate your being here.

If you'll take your 5 minutes, please be sensitive to the time commitments.

STATEMENT OF HARRY THOMAS, EXECUTIVE DIRECTOR, HOUSING AUTHORITY, CITY OF SEATTLE, WA

Mr. THOMAS. Thank you Madam Chairwoman, Members of the subcommittee. I really thank you for inviting me to share some of my experiences.

I offer my thoughts today around two main issues:

The importance of maintaining public housing as a part of the existing supply of housing for the elderly and strategies for meeting the special needs of elderly residents so they can remain in their housing as they get older, as it outlined in the "Elderly Plus" plan.

The Federal Government plays an important role in housing low income older Americans. Nearly 3.7 million Americans, aged 62 and older, receive some form of housing assistance.

You're quite familiar with the Section 202 program, but what we sometimes overlook is that about one-third of the 1.3 million public housing units in the country house elderly or disabled people.

Unfortunately, the need for elderly housing has grown rapidly while the resources for modernizing and maintaining this housing stock are really shrinking. You know about the needs and the increasing population of elderly people. We've talked to that.

So in the face of this, Madam Chairwoman, we must be good stewards of our existing public housing stock, which you may know is now valued at over $90 billion. We must continue to invest in the long-term maintenance and the capital needs of this valuable asset.

I know that many of you have heard this theme recently in discussions on the VA/HUD Appropriations Bill. However, I must still call attention to its importance.

For so many of our seniors, capital improvements are not about fresh paint. Let me try to give you one real life example from the City of Seattle.

Mr. Don Williams is an elderly resident of Jefferson Terrace. This is a 34-year-old building. He uses a wheelchair and he lives on the seventh floor. When the building's outdated elevators were broken recently, the fire department had to come every day and carry him down and then back up the stairs, because he had to go to ElderHealth. This is the adult day program in the building where he eats his daily meals, so it is essential for his well being.

Due to limited mobility, the elevators in our buildings are really his lifeline. Elevator repair and replacement is a key item in our capital budget. And that may have to be postponed if the Public Housing Capital Fund is actually cut, as is recommended by the White House.

Approximately 70 percent of the elderly residents in public housing live in buildings that are between 30 and 50 years old. Many buildings do not conform to ADA standards, so we must preserve the existing stock of low income housing and modernize it to better meet the needs of seniors and the disabled.

The Elderly Plus program can do this. We want to keep our older residents living independently as long as possible. A minor injury which sends a resident to the emergency room may eventually land them in a nursing home because of the lack of in-home services available in public housing.

Subsidizing low-income residents in a nursing home is much more costly than bringing needed services to them in public housing.

A number of housing authorities are pioneering innovative models to serve the needs of the elderly in our developments. The most successful of these combine resources across Federal programs. They bring in local resources and assemble a patchwork of services to create the wraparound care that is necessary.

I'd like to tell you about one program in Seattle. As a part of our HOPE VI redevelopment, we are building the Elder Village. This is a 318-unit campus that's being built in partnership with Providence Health Systems and the Retirement Housing Foundation. These are well-known, non-profit agencies that specialize in housing and care for the elderly.

The facility will be close to services, it will consist of three apartment buildings plus a common area which will feature a large dining room, community facilities, and offices, all centered around an atrium with a skylight.

How do we achieve this kind of integrated model nationwide? With continued imagination and flexibility and with a commitment from the Federal Government to explore ways of facilitating innovation as outlined in the Elderly Plus proposal.

Last year, the House considered HR 4664. That's a bill to implement Elderly Plus. It combines the upgrading of existing buildings with health-related and congregate care services that address the needs of the elderly.

In closing, I do want to stress that public housing has played an important role in housing our low income residents. We need to continue to support those successes. Our inventory is a very valuable asset which we cannot afford to neglect or abandon. I think if we do this, we'll be much better off and our people will be much better off, so I thank you.

[The prepared statement of Harry Thomas can be found on page 569 in the appendix.]

Chairwoman ROUKEMA. Thank you very much for that articulate and concise statement.

Now we have Ms. Janice Monks, who is founder and Executive Director of the American Association of Service Coordinators.

I'm most anxious to hear from you, Ms. Monks. You have had extensive experience in designing coordinated service programs, and that is our focus not only on this panel, but integrated, as you've already heard, with the physical needs of housing projects, so we're most anxious to hear from you and your experience.

Thank you very much.

STATEMENT OF JANICE MONKS, EXECUTIVE DIRECTOR, AMERICAN ASSOCIATION OF SERVICE COORDINATORS, (AASC), COLUMBUS, OH

Ms. MONKS. Thank you very much, Madam Chairwoman, and Members of the subcommittee. It's quite an honor to be here and to represent our more than 700 members.

Before I get started, I want to mention the fact that service coordination provides much more than a quality of life issue, it's an economic issue. I am very pleased that this subcommittee is interested in investigating other areas in addition to the quality of life areas of service.

Every day AASC members serve literally hundreds of thousands of low-income residents. Our members represent not only Section 8 housing, but also public housing and tax credit funded developments. More than 20 percent of our members come from the private market housing industry, and recognize that service coordination is part of doing good business, and that it saves money for the owners as well as provide residents with a longer stay in their apartments.

While service coordinators shoulder a wide variety of responsibilities and duties, their work mainly is focused on helping our most vulnerable Americans, maintaining their independence. They also assist them in avoiding costly and often premature higher levels of care, linking them with appropriate and sometimes lifesaving health, social and other services, locating child and adult care, and other family and intergenerational services, as well as cross generational services, implementing job training, employment, and transportation programs, and developing a wide range of educational opportunities for residents' families and staff.

Service coordination goes beyond assisting elderls, which we believe is also part of the future we should consider supporting, such as intergenerational as well as cross-generational programs that provide people the opportunity to stay longer in their homes.

Service coordinators do much, much more than was originally anticipated. We thank you, Congress, for your wisdom in passing the

Cranston-Gonzalez Act of 1990 which initiated this vitally important program.

It is estimated that there are as many as 4,000 service coordinators in the country today. It is a consumer interest to remain independent for as long as possible.

I think everybody here would probably agree to that. But also, service coordination is about doing good business in that it reduces tenant turnover, it reduces damage to apartments, it reduces evictions, it lessens the amount of stress on staff, and provides training to staff which can reduce the cost of staff turnover. It also reduces the number of off-hour emergency room and paramedic runs, and could influence lowering the number of hospital stays of elders.

There is no national study that identifies these issues, but we do have anecdotal information to assist us in showing that this is the case. Overall, management is pleased to have a service coordinator on staff, and if we are going to continue to assist residents to maintain independence, self-sufficiency and empowerment, because we must consider that service coordination is about helping people serve themselves.

In order to maintain the integrity and affordability of Section 8 housing, public housing, and tax credit housing, then we must invest our time and efforts into providing more service coordination in order to keep people more independent and to keep them out of costly, premature institutionalization.

We recommend that the cost of service coordination, or I should say, the funding for service coordination, be increased to allow owners to apply for grants, and reduce the regulatory concerns or issues that limit owners from being able to put the position in the operational budget.

We request the 120 percent FMR requirement be eliminated and allow service coordination to be put into the older facilities.

Also, to provice a set-aside within public housing funding specifically for service coordination that is not linked with the FSS program or the Ross program.

It would be best to appropriate funds in the amount of anywhere from $50 to $75 million to increase the number of service coordinators overall. Also to allow the tax credit programs to apply for service coordinator grants.

One of the problems for the tax credit-funded facilities is that in the first 3 years, the operational OPM budget of tax credit programs is that they do not have the money to provide services. But you could have owners provide in-kind resources to contribute to the implementation of the program.

Chairwoman ROUKEMA. Ms. Monks, can you summarize, please. Thank you.

Ms. MONKS. Finally, we ask that the Section 811 program be included in applying for service coordinator grants.

In conclusion, AASC urges Congress to seriously consider these very few cost-effective, but vital steps that can be taken now to improve our Nation's service enhanced housing efforts. We're asking that the same investments you made in 1990 be extended with the Cranston-Gonzalez Act to provide additional funds to make this a viable and growing program for the future of elderly housing as well as family housing.

Thank you.

[The prepared statement of Janice Monks can be found on page 576 in the appendix.]

Chairwoman ROUKEMA. Thank you very much. We will go over in detail your extensive testimony that you submitted here with recommendations.

The next panelist, Mr. Felgar, we welcome you here today, as the representative from the Volunteers of America National Services. As Senior Vice President, you have been responsible for an extensive quantity and quality of activities in housing facilities, multi-family housing, senior and long-term care facilities, and we appreciate all that you've done extensively across the country with 220 housing facilities which that's extensive. So we appreciate your experience here and look forward to your advice and counsel.

STATEMENT OF LEE J. FELGAR, SENIOR VICE PRESIDENT, DEVELOPMENT AND ACQUISITIONS, VOLUNTEERS OF AMERICA NATIONAL SERVICES

Mr. FELGAR. Thank you very much, Madam Chairwoman, Members of the subcommittee. I'm Lee Felgar, Senior Vice President of Development and Acquisitions for Volunteers of America National Services.

The Chair has mentioned that we do have 220 health care senior housing and family facilities across the United States. We've been in that particular sector since 1968.

Clearly, as a Nation we have a problem here of extraordinary scale and urgency as the housing programs and social service programs we have in place today will not keep pace with the situation. Somehow this elder housing and long-term care crisis must come from a comprehensive policy that cost-effectively integrates programs, then calls for some reasonable programs for the sharing of costs from the individual adult children, along with State and national governments.

The needs of elders are many and persons of lower income have an even more challenging environment. We at Volunteers of America sponsor an elderly housing development. We must not only build the structure, we must find a way to create or bring social service support programs to our developments.

Our typical resident of a HUD Section 202 property is a 75-year-old female living on some very modest savings and Social Security income. For this person, a $20 emergency is problematic. These elders are living at the economic edge, even with the HUD Section 202 housing assistance. Accordingly, they simply cannot afford any type of assistance with their daily living as they age in place.

Accordingly, we've worked to find no cost or very low cost programs to provide meals, transportation, medical screening and the like. Each development is unique as each town or city has its own resources and programs.

Typically, our residents fare better in larger cities that have economic power and commitment to helping others. However, most of the communities we serve do not have these programs in place, and we try our best with our limited resources that we have to make some programs a reality.

Elders in rural communities face even more challenging circumstances. We at Volunteers of America encourage this subcommittee to consider the following issues that we've laid out in our testimony with a series of recommendations to help solve this problem.

We start out by fully endorsing the HUD Section 202 program. It's one of the finest programs we've seen developed by Government. It is fair, it's administered well. We think that the number of housing units should be doubled and soon.

Our second recommendation to the subcommittee is that we believe that within the existing stock of HUD Section 202s, there are many that have the capacity to provide some measure of assisted living services.

Congress and HUD have previously provided some demonstration of program funds for the physical conversion of some of the units for physical asset changes only. We appreciate that effort and would ask the subcommittee to seek to expand the funding for both physical asset conversion and for services, as the residents simply cannot pay for them themselves.

Our third recommendation, we continue to ask your support for those programs and initiatives that preserve project-based rental assistance for affordable housing and low and moderate income persons.

Recommendation number four. We at Volunteers of America recommend and thank you for your support of the increase in the amount of tax credits. We applaud this subcommittee's work as it relates to mixing tax credits with Section 202s, but there are some things in the capital markets that we need to let you know of that are working against further production.

We are now seeing the capital markets come to non-profit sponsors asking for significant guarantees for the completion of the construction, and also for financial guarantees for the life of the project.

In my testimony, I state an example of what we're doing in St. Louis with the HOPE VI property developing only 40 units. That one 40-unit project requires Volunteers of America to place up to $600,000 guarantees for its life.

We feel that we can handle that as a sizable, non-profit, but we can't continue to have those kinds of guarantees imposed on us. So we want you to be mindful that the capital markets are asking for those kinds of guarantees, and although there are more tax credits available, those guarantees work against further production.

Across the country also we see qualified allocation plans that allocate tax credits on a state-by-state basis have a real bias against elderly housing. Few really endorse and promote elderly housing. Most of them are geared toward multi-family. We'd like to see that changed.

We also see a narrowing number of tax credit investors and we see a demand for higher investment yields. Again, this works against more production of elderly housing.

Our fifth recommendation. We believe that HUD should consider the merits of allowing project-based social service programs to be an allowable project expense, particularly as it reviews rent and debt levels and the portfolio re-engineering and refinancing programs.

Recommendation number six. We believe the subcommittee should create a new set of Government agency expectations and directives that require agencies to work collaboratively to develop arrangements to provide resources for protective and supportive services.

Recommendation number seven. We ask the subcommittee to support personal incentives for the purchase of long-term care insurance and that includes assisted living as part of its coverage.

Our eighth recommendation to you is that we would like to see greatly improved coordination between Medicare and Medicaid with a blanket allowance for use of Medicaid funds in homebound and assisted living settings.

Recommendation number nine. We see a need for better enforcement of laws that protect consumers against housing discrimination such as the Fair Housing Act and the Americans With Disabilities Act.

Recommendation number ten. We would also ask this subcommittee to ask HUD and the USDA to find ways to greatly simplify the process whereby non-profits make application for the transfer of ownership of housing developments from for-profit owners to non-profit owners.

Right now, it is an overly administratively challenging process.

In summary, let me state that America's non-profits cannot meet these demographic changes with the resources and programs that are in place today. Today's funding levels, capital market conditions and program parameters are inadequate to the task we face as a Nation in providing affordable housing and social services for our aging population.

We'd encourage this subcommittee to examine the scope of the elder housing and social support situation in its entirety and that it direct Government agencies to work collaboratively to create simplified and standardized housing and health care programs that can be implemented successfully in all States and all locations whereby non-profit housing and service providers can develop housing and provide the services without undue administrative and financial hardship.

Thank you.

[The prepared statement of Lee J. Felgar can be found on page 582 in the appendix.]

Chairwoman ROUKEMA. Thank you. I appreciate this panel's contribution to our understanding of the complexities of the problems that we're facing here. Obviously it's been apparent to all of us, with the testimony here today and what we've seen leading up to this, that we have to do a lot of catching up. If we can't catch up quickly, we're going to have an enormous expansion problem that would be a disgrace for our American democracy and a country as rich and diverse as we are here.

So I want to pledge my intention—not that I can wave a magic wand here and find all the answers or all the money that we need—but I particularly appreciate your contribution, and I have no specific questions for any of you, but I do want to especially thank Mr. Felgar for the fact that he has opened up the question of the financial concerns, particularly tax credits, and whether or not there should be other investment incentives and the capital markets guarantees that you alluded to.

Obviously, I think we should be reaching out to some people on the Ways and Means Committee and integrating our thinking with theirs as far as investment concerns and investment incentives, and to integrate them into our own approach. Obviously, they've been neglected.

I particularly paid attention, aside from the capital markets question and the investment incentives and tax credits, I particularly observed your comment regarding long-term care insurance.

Now I'm not too familiar with that, but it's something we definitely should integrate into our whole study of the question. I thank you.

Any comments?

Mr. Frank.

Mr. FRANK. Thank you, Madam Chair. I apologize that a conference called me away briefly, but I had a chance to review the testimony.

Mr. Thomas, I'm particularly indebted to you. I hadn't really known for sure that more older people are housed in public housing than in any other housing program. That's important, not to the denigration of the other programs, but because one of the great myths that we face is this notion that public housing is all Cabrini Green and it's all unattractive and dangerous.

And in fact, it's certainly been my experience that public housing for the elderly is a highly prized resource for the people who live there and for the people who would like to live there, and this is very important.

In that regard, let me ask you, there's reference in your testimony to the Public Housing Capital Fund. The budget that has been proposed for this year, that was unfortunately just voted out of the Appropriations Subcommittee, reduces that.

Could you comment a little bit about the effect that will have on public housing?

Mr. THOMAS. Thank you very much, Congressman Frank.

The proposed reduction in the Public Housing Capital Fund would really be disastrous for us. As you correctly point out, there are over 3400 housing authorities in the country. Yet, when the Administration cut back the Public Housing Capital Program, it used a series of unfortunate examples and described what they felt were delays in actually using those funds and contracting for those funds.

There may be a handful of authorities who have that difficulty, but the vast majority of housing authorities are very well run. They serve large cities, small cities, and rural areas. And to take a 30 percent cut in our capital budget against already known and well-known backlog of several billion dollars is really going to be disastrous.

I understand that the Secretary feels that, in fact, he may have said that not a roof will go unrepaired, and so forth. But, we plan several years in advance. All of our buildings have life cycles. We plan very carefully and we would suffer dramatically.

Mr. FRANK. I think this is a case of victimizing the victim, and then blaming the victim, because when you put that kind of a shortfall and you make planning very difficult, then you blame people for its absence.

Again, it's very clear as I read this that the biggest problem is that this very rich country has decided not to spend the money that we can well afford here, and the question is, where are the resources?

Well, we know where they are, they're in the tax cut. They're in parts of the tax cut unfortunately that haven't yet taken effect. They're in the parts of the tax cut that will be very helpful to very wealthy people, and I think will exacerbate our ability to do something about this situation.

Mr. Thomas, I'm not sure this is one of your subjects, but you come so highly regarded by Mr. McDermott that I'm figuring that you'll be able to tell me this.

One of the big issues we've had is Section 8 not just for the elderly, but Section 8 in general. One of the arguments we've had is that some of us have felt that the Section 8 rents have been too low in certain areas where housing costs have spiked upward. The response from HUD has been, no, the only problem with Section 8s is the poor administration by many housing authorities.

I wonder if you would like to address that issue?

Mr. THOMAS. Yes, thank you very much.

The effectiveness of the Section 8 program is highly local; that is to say, in areas where there are relatively few units available in a market place, it makes it even more difficult. But again our experience, particularly in Seattle, is that even with a low vacancy rate, we've been quite successful in being able to utilize those. But our biggest burden again comes in the payment standards.

I think other people have addressed that as well. We are simply trying to find available units in a very hot marketplace in many areas of the country. And the payment standards and the way that HUD calculates them and the speed with which HUD gets around to making those adjustments really keeps us three or 4 or 5 years behind.

Mr. FRANK. One of my colleagues suggested that the real problem is not a lack of Federal funding, but the Endangered Species Act and other things.

I'm just wondering if we were in fact to increase Section 202 funds and made some public housing construction funds available, would the Endangered Species Act keep you from being able to use them, Mr. Felgar?

Mr. FELGAR. I think in isolated areas, but not nationally.

Mr. FRANK. In general, you'd be able to put the money to use?

Mr. FELGAR. Yes.

Mr. FRANK. Mr. Thomas, do you have endangered species problems in Seattle?

Mr. THOMAS. The most endangered species we deal with are the elderly people struggling to find a place to live. We in fact own all of our properties so we don't have to—we would like to redevelop them or expand them, we don't have to acquire new sites. So we would go a long way before we were impacted by the Endangered Species Act.

Mr. FRANK. Thank you. I am pleased, though not surprised, by your responses.

Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. Thank you. I don't know whether that was planned——

Mr. FRANK. It's serendipitous.

[Laughter.]

Chairwoman ROUKEMA. Thank you.

Yes, Congresswoman Schakowsky.

Ms. SCHAKOWSKY. Thank you, Madam Chairwoman.

I really appreciate very much the testimony, particularly the detailed recommendations, all of which we will carefully scrutinize.

Mr. Thomas, we just had a discussion. It would seem to me that first our mission ought to be to do no harm, and as you've just talked about, the proposed budget actually makes the situation worse and not better. So even as we look to correcting some of the problems, I hope that we could also look at making sure that we aren't exacerbating it by short-changing the programs that we now have.

And I thought that this example of this elderly resident Don Williams and his inability, I mean, the fact that he has to be carried up and down seven flights, is so unacceptable that we have to address this kind of crisis.

I wanted to tell you, one of the bills I introduced when I was in the State legislature, we keep coming back to the issue of having to retrofit housing so that people can age in place. And I think there's a program in Atlanta. And I had introduced legislation in Illinois that got out of committee, but that's as far as it went, that said that new spec housing had to have some accessibility features built in.

There's no magic to the size of a doorway right now, a door frame, you know. Why it's smaller, rather than larger, as we build housing, but we could make grab bars or at least the possibility of grab bars reinforcing walls so that they could be there if they were needed.

There's no magic about the place that light switches are put. They could be lowered easily when we build in public housing and in affordable housing. As we build it, are there requirements now to have these accessibility features? If not, wouldn't that be an obvious thing to do so we don't have to go back and spend money later on? Question to anybody.

Mr. THOMAS. Yes. I need to jump in because I represent public housing in the areas where we are redeveloping, and HOPE VI is a good example of that. Yes, ma'am, we do. Where we build new units, we find that it's only marginally more expensive to bring those units to the contemporary standards.

So if you're building a new house, putting a grab bar in only costs the cost of the material. But if you have to go back and retrofit, then you have to tear out work. Yes, we do that now.

Having said that, there are not that many public housing authorities around the country that are actually participating in the HOPE VI program because of the limitations. So wherever we have those capital dollars, we can make those investments. And they are, in my judgment, ma'am, sound investments.

Ms. SCHAKOWSKY. Is it required, when you build new, to have those accessibility features?

Mr. THOMAS. We do have local building codes. The State building code applies to us as well, but we find it advisable.

Ms. SCHAKOWSKY. What about the ADA?

Mr. THOMAS. Our units that have family housing, we try to go to what we call visitable standards. Even though there might not be a person using a wheelchair in that immediate family, we try to build our rental housing for the long term, so sometime over the next 30, 40, 50 years, there's likely to be a family that will need a wheelchair. So we make sure our doorways are accessible, the bathrooms are accessible, all of that of course in our new construction.

So if we're talking about a production program, then we can build those things in. It is more difficult to go back and retrofit.

Mr. FELGAR. All of our new Section 202s are accessible and complying with ADA. The problem that the new construction of Section 202s represents is that there is no allowance there for features that are more closely aligned to assisted living. There's no commercial kitchen allowed in a Section 202 building, or we think that makes a lot of sense to put in some kind of kitchen facility that could prepare meals there over time.

We don't think it's a huge design change or a huge cost increment, but we really believe the Section 202s should be built with this assisted living option available to them downstream, because we think that makes the most economic sense.

Ms. SCHAKOWSKY. With the demographic changes, it just makes sense for us to be thinking ahead as we get into production or even retrofitting, that we make these changes now rather than have to spend even more money down the road.

Mr. FELGAR. The Section 202 paradigm has been independent living with a modest amount of services. And what we are suggesting to the subcommittee is that that vision has to be broadened to include the possibility of doing more in that setting than has historically been done.

Ms. SCHAKOWSKY. Thank you very much, all of you, for your recommendations. I look forward to working with you to implement them.

Chairwoman ROUKEMA. I thank you. Unless the members of the panel—do you have any summary statements that you want to leave us with?

Ms. MONKS. I'd just like to mention the fact that if you look at service coordination, there's been questions about HUD being a bricks-and-mortar department of Government, and if you would consider that the service coordinator is the mortar that holds the bricks and sticks together.

Chairwoman ROUKEMA. A very good point. I appreciate that. This has been very helpful today. I think that we have a bipartisan intention here of moving ahead aggressively. We may not agree on all the elements of the program, but we certainly agree with the fact that both panels have more than adequately outlined the intense need that's a growing need and it will be getting if not fast out-of-hand already, it will be growing and intensively necessary for us to act now in a realistic way.

By realistic, I mean, understanding that there are certain financial limitations, but at least we can get our priorities set up and move in the right direction, whether it's through the actual housing authorities and the HOPE program, the existing programs or through creation of new programs and financing.

Particularly, I'm going to be interested in looking at creative financing through tax credits, and so forth. So we thank you very much. Again, please feel free to contact us and give us again the benefit of your advice and counsel.

With that, the hearing is adjourned.

[Whereupon, at 11:45 a.m., the hearing was adjourned.]

A P P E N D I X

May 3, 2001

Statement

Marge Roukema
Chairwoman

Subcommittee on Housing and Community Opportunity

Hearing on Housing Affordability

Thursday, May 3, 2001

Good morning.

Soon after becoming Chairwoman of this Subcommittee, I made it clear that part of my agenda would include holding a number of hearings on the issue of housing affordability.

This country is facing a serious housing crisis. People in the lowest income brackets – those who make 30 percent of area median income or less – face the most housing problems. But more recently there has been a surge of families earning more – 50 percent to 120 percent of area median income – who are unable to find decent affordable housing.

We all know that more Americans than ever own their own home – over 67 percent. Although homeownership is the American dream, finding affordable rental housing has become a nightmare for many working families.

This hearing today is the first of what will be a series of Subcommittee hearings on this issue. I want to provide a forum for a discussion of the causes of the problems faced by many of our families who cannot find affordable housing. It is my hope that these hearings will provide Members with a variety of viewpoints, observations, and suggested approaches and solutions to our housing crisis.

Having heard from their constituents, many Members on this Subcommittee will tell you that the growing economy has created a major dilemma for an increasing number of working class and low-income Americans. In many areas, an improved economy means higher rents. These hard working Americans suddenly can't afford the housing they are occupying, or can't even find any housing available that is geared to their income levels.

I know this is a problem in my district in New Jersey. Ranking Member Frank will, I am sure, attest to the difficulty low and moderate-income families in Boston are having in finding affordable shelter.

The problem is a complex one since the causes may vary depending upon the particularities of the real estate market. Local markets are highly individualized -- the economics of housing in Houston, Texas are obviously much different from Manhattan in New York City. Portland, Oregon has different factors at play than Detroit, Michigan.

In some areas, existing federal programs, such as the use of section 8 vouchers, may be working very well, while in other areas voucher utilization rates are very low.

For these reasons, I am firmly convinced that in order to address successfully the housing affordability problem, we will need to consider a variety of approaches, including:

- any changes that we can make to existing federal programs to foster production or improve the delivery of federal housing assistance;
- whether we should develop a production program to encourage increasing the supply of housing; and
- what we can do to lower the costs of producing housing.

There are measures that we can take now. Mr. Frank and I have introduced H.R. 1629—the "FHA Multifamily Housing Loan Limits Adjustment Act of 2001 which raises the existing FHA multifamily loan limits so that multifamily developments can actually be built in more markets.

It is extremely expensive and difficult to build multifamily projects, and the resulting rents are often higher than what working families can afford. For this reason, builders are building less and less multifamily projects. This is one of the factors that has led to a grave shortage of rental affordable housing. Raising the cap on FHA insured multifamily loans, will help to finance the construction of affordable rental housing, particularly in high-cost areas, where it is desperately needed.

Construction of federally insured, affordable rental housing is nonexistent in many of our cities, and HUD Secretary Martinez supports this legislative change as a needed step.

We are very fortunate today to have a number of distinguished experts in the field of housing as witnesses. Their testimony today will begin to outline the problem among various income sectors and lay out some of the perceived causes. Additionally, issues such as local barriers to development that increase the costs of housing, and other factors affecting the supply of housing will be explored. I also hope to hear testimony on the role of HUD's multifamily housing programs in providing affordable housing.

Witnesses are reminded that your written testimony will be submitted for the hearing record and you should summarize your testimony in five minutes to allow Subcommittee Members time to ask questions. Also, without objection, I ask unanimous consent to insert into the record written testimony from organizations and other interested parties unable to testify today.

I now recognize Mr. Frank for an opening statement.

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Opening Statement of the Honorable Michael G. Oxley
Chairman, Committee on Financial Services

Subcommittee on Housing and Community Opportunity
Hearing on Housing Affordability

May 3, 2001

Thank you Chairwoman Roukema.

Today marks the first day in a series of hearings by this Subcommittee to address a complex issue -- the availability and affordability of housing in our communities.

I want to welcome the distinguished witnesses before us today who will assist this Subcommittee in outlining the parameters of the problem and the complexity of the issues involved.

I am alarmed by the statistics I've read in some of the testimony we will hear today:

- 13.7 million Americans pay more than half of their incomes for housing or still live in substandard housing;
- Of the 13.7 million families with critical housing needs, 80 percent earn 50 percent or less of area median income;
- The number of rental units affordable to extremely low income households dropped by 750,000 and the total number of units affordable to very low income households fell by 1.14 million between 1997 and 1999; and
- More than 220,000 teachers, police, and public safety officers across the country currently spend more than half their income for housing.

These statistics suggest alarming housing affordability trends, notwithstanding the improved economy. Simply said, for some working families, rising incomes do not necessarily correspond to the ability to find suitable housing.

I am hopeful that today's hearing will begin the process of listening, learning and then providing solutions.

I am certain that my colleagues agree that the best economic development plan for any city or community consists of three factors: effective public safety, good schools, and affordable housing. When one of these factors is lagging, the community will deteriorate.

In the next few weeks, we will hear a variety of opinions on causes and solutions that help build communities and prevent deterioration. While we may not all agree on the possible solutions, it is important that this Committee act prudently and provide an exhaustive review of all existing housing programs and determine how regulatory and legislative adjustments could provide additional housing.
At the same time, it is fair that the Committee consider new ideas, provided they are fiscally prudent, maximize the taxpayer's investment, and provide accountability and results.

Once again, I thank you Madam Chairwoman for providing leadership on this issue.

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Statement of Congresswoman Sue Kelly House Committee on Financial Services, Subcommittee on Housing and Community Opportunity; Hearing on Housing Affordability

Thursday, May 3, 2001; at 9:30 a.m. - 2128 Rayburn

Chairwoman Roukema, Ranking Member Frank I would like to thank you both for agreeing to hold todays hearing on such an important issue to working Americans nation wide and especially in my area of New York. The drastic lack of quality affordable housing hurts not only working families, but the entire community as well.

Families unable to afford basic housing must some times travel great distances to their work, pay so much of their income for housing that they cannot afford to pay the bills much less save for the future. These situations all too often involve single parents who are additionally unable to afford child care. The damage to these children is far too often irreversible and robs them of any sort of real future.

In Westchester County the median price of a house is $412,000, HUD has declared that a fair market rent for a two bedroom apartment is $1,144.00, that's higher than New York City. As of February 8, there are 13,207 people on the Section 8 waiting list. The county and communities are not able to use all of their Section 8 vouchers because of a combination of a lack of available housing units and the inability of the Section 8 vouchers to cover the fair market rent for the area.

This is an extremely difficult problem to address especially because issues of responsible community development play a critical role. I am sure that members of this subcommittee have some ideas on how we can assist in alleviating the pressures involved. To these ideas I ask for one consideration. Last week Housing and Urban Development Secretary Martinez came before us and spoke about the difficulties HUD is having properly overseeing the many of the programs it has in place. The lack of proper oversight from HUD costs deserving families proper assistance and lessens the effectiveness of the programs. We must first examine what we can do to increase the effectiveness existing programs and eliminating ineffective programs before we create new ones.

I thank our distinguished panel of witnesses for taking time out of their busy schedules to discuss these issues with us. I look forward to working with my colleagues on both sides of the aisle to address these issues.

Felix J. Grucci Jr.

Congressman Felix J. Grucci, Jr.
Opening Statement
Financial Services Subcommittee on
Housing and Community Opportunity
Hearing on Affordable Housing
May 3, 2001

Thank you, Madame Chairwoman.

First I would like to take this opportunity to welcome our witnesses. Thanks you for taking the time to come before us today to address the critical issue of affordable housing. I look forward to developing positive relationships with all of you as we work together to find creative and viable solutions to the various affordable housing troubles facing my constituents in Suffolk County, New York and across the nation.

If under time constraints In the interest of time I ask permission to submit my full statement for the record.

As you may well know, the cost of living on Long Island is higher than most regions in the nation. The extremely tight housing market makes it difficult for not only low income and homeless families to fund suitable housing - but even middle class families and senior citizens have it rough. Landlords have little or no incentives to open up their available units to families that have been awarded section 8 vouchers, when others are willing to pay higher fees. Additionally, the median income caps, that my friend Rick Lazio, the former Chairman of this Subcommittee, fought to change, do not take into account the real median income for families on Long Island. I hope that as we move forward with new leadership in this committee and a new administration that we can take a positive and effective approach to addressing these and other critical concerns.

I have been involved in local Long Island housing issues since the late 1980's. I worked with local not-for-profits like the Long Island

Housing Partnership and Habitat for Humanity on a program called Operation Fire Storm, to transform neighborhood eyesores into affordable units for first time homebuyers and seniors on fixed and low incomes. We knocked down dilapidated, abandoned and foreclosed homes and built new housing units, community pocket parks, or established open space.

As a member of the Suffolk County Planning Commission, I served as chairman of the sub-committee charged with recommending guidelines on affordable housing requirements that were adopted as a requirement for any approvals made by the commission on various residential subdivisions throughout the county. The guidelines, which are followed by the housing authorities today, require any residential subdivision of significance declare and maintain 20 percent of the units as affordable housing. The affordable housing units must be dispersed throughout the subdivision, and cannot be clustered in one area. Typically, these units are made available to first time homebuyers and seniors on fixed incomes. So as you can see, I have first hand experience on addressing some of the serious local housing concerns and I hope to take the lead with similar initiatives on the federal level.

Once again, I look forward to working together to address the critical affordable housing issues facing the nation.

Thank you.

Statement for the Record

Representative Gary G. Miller
Member
Committee on Financial Services

Subcommittee on Housing and Community Opportunity
Hearing on Housing Affordability and Availability

May 3, 2001

Thank you Chairwoman Roukema.

I want to thank you for holding this hearing.

I have been a homebuilder for over 30 years. Most of my life has been spent providing housing and studying the issue from a local perspective. I have navigated the regulatory and economic environment of the housing industry.

I feel that the current laws are (federal home ownership programs; federal housing programs) are sufficient to address our nation's housing crisis.

Unfortunately, it's government red tape and regulations that are the problem. We need a federal law that requires all agencies and departments to consider the impact on housing affordability when writing new regulations.

For example, I am concerned about the adverse impact of misguided federal laws and regulations, such as the Endangered Species Act (ESA) on economic growth in this country.

Protection of endangered species and the regulation of land use are important public policy issues that should be addressed by Congress. I support a scientifically based program that takes a balanced approach to protect endangered species, recognizes private property rights and continued economic growth.

The ESA is a federal land use regulation that directly affects tens of millions of acres of private property. Enacted in 1973, the law was designed to conserve threatened and endangered species by identifying species in these categories and then improving their status through critical habitat designation until the species no longer is threatened or endangered.

I remember when we used to swat flies and poison rats. Now we are building critical habitats to protect them!

The U.S. Fish and Wildlife Service (F&WS) within the Department of Interior implements the provisions of the ESA. In 1982, Congress amended ESA by directing that listings may be based solely on the "best scientific and commercial evidence available."

Economic consequences may not be considered. Currently, scores of wildlife and plant species are being submitted to the F&WS for listing as either "endangered" or "threatened" under provisions of the ESA.

We need to strike a balance between the goals of protecting and conserving threatened and endangered species with our country's need for continued economic growth and utilization of natural resources.

The process of determining which species should be protected has lost its integrity and has resulted in listings that are not supported by sound science.

ESA mandates have severely restricted the use and value of privately owned property. When severe restrictions occur without compensation by the federal government, the Act shifts to individual citizens costs and burdens that should be shared by all citizens. The ESA must be modified to justly compensate landowners in a timely fashion when private property is preserved in a habitat conservation plan.

Listings, designations of critical habitat and the development of necessary recovery plans, often are not accompanied by adequate public notice and opportunity for comment. The Act should provide for earlier and more meaningful opportunities for citizens to participate, more citizen involvement in recovery plans, and a more prominent role in the consultation process.

Finally, the ESA offers landowners few incentives to protect species on their property. The Act should provide incentives to conserve habitat and to provide regulatory certainty to property owners who voluntarily participate in conservation plans.

As a developer for over 30 years and now as a Member of Congress, I have learned that all to often the federal government puts a "band-aid on the sore," instead of looking at the "cause for the sore."

A fundamental problem is that no one wants low-income multi-family housing complexes in their neighborhoods. Consequently, there must be strong market incentives and market demand for developers to build low-income multi-family housing projects.

All the current federal programs created to provide more housing in this country will prove fruitless, if we don't address the "cause for the sore."

And all to often, the "cause of the sore" are state and local laws and regulations that adversely affect the market for new housing construction, particularly construction of condominium and tract-housing projects.

For example, in the State of California, construction-defect litigation is increasing. The California housing boom of the 1980s has led to complaints of construction defects, mostly in condominium and tract-housing projects. It has been alleged that many residential developments were not built well, which has led to lawsuits. And because most home-owners who live in these types of housing belong to homeowner associations, the lawsuits typically involve several plaintiffs.

As the list of alleged defects grows, developers and general contractors have been filing cross-complaints against subcontractors. But the issue becomes more complicated because California law does not include a definition of "defect" or standards for measuring damages. And any deviation from an architect's plans or building codes, even if no damages have been incurred, can result in a lawsuit. Another issue is whether a defect is a design or construction-process error. Additionally, California has a 10-year statute of limitations for construction defects.

The downside, besides many contractors being raked over the coals for no good reason, is that many good contractors are being driven out of the condominium market. For example, one of my closest friends, who happens to be the biggest housing contractor in the State of California, no longer builds condominiums, because he fears unwarranted construction-defect lawsuits.

The upshot is that over time, less and less qualified contractors will be doing more and more of the condo projects and being able to charge a premium.

And as a result of the litigation in California, insurance costs have significantly increased in the State, and other states that are experiencing similar litigation.

Alarmingly, construction-defect lawsuits are spreading to other states, such as Arizona, Colorado, and Nevada. Any area that has an increase in housing is susceptible to construction-defect lawsuits.

Madam Chairwoman, I believe we need to take a hard look at a possible federal role to help address the growing trend of construction-defect litigation in this nation.

Thank you, Madam Chairwoman. I yield back the balance of my time.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

What do we know about shortages of affordable rental housing?

Kathryn P. Nelson
Office of Policy Development and Research
U.S. Department of Housing and Urban Development

Testimony before the House Committee on Financial Services
Subcommittee of Housing and Community Opportunity
May 3, 2001

Are supplies of housing affordable to low-income renters dwindling and shortages worsening? To answer this question, we must first define terms. Since 1981, when expected tenant contributions toward rent were raised from 25% to 30% of income, housing has been considered "affordable" if housing costs (rent plus utilities) equal 30% or less of gross income.

"Low" income is often loosely used as equivalent to incomes below poverty. But it and other income categories are precisely defined for HUD's renter programs as percentages of local area median incomes, and these are the definitions relevant for federal housing policy:

Moderate income -	at or below area **median** income (100% AMI)
Low income -	at or below **80%** of AMI
Very low income -	at or below **50%** of AMI
Extremely low income -	at or below **30%** of AMI

For the Low Income Housing Tax Credit (LIHTC), "low" income is alternatively defined as incomes at or below 60% of area median income. In using these program definitions, I want to emphasize that poverty cutoffs are approximately equivalent to 30% of AMI on average, or *extremely* low incomes. Thus the 80% of area median income cutoff defined as "low" for most rental programs is far above the poverty level, and the effective LIHTC definition of low income is approximately twice the poverty cutoff.

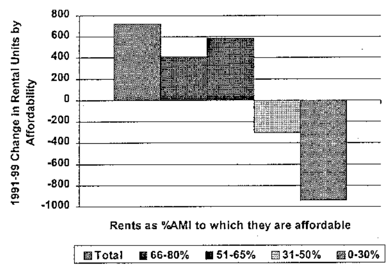
To summarize my main conclusions, data from the American Housing Survey and the 1990 Census tell us that:

- Supplies of housing affordable to *low*-income renters actually increased during 1990s, but numbers of units affordable to "extremely-low-income" (ELI) renters fell sharply.

- Similarly, the worst shortages -- and technically, in most locations, the *only* shortages -- are of housing affordable to extremely-low-income renters. Extremely-low-income renters and owners are also the income group most likely to have severe housing problems.

- Shortages of affordable housing vary greatly by location across and within states. In 1990, California had the worst shortage, with only 43 affordable units for every 100 extremely-low-income renters. At the other extreme, in North Dakota there were 152 units/100 renters.

Units affordable to low-income renters grew during the 1990s. The first figure summarizes trends during the 1990s in housing affordable to renters in different income ranges. Between 1991 and 1999, the total rental stock grew by 725,000 units, and between 1987 and 1999, it grew by 1.1 million. Throughout this period almost *all* of the rental stock was affordable to those with "low" incomes: in 1999, 31.2 million units, or 85% of all rental units, had rents affordable to incomes below 80% of area median income (AMI).[1] Between 1987 and 1999, the total number of these "low-income" units also grew, from 30.6 to 31.2 million.



Looking more specifically at changes during the 1990s in units affordable to different income ranges, the number of units affordable to renters with incomes 51-80% of AMI did not decline but rather *rose:* these units increased in number by a million, from 14.9 to 15.9 million, for a gain of 7% in 8 years. The increase was especially large (from 8.9 to 9.5 million) among units with rents affordable to incomes 51-65% of AMI, which is the rent range most often supplied by HOME and the Low Income Housing Tax Credit (LIHTC). Between 1986 and 1999, HUD estimates that more than 700,000 units were produced with the LIHTC. And from 1992-1999, 203,000 rental units were supported with HOME dollars.

The number of units with rents affordable to incomes between 65% and 80% of AMI also grew, expanding from 6 to 6.4 million.

But declines in numbers of units affordable to extremely-low-income renters accelerated. In contrast to this growth in units affordable to *low*-income renters, units with rents affordable to *very*-low-income renters declined in number during the 1990s. Between 1991 and 1999, the number of units affordable to incomes below 50% AMI dropped by 1.3 million, from 16.6 to 15.3 million, for a loss of 8%.

As the figure suggests, most of these losses during the 1990s occurred among units affordable to extremely-low-income renters, those with incomes below 30% of AMI. Between 1991 and 1999, the number of such units dropped by 940,000 to 5.9 million, a loss of 14%.

Moreover, rates of loss in these most affordable units were faster recently than earlier in the 1990s. Between 1997 and 1999 the number of units with rents affordable to incomes below 50% AMI dropped by 1.1 million, a loss of 7% in only two years. Among units with rents affordable to incomes at 30% of AMI , there was a loss of 13% (-750,000) from 1997 to 1999. This 2-year loss in units affordable to extremely-low-income renters was more than double the previous 2-year record loss of 5% (360,000 units) that was observed between 1993 and 1995.

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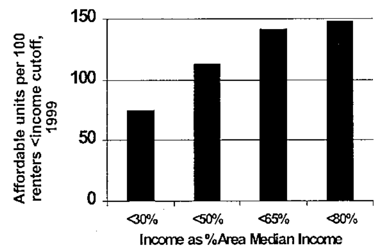
[1] In 1999, 94% of units had rents affordable below median income, down from 97% in 1991.

Shortages of affordable housing? To this point, I have focused on the shrinking supply of units affordable to renters with extremely low incomes. But between 1997 and 1999, the number of renters reporting extremely low incomes also dropped, because of above-average income growth, and the number with worst case needs fell for the first time in 10 years, to 4.9 million.[2] To examine *shortages* in supply compared to demand, analysts traditionally determine whether the number of units affordable below an income cutoff falls short of the number of renters with those incomes.

Looking at the number of units per 100 renters below different income cutoffs in 1999, shortages of affordable units compared to renters needing them were worst for renters with extremely low incomes. Indeed, on average, shortages were found in the U.S. *only* for this income group. In 1999, for every 100 renters with incomes below 30% AMI, there were only 75 units with affordable rents, that is, only 3 units for every 4 renters. This comparison underestimates actual shortages for a number of reasons, most notably because many units technically affordable to extremely-low-income renters are in fact unavailable to them because they are occupied by persons with higher incomes.[3]



At higher incomes, by contrast, there were *not* shortages of affordable units on average across the U.S. As the figure shows, below incomes of 50% of AMI there were more affordable units than renters: 113 units for every 100 renters. And below the low income cutoffs of 65% and 80% of area median income there were marked surpluses. For incomes below 65% AMI, there were 142 units/100 renters, and below 80% AMI, there were 148 units/100 renters, 3 units for every 2 renters.

Extremely-low-income renters are the income group most likely to have severe housing problems. Because of the shortage of housing affordable to them, renters with incomes below 30% of AMI are much more likely to have severe problems than higher income renters. Severe problems are defined as paying more than half of income for rent and utilities (a severe rent burden) or living in severely inadequate housing.

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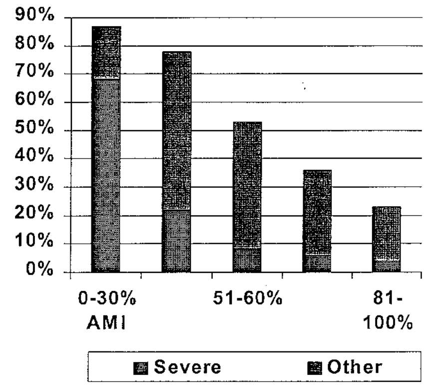
[2] U.S. Department of Housing and Urban Development, 2001, *A Report on Worst Case Housing Needs in 1999: New Opportunity amid Continuing Challenges.* Estimates are based on the biennial American Housing Survey, conducted for HUD by the U.S. Bureau of the Census. Because many respondents understate their incomes in this surveys, estimates of housing needs are overstated to an unknown degree.

[3] Thus, even fewer units are both affordable to extremely-low-income renters and either actually or potentially available to them (i.e. occupied by renters with incomes below 30% of AMI or vacant and for rent). In 1999, there were only 39 such units for every 100 extremely-low-income renters.

For five groups with income below median, the figure shows the share having severe problems and the share having "other" less serious problems, i.e. rent burden 31-50% of income, crowded housing, or housing with moderate physical problems.

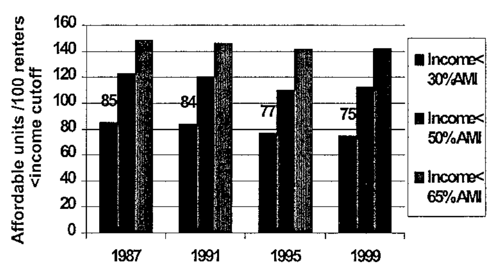
In 1999, over two-thirds (68%) of unassisted ELI renters had severe problems compared to one-fifth (22%) of those with income 31-50% of AMI. These extremely-low- and very-low-income renters with severe problems make up the 4.9 million renter households with worst case needs for rental assistance. Over three-fourths (77%) of those with worst case needs have incomes below 30% of AMI.



Renters with incomes above 50% AMI are highly unlikely to have severe problems. In the income range from 51-60% of AMI, fewer than 1 in 10 (8%) have severe problems; among incomes 61-80% of AMI, only 6% have severe problems. Problems for renters with incomes 81-100% of AMI are shown in the figure only to emphasize how few there are. In this income group, only 4% of renters have severe problems, and fewer than one of four have any problem (which is usually only paying 31-50% of income for rent).

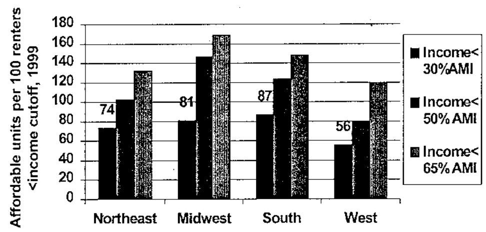
The shortage of housing affordable to extremely-low-income renters worsened during the 1990s. Earlier research has shown that the shortage of housing affordable to extremely-low-income renters worsened between 1979 and 1989.[4] During the 1990s, shortages worsened further.

As the figure shows, in 1991 there were 84 affordable units for every 100 renters with incomes below 30% of AMI; 8 years later there were only 75 units per 100 renters. Ratios of units to renters below 50% of AMI and 65% of AMI also declined over the decade, although below these income cutoffs there were consistently surpluses, i.e. more affordable units than renters.



[4] *Whose* Shortage of Affordable Housing? Kathryn P. Nelson, *Housing Policy Debate*, Vol.5 Issue 4 (1994): 401-439.

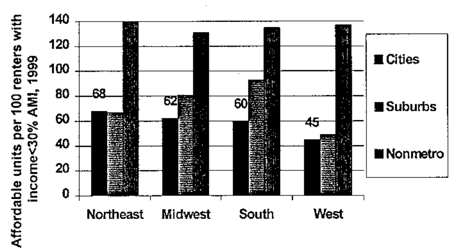
Regionally, shortages were worst in the West and Northeast. In 1999, shortages of housing affordable to extremely-low-income renters were worst in the West and Northeast. Every region of the country had fewer units affordable to households with income below 30 percent of AMI than renter households with these incomes.



In the West there were only 56 affordable units/100 extremely-low-income renters, while in the Northeast there were 74 units/100 renters. Shortages were least severe in the South (87 units/100 renters) and Midwest (81 units/100 renters).

As the figure shows, at higher income cutoffs, the regional differences were similar, with the West consistently having the fewest units per renter. The West, moreover, also had an absolute shortages of affordable housing units for renters with incomes below *50%* of area median (79 units/100 renters). In the Northeast, there were slightly more units affordable at this level than very-low-income renters: 103 units/100 renters. The Midwest, by contrast, had many more units affordable below 50% of AMI than renters: 147 units/100 renters.

Within regions, shortages of affordable housing were worse in cities and suburbs. Cities had the worst shortages of housing affordable to extremely-low-income renters in all regions other than Northeast (where shortages were essentially the same, 67 or 68 units/100 renters, in both suburbs and central cities). Shortages were again worst in the West, with 45 units/100 renters in the cities and 49 units/100 renters in the suburbs. In the South and Midwest, unlike the West and Northeast, shortages were *less* pressing in the suburbs than in the central cities. Southern cities had a shortage (60 units/100 renters) second only to Western cities, but Southern suburbs had less of a shortage (93 units/100 renters) than any of the other suburban portions of regions.

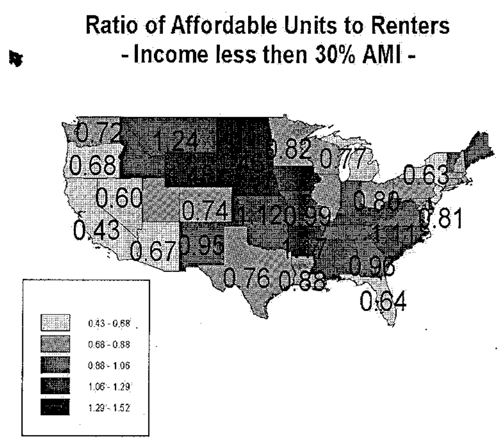


In all four regions, nonmetropolitan locations did not, on average, have shortages at all. Instead, there were many *more* units affordable below 30% of AMI than renters needing them. In all four regions, the ratios of affordable units/100 renters fell between 130 and 140.

Such high surpluses in nonmetropolitan areas of housing affordable to extremely-low-income renters are consistent with the markedly lower (and declining) rate of worst case needs observed there. In 1999, only one-fourth of the very-low-income renters in nonmetropolitan locations had worst case problems, compared to over one-third of those living in suburbs.

Shortages of affordable housing vary even more by state. With regard to state-level variations in shortages of housing affordable to extremely-low-income renters, the most recent data now available still come from the 1990 Census. As shown by the AHS in both the 1980s and the 1990s, in 1990 shortages were worst and most common for rents affordable to incomes below 30% of AMI.

As the map below and the Appendix table show, over three-fifths of the states had shortages, i.e. *fewer* units affordable to an income of 30% AMI than renters in 0-30% AMI income range. But 19 states had *more* affordable units than extremely-low-income renters. As the table suggests, shortages of units affordable to extremely-low-income renters were closely correlated (r = -.84) with the share of very-low-income renters paying more than half of their income for rent: the worse the shortage, the higher the share of renters with severe rent burdens.



In 1990, the most severe shortages of units affordable to extremely-low-income renters occurred in California (43 units/100 renters), Nevada (60), New York (63), Michigan (63), and Florida (64). Shortages ranged between 68 and 88 units/ 100 renters in Washington, Texas, the lower New England states and large Midwestern states. At the other extreme, the Dakotas, Nebraska and Wyoming had the most units/renter - as many as 150 units/100 extremely-low-income renters.

As found nationally and regionally, most states did not have shortages of housing affordable to very-low-income renters. As the table details, in only three states were there fewer affordable units than renters: California (62 units/100 renters), Nevada (82) and Florida (86).

Analyzing the location of shortages across states, I found that they are not distributed like population for several reasons. In the first place, some states have above average numbers of very-low-income renters because of low rates of homeownership and/or high poverty rates. But as the map suggests, shortages vary even more than very-low-income renters because they tend to be worst in the most expensive housing markets. For example, California contains 12% of the U.S. population, 14% of U.S. renters, and 16% of the very-low-income renters who are paying more than half of their income for rent because of shortages of affordable housing.

Shortages in affordable housing in different metropolitan areas. The metropolitan statistical areas (MSAs) surveyed by the American Housing Survey provide a more recent look at the extent of variation by metropolitan area. In 1998, shortages of housing affordable to extremely-low-income renters were worst in Oakland (54), Rochester (59), San Francisco and Houston (62), and Providence and Tampa-St. Petersburg (65). Shortages were least in Birmingham (98) followed by Minneapolis-St. Paul (83), Washington (82) and Newport News (81).

Among the MSAs surveyed in 1996, shortages were worst in Sacramento (56) and Seattle (65). They were least pressing in Oklahoma City 103 and Memphis 102.

Summary

Shortages are worst and worsening at rents affordable to incomes below 30% AMI, well below typical HOME and LIHTC rents. Reflecting those shortages, extremely-low-income renters are the income group that is by far most likely to have severe housing problems. Almost 3.8 million extremely-low-income renters, over two-thirds of the unassisted renters in this income range, have worst case needs for housing assistance. Nationally, there is not a shortage of housing affordable to incomes below 50% of AMI, and renters with incomes 31-50% of AMI are much less likely (22%) to have severe problems.

Shortages of rental units affordable to renters with incomes below 30% of AMI vary greatly across states and type of location. Shortages are generally least in nonmetropolitan areas, and are worst in large expensive metropolitan areas, particularly in California, New York, and Florida. Programs that seek to reduce these shortages will be most effective if they are distributed in proportion to the shortages, rather than by population.

Over three-fourths of worst case renters pay over half of their reported income for adequate, uncrowded housing. This fact suggests that vouchers, if available, could solve the only housing problem – a severe rent burden -- of many of those with worst case needs in their current housing unit. Others, especially young better-educated single adults, report high rent burdens because of temporarily low income. Their rent burdens will be reduced when their incomes increase, either through their own efforts or with other forms of government assistance.

Appendix:

Severe rent burden of very-low-income renters and supplies of affordable rental housing, by region and state, 1990

States ranked within region by shortage of units affordable to 30% of area median income

Income as % of AMI:	Very-low-income renters paying more than 50% of income for rent	Affordable units per 100 renters under income cutoff ≤30%AMI	≤50%AMI
NORTHEAST			
New York	48%	63	112
New Jersey	45%	68	108
Connecticut	41%	81	115
Massachusetts	43%	82	104
Rhode Island	40%	82	113
New Hampshire	44%	84	116
Pennsylvania	42%	86	137
Vermont	44%	92	118
Maine	39%	103	122
MIDWEST			
Michigan	49%	63	123
Illinois	43%	76	141
Wisconsin	40%	77	150
Ohio	42%	80	148
Minnesota	39%	82	132
Indiana	37%	96	165
Missouri	38%	99	158
Kansas	40%	112	175
Iowa	36%	121	185
Nebraska	35%	136	190
South Dakota	31%	146	171
North Dakota	33%	152	183
SOUTH			
Florida	51%	64	86
Texas	40%	76	146
Maryland	41%	81	130
District of Columbia	35%	87	146
Louisiana	46%	88	121
Delaware	39%	96	127
Georgia	40%	96	139
Virginia	41%	96	128
Tennessee	36%	105	143
Oklahoma	40%	106	166
Kentucky	34%	111	150

	North Carolina	37%	111	159
	South Carolina	36%	114	152
	Mississippi	38%	115	134
	West Virginia	39%	115	145
	Alabama	35%	116	151
	Arkansas	38%	117	142
WEST				
	California	52%	43	62
	Nevada	49%	60	82
	Arizona	48%	67	108
	Oregon	45%	68	122
	Washington	43%	72	125
	Colorado	41%	74	153
	Utah	37%	79	168
	New Mexico	43%	95	123
	Montana	38%	124	169
	Idaho	34%	129	179
	Hawaii	38%	139	118
	Alaska	38%	145	184
	Wyoming	35%	148	210

SOURCE: HUD, Office of Policy Development and Research, 1994. *Worst Case Needs for Housing Assistance in the United States in 1990 and 1991: A Report to Congress.* Table 8

The attached table responds to the request of Mr. Frank for more information on shortages of affordable housing for income groups above extremely-low-income in the Boston metropolitan area and in other locations across the country. It also provide information on vacancy rates in response to his concern (p.45) that there are areas of the country where vouchers won't work.

The first three rows of the table compare supply of affordable units to the number of renters needing them below three income levels: 30% of AMI, 50% of AMI, and 80% of AMI. These ratios of affordable rental units per 100 renters are the same as those I presented for the four U.S. regions in my testimony. As Mr. Frank surmised, some metropolitan areas have worse shortages than the regional averages I presented. Of the 6 MSAs in the table, Los Angeles has the most pressing shortages, with only 33 affordable units per 100 extremely-low-income renters and 43 units per 100 very-low-income renters.

The next two rows measure the *availability* of affordable units. I did not include this measure in my testimony because of time constraints but I judge that it better indicates how difficult it might be for a renter to find affordable housing. It shows how many units are both affordable below an income cutoff and potentially *available* because they are either vacant for rent or occupied by a household below the same income cutoff. By this measure, there are shortages of housing affordable to very-low-income renters in many metropolitan areas, with Los Angeles again having the worst shortage of the metropolitan areas shown in the table. In every area, as nationally, shortages are worse for incomes below 30% of AMI than for incomes below 50% of AMI.

The third panel of the table shows vacancy rates among all rental units, among units with rents below the local Fair Market Rent, and among units with rents affordable to incomes at 50% of AMI. Vacancy rates for below-FMR rents are the best single measure of whether vouchers are likely to work in a given area. As Mr. Frank expected, Boston and Oakland have very low vacancy rates for units with these rents.

The final panel shows how the incidence of severe housing problems (paying more than half of income for rent or living in severely inadequate housing) varies by income in these MSAs.

Indicators of shortages of affordable housing and housing problems by income as % of Area Median Income (AMI), 6 metropolitan areas

MSA:	Birmingham	Boston	Los Angeles	Oakland	Northern New Jersey	New York City
Year of survey:	1998	1998	1995	1998	1995	1995
Affordable units/100 renters below income cutoff:						
below 30% AMI	98	73	33	54	60	57
below 50% AMI	142	97	43	87	91	71
below 80% AMI	180	147	112	159	157	115
Affordable & available units/ 100 renters below income cutoff:						
below 30% AMI	52	41	21	26	42	42
below 50% AMI	64	48	27	35	55	59
Vacancy rates						
All rental units	13%	6%	8%	5%	7%	4%
Rent below FMR	10%	2%	7%	1%	5%	4%
Rent affordable <50% AMI	11%	2%	5%	2%	5%	5%
Share of income group with worst case problems						
Income below 30% AMI	45%	40%	66%	50%	51%	44%
Income 31-50% AMI	22%	33%	26%	33%	26%	29%

Source: PD&R/HUD tabulations from American Housing Survey MSA samples

U.S. ownership rates by income and household type, 1978, 1991, 1999

	Income as % of AMI		
	Very-low 0-50%	Low 51-80%	Moderate 81-120%
Families with children			
1978	37%	63%	78%
1991	31%	55%	71%
1999	35%	58%	75%
Nonelderly, no children			
1978	32%	38%	50%
1991	28%	36%	46%
1999	31%	39%	52%
Elderly			
1978	62%	80%	82%
1991	61%	80%	86%
1999	67%	83%	87%

Tabulations of the 1978 Annual Housing Survey and the 1987 and 1999 American Housing Surveys

NHC
The United Voice for Housing

Prepared Statement of
Robert J. Reid

Executive Director
National Housing Conference and the Center for Housing Policy

Before the
Subcommittee on Housing and Community Opportunity
United States House of Representatives

May 3, 2001

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Madam Chairwoman and members of the Housing and Community Opportunity Subcommittee, I want to thank you for the opportunity to appear before you today on the challenge of expanding the supply of affordable housing in this nation. As Executive Director of the National Housing Conference (NHC), I am here representing both the Conference and its research affiliate, the Center for Housing Policy. NHC, which was founded in 1931, is the nation's oldest and most broad based non-partisan advocate of affordable housing. Its member corporations and organizations represent all elements of those who produce, finance and preserve affordable housing.

Last year, NHC released a study produced by our Center for Housing Policy called ***Housing America's Working Families***. That study tested a simple premise: that working families should have access to decent, affordable housing. I would like to submit a copy of this report for the record.

Today, I would like to discuss some of the findings and policy implications contained in last year's report and propose some recommendations for expanding the affordable housing supply.

HOUSING AMERICA'S WORKING FAMILIES

For most of the last 20 years, federal housing policy has implicitly or explicitly linked the housing problems of American families to issues of poverty and welfare dependency. In conducting our research to prepare ***Housing America's Working Families***, we wanted to know the extent to which moderate-income, working families were experiencing pressing housing needs.

Our research found that in 1997 almost 14 million families had a critical housing need—either they spent more than 50 percent of their incomes on housing or they lived in a seriously substandard unit. Twenty-seven percent of these families were elderly, another 30 percent were on welfare and another 21 percent had only a marginal attachment to the labor force.

The most disturbing discovery, however, was that despite unprecedented economic prosperity, the remaining 22 percent—about 3 million households—were "working families" with critical housing needs. These families earned between $10,700 a year (the equivalent of a full time job at the minimum wage) and 120 percent of the area median income (which today is over $87,000 in Chicago). Most of the housing needs of these working families were related to affordability and increases in the overall cost of owning or renting a home in most areas of the country. About 76 percent spent more than half of their incomes on housing, while 24 percent lived in seriously substandard housing.

Working families with critical housing needs defy the stereotypes that too often surround discussions of housing policy. Over half are homeowners. The number in the suburbs is greater than the number in the cities and the population of those with critical housing needs has grown to include teachers, police officers and firefighters, as well as service workers.

The housing needs of working families are growing rapidly as relatively modest income growth fails to keep pace with rapidly rising housing costs caused by significant shortages in modest priced housing. Between 1995 and 1997, for example, the number of working families with critical housing needs increased by 440,000—a 17 percent jump in just two years. A preliminary review of 1999 American Housing Survey data indicates an additional increase of approximately 17 percent between 1997 and 1999, or 484,000 families—so the problem continues to worsen. Nationally, about one in ten working families has a critical housing need. However, the figures are considerably higher in many parts of the country. For example, in 1998, the percentage of working families with a critical housing need was 25 percent in the San Francisco Bay Area, 20 percent in Tampa and Boston, and 16 percent in Washington, DC.

The reasons for these problems vary from place to place. However, it is clear that housing policy needs to be broadened to better address the needs of America's working families. Government, business, and the broader community all have a clear interest in improving access to housing for these vital workers. And, all have a role to play. The solutions will vary, but the challenge is the same. Healthy communities must offer their working families access to decent and affordable housing.

The lack of decent, affordable housing is increasingly seen as a significant impediment to local economic growth. Between 1994 and 1997, the California counties of Los Angeles and Orange had created more than 278,000 new jobs, but only 78,000 new homes had been built.

PRODUCING AND PRESERVING AFFORDABLE HOUSING

The National Housing Conference believes there are four basic principles that should underpin any specific policy recommendations.

The first principle is to expand public policy related to the allocation of resources for affordable housing to include the rapidly increasing number of moderate-income working families who have critical housing needs. Let me hasten to add that this is not a zero sum game. We must continue to meet the needs of lower income families who have historically had the greatest difficulty finding decent, affordable housing; however, we also must face the fact that working families of moderate means are finding it increasingly difficult to find and maintain a home or locate an affordable rental unit. In our opinion, this is not an "either or" proposition. Both needs are real and must be recognized and addressed.

The second principle is that we must strengthen and broaden the awareness and support of the broadest possible constituency for meeting this challenge. America's government, business and community leaders and its citizens must better understand how important "decent and sanitary" housing in a suitable living environment for all Americans (as stated in the 1949 Housing Act) is to the vitality of our communities and neighborhoods, as well as our nation's overall economy and quality of life.

The third principle is that the federal government, along with the state and local providers of affordable housing, must get their roles straight. The federal government should provide a portion of the resources and guide the performance of those providers. The federal role is not to force or dictate solutions. The corresponding role of the state and local housing providers, along with their allies, is to devise specific solutions and to gather additional resources.

The fourth and final principle, which relates to the third, is that solutions for meeting this nation's affordable housing needs will vary from place to place. Programs designed and implemented at the federal level must provide resources and guidance that encourage and support that diversity.

With those principles in mind, let me suggest the following recommendations:

1. Programs and tools that have proven records for producing and preserving affordable housing must be strengthened and provided with significant additional resources. Tools such as Low Income Housing Tax Credits (LIHTCs), Private Activity Bonds (PABs), and programs such as HOME have demonstrated how high quality, mixed income affordable housing can be developed at the local level. Last year, long overdue increases in the tax-exempt private activity bond and Low Income Housing Tax Credit caps were included in the omnibus spending bill. This important legislation will now enable hundreds of thousands of lower income American families access to housing. We congratulate you and your colleagues on this action, but much more still needs to be done.

2. Additional proven tools, which often work in conjunction with LIHTCs, PABs, and HOME, must also be strengthened. For example, a "split-subsidy" approach using

project-based Section 8 vouchers and tax credits would facilitate the expansion of mixed income projects by subsidizing the rents of the below 40% AMI apartments. New Section 8 units, therefore, are badly needed including those that are project-based.

3. FHA must immediately improve its multifamily programs. FHA should be encouraged to reengineer its business plan so it becomes more of a partner and enabler of others delivering financing through such initiatives as risk sharing, reinsurance, and top loss protection in both the single and multifamily areas. We are encouraged to note that the Administration has recommended raising the FHA multifamily loan limits—but 25 percent is not nearly enough to get the job done. Also, any excess proceeds generated by the FHA should be made available for supporting more affordable housing. We strongly support H.R. 1481, introduced by Congressman LaFalce, which would allow the use of excess proceeds from the FHA single family insurance fund to cover credit subsidy shortages in the multifamily fund.

4. The power of this nation's financial institutions must be more strongly pointed towards supporting affordable housing. The Community Reinvestment Act must be preserved and appropriately strengthened. NHC supports stronger roles for the Government Sponsored Enterprises. Effective January 1, 2001, new affordable housing goals direct Fannie Mae and Freddie Mac to increase their lending efforts in support of low- and moderate-income Americans, underserved areas, and very low-

income households. These new goals hold a great deal of promise for families in need of affordable housing. The Federal Home Loan Bank system has established grant, debt and secondary market mechanisms that support affordable housing. More activities such as these should be encouraged while preserving the creativity of the regional banks.

5. Many states and local jurisdictions have established Housing Trust Funds to capture revenue from multiple sources for affordable housing. An analogous trust fund could be established at the federal level, as was proposed last year by Senator Kerry's "National Affordable Housing Trust Fund Act" (S. 2997). Trust funds could encourage and strengthen affordable housing efforts at the state and local levels by providing incentives and developing partnerships with various entities, both for-profit and nonprofit.

6. Oftimes a little additional funding goes a long way, especially when preserving affordable housing that already exists. Thus, support for the matching and nonprofit preservation grant legislation, originally introduced by the late Congressman Bruce Vento and recently reintroduced during this session of Congress by Congressman Nadler as H.R. 425, is important. This program, while modest in size, could generate significant additional funding at the state and local levels. An even greater impact on the preservation of affordable housing could be accomplished through the use of exit tax relief for owners of assisted properties. We welcome the opportunity to discuss this further with you and your staff.

7. Many low- and moderate-income families facing critical housing situations are homeowners. Therefore, additional policy emphasis should be placed in this area. We recommend better use of the tax code for lower income homeowners through such devices as a direct tax credit for borrowers who don't get the benefit of the mortgage interest deduction because they don't itemize their tax returns. Such a credit would provide the badly needed cash for home repairs and improvements by those cash-strapped borrowers. An additional innovation would encourage lower cost homeownership by enabling investors to receive tax credits in return for purchasing soft down payment loans or providing lower cost home construction. Some of our members have developed a proposal to create a tax credit program modeled on the Low Income Housing Tax Credit. This program is designed to encourage the new construction and substantial rehabilitation of homes for sale to low- and moderate-income families. NHC's latest publication, ***Expanding the Dream of Homeownership***, looks at these and other proposals for expanding access to homeownership opportunities. I would like to submit this report for the record.

8. We must encourage and reward local and state efforts to produce and preserve affordable housing. We can't forget that it is local taxing, planning, and zoning decisions that really determine what is done or not done about affordable housing. And, it is precisely in those communities where affordable housing for working families is most needed that the most opposition to such housing exists. The challenge is, therefore, to fashion the right kind of incentives that will encourage

those communities to recognize and support the production and preservation of affordable housing. Proven tools exist—inclusionary zoning, tax sharing plans, local trust funds, regional strategies, employer support, and others that I'm sure will be created. The challenge facing this Committee is how to reward and support those necessary activities while recognizing the importance of local diversity and creativity. Such tools as challenge grants, incentive funding formulas, Consolidated Plan improvements, and tax benefits are among the tools we would suggest you consider.

CONCLUSION

This nation faces unprecedented affordable housing challenges. Some would contend that current conditions rival those faced by this nation's leaders over 50 years ago when the landmark 1949 Housing Act was enacted. We have learned much about what works to produce lasting, high quality affordable housing that serves the needs and aspirations of this nation's housing-needy citizens. We have developed many proven tools at the federal, state and local levels. We know how to solve this problem. We are not lacking in programs or expertise. What we need are more resources. The few additional refinements on the existing systems as proposed above will sharpen and enhance those tools, but what we currently lack is the will to meet this challenge head on. This lack of will is based on a lack of understanding among our leaders, at all levels, and average citizens alike. Our collective failure to recognize how important good, affordable housing is to all those things we cherish—strong families, safe neighborhoods, good education, and vital economies—has and will continue to undermine the growth and stability of our communities and the nation as a whole. The National Housing Conference pledges to work to change that current lack of understanding into strong support for the effort shown by this Subcommittee to renew the pledge of "decent and sanitary housing in a suitable living environment for all Americans." Recently, a group of NHC members came together in support of language that calls upon Congress and the Administration to provide the necessary resources and incentives to encourage production and preservation of affordable housing. That letter states that there is a shortage of affordable housing, that we must expand the current supply of affordable housing, and that we must address this situation now. The letter goes on to state that a significant increase in resources is needed and that multi-year commitment will be required. Most importantly, our letter points out that this problem is solvable. I would like a copy of that letter to be entered into the record. We thank you and the members of the Subcommittee for the opportunity to reaffirm that pledge and to emphasize the importance of these issues.

April 4, 2001

The Honorable Gary L. Ackerman
U.S. House of Representatives
2243 Rayburn House Office Building
Washington, DC 20515-3205

Dear Representative Ackerman:

Last year, the National Housing Conference (NHC) presented a study entitled *Housing America's Working Families* which showed that in 1997 nearly 14 million families with annual incomes between 0% and 120% of area median had critical housing needs (they were paying over 50% of their incomes for housing or living in substandard housing). The most recent data (1999) indicates that the problem has gotten worse and has grown to over **15 million families** with critical housing needs, or nearly 15% of all households in the nation.

The following member organizations of NHC, who represent constituencies that are critically important to ensuring the ongoing availability of decent, safe and affordable housing, maintain that:

* there is a **shortage of affordable housing**
* we must **expand the current supply** of affordable housing
* we must **address this situation now**
* a **significant increase in resources** (federal, state and local) is needed
* a **multi-year commitment** is required
* the problem is **solvable**

AFL-CIO Housing Investment Trust
Bank of America
California Housing Consortium
Century Housing Corporation
The Enterprise Foundation
Fannie Mae
Housing Assistance Council
Local Initiatives Support Corporation
Mortgage Bankers Association of America
National Alliance to End Homelessness
National Association of Home Builders
National Association of Housing and Redevelopment Officials
National Association of REALTORS
National Housing Trust
National Leased Housing Association
National Low Income Housing Coalition
National Multi Housing Council
Neighborhood Reinvestment Corporation
New York Housing Conference
U.S. Conference of Mayors

Testimony of Sheila Crowley
President
National Low Income Housing Coalition

United States House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity

May 3, 2001

Mrs. Roukema, Mr. Frank, and members of the Subcommittee, I am Sheila Crowley, President and CEO of the National Low Income Housing Coalition. On behalf of the members of the coalition, I thank you for the invitation to testify today on the problems of housing unaffordability in the United States. We applaud you for convening this important forum to focus Congressional attention on what is by all accounts one of the most serious impediments to family well-being facing our nation. We look forward to working with you in crafting a legislative response.

The National Low Income Housing Coalition'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.

The Housing Crisis is a Solvable Problem

The National Low Income Housing Coalition is solely dedicated to ending the affordable housing crisis in America. We are convinced that it is a solvable problem, certainly one that is well within the scope of American know-how and ingenuity. It is not for lack of resources or lack of technology that the problem continues. It will simply takes a public commitment to create the necessary changes in public policy

Housing policy can be unnecessarily complicated, but housing is quite straightforward. Everyone needs a basic, stable, safe, fair, and clean place to live and the capacity to pay for it. Some may need additional services to assure stability. That is the social minimum. In the absence of a national commitment to this standard, it is foolhardy to expect people to succeed as workers, students, parents, or citizens, all roles that depend on housing stability to be fulfilled well. Beyond the social minimum, people can make all manner of other housing decisions - where, what size, how much, what amenities, rent or own - and public policy should support those that serve a good public purpose. But without attending to the social minimum in housing, we undermine the potential to achieve other desired social objectives and erode the foundation of our housing system.

Dimensions of the Affordable Housing Crisis

Acknowledgement that a problem exists is the first step towards its resolution. The dimensions of the affordable housing crisis are well-documented and widely known.

Today's hearing will verify that once again. Although different analyses view the problem from different angles, the end result is always the same. There is a considerable gap between what it costs to build and operate housing, and the incomes of people at the lower end of the economic spectrum. Each of us will offer our versions of how we see the numbers, but all will bring you to the same conclusion.

The Housing Wage

I would like to place in the record two reports by the National Low Income Housing Coalition that address housing unaffordability. The first is Out of Reach,[1] which documents the gap between income and housing costs in every jurisdiction in the country. We publish these data in the fall and these are from September 2000. This is the source of what has become a frequently cited refrain by housing advocates and public officials: "There is no jurisdiction in the country where a full time minimum wage worker can afford the fair market rent."

Among the variables we examine is one that we call the "housing wage," that is, what wage a full time worker must earn to afford the fair market rent. For example, in Sussex County, NJ, the housing wage is $16.77 an hour. Or looking at it another way, a household in Sussex County must bring in 130 hours of minimum wage earnings a week to afford a modest two-bedroom unit. That is the equivalent of 3.25 full time minimum wage jobs per household. This analysis is based on the generally accepted standard of paying no more than 30% of household income for housing. Note, however, that this analysis only includes rent. Unless the cost of heat or water or electricity is included in the rent, these additional costs also have to be taken into account in calculating how far above 30% a household's percent of income for housing actually is.

In Newton, MA, the housing wage is $18.83 an hour. In Henrico County, VA, it is $12.13 an hour. In aggregate, the most expensive housing state is New Jersey and the least expensive in West Virginia, although even there the housing wage of $8.12 is nearly $3.00 above the minimum wage. The most expensive region in the country is the San Francisco Bay area where the housing wage is $28.06 an hour for a two-bedroom rental unit.

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[1] Twombly, J. et al. (2000). Out of reach: The growing gap between housing costs and income of poor people in the United States. Washington, DC: National Low Income Housing Coalition.

Low Income Housing Profile

The other National Low Income Housing Coalition study examines the 1999 American Housing Survey data about the housing concerns of low income people.[2] Some of the findings include:

- 34 million households rented their housing in 1999, about one third of all households.
- 62% of the renter households were low income using the federal definition of incomes at or below 80% of the area median. 23% of all renter households are extremely low income or have incomes at or below 30% of the area median. In Sussex County, NJ, 30% of area median income is $22,022 annually.
- 32% of owner households are low income and 11% are extremely low income.
- 24% of all renter households (8.2 million) had severe housing problems, either housing costs at 50% of income or more or severely inadequate housing. Severe housing problems are primarily the experience of low income households; 68% of renter households with severe housing problems (mostly high cost burden) have extremely low incomes.
- 11% of all owner households (7.7 million) had severe housing problems, and 54% of these households are extremely low income. Of note is that 37% of owner households with severe housing problems are first time homebuyers.

The Rental Housing Shortage

One finding in this analysis is of particular importance to those who make housing policy decisions. We analyzed the shortage of rental housing units by income. Although these are national data and therefore cannot tell the story in any given community, they do give a glimpse of the overall scope. Of the 34 million renter households, 7.7 million have extremely low incomes (30% of the area median or less). In the aggregate, there are only 4.9 million units of rental housing that are affordable to these households, thus an absolute shortage of 2.8 million units. (Note that there is a range of incomes from 0 to 30% of area median in this group and not all units are affordable to all households in this range.) However, only 2.3 million of these units are

[2] Dolbeare, C. (2001). Low income housing profile. In The 2001 Advocates' Guide to Housing and Community Development Policy. Washington, DC: The National Low Income Housing Coalition.

actually occupied by households with incomes in this range. The rest are occupied by higher income households who do not have high housing cost burdens as a result. So overall, there is a shortage of 5.3 million units affordable for the poorest renter households.

Further, when we apply this analysis up the income scale, we find that we do not lack units of rental housing that are affordable for households in the upper tier of the definition of low income (50-80% of area median or $36,703 to $58,725 annually in Sussex County, NJ). Indeed, there are 7.3 million renter households in the 50-80% of area median income range and 13.9 million units of rental housing they can afford. Nonetheless, there is an overall shortage of units affordable to this income group of 1.2 million, again because half of the 13.9 million units are occupied by households in other income groupings, either higher income households paying less than 30% of their income for their housing or lower income households with high housing cost burdens.

The implications for housing policy are quite serious. Investment in more housing that is affordable for more prosperous, but nonetheless, low income households will expand the housing supply, but not alleviate the housing shortage for those with the lowest incomes. However, expansion of housing stock that the lowest income households can afford will not only expand their housing options and reduce their housing cost burdens, it will cause the number of available units affordable for higher income households to increase at the same time. Therefore, one argument could be made that the most cost effective investment in rental housing production resources would be for the lowest income households.

Besides low wage workers, the population of extremely low income rental households includes elderly and disabled people whose only income is from SSI (Supplemental Security Income) or other fixed income sources. According to the Coalition for Citizens with Disabilities, about 1.4 million (35%) of the more than 4 million disabled SSI beneficiaries have severe housing cost burdens.[3]

The Meaning of the Affordable Housing Crisis for Families

The numbers are quite stark. You will learn about other analyses during this hearing with equally gloomy data. But the numbers fail to convey the meaning of housing

[3] Consortium for Citizens with Disabilities. (2000). Priced out. Boston: Author.

unaffordability, especially for the very poor. We are all familiar with the stories of people who cannot afford to pay for all necessities and therefore have to make choices about paying the rent, keeping the heat on, and purchasing food or medicine. We also can understand the negative consequences for family life and child well-being when the adults in the household have to work two or more jobs to earn enough to sustain the family. Families also reduce housing costs by doubling up down with other families in crowded and stressful circumstances. Or they fall prey to unscrupulous landlords who may charge less rent, but offer substandard and unsafe housing in return. Families or individuals who fall behind in their rent risk poor credit ratings at best and eviction and homelessness at worst. Children with high rates of residential transience are likely to also have high rates of school transience and resulting educational deficits. Adults with significant housing stress have a much harder time maintaining stable employment, especially if they have to add the cost of child care or transportation to their already stretched household budgets.

The relationship between housing affordability and housing stability is well illustrated in the findings of research that examined predictors of family homelessness.[4] Families receiving public assistance who requested emergency shelter and a comparison group of other families on public assistance who did not need emergency shelter were interviewed on a range of dimensions and reinterviewed five years later. The only variable that correlated with housing stability for the formerly homeless families was receipt of housing assistance, that is, financial aid that closed the gap between their incomes and the cost of housing.

Solving a Solvable Problem

This leads us to a discussion of the solutions to what we believe is a solvable problem. The National Low Income Housing Coalition advocates for a multi-pronged strategy that begins with income policy and measures to improve the economic well-being of low income families, including increasing the minimum wage, expanding the earned income tax credit, living wage requirements, education and training that improves employment prospects, and economic development that creates better paying jobs.

[4] Shinn, M. et al. (1998). Predictors of homelessness among families in New York City: From shelter request to housing stability. American Journal of Public Health, 88(11), pp. 1651-7.

Housing Vouchers

Increasing the ability of low income families to compete in the housing market is also the objective of the federal housing voucher program. Expansion of the number of new vouchers each year, coupled with a range of reforms that will improve voucher utilization, should be basic to any strategy that this committee advances. While we applaud Secretary Martinez's decision to seek 34,000 new vouchers in this year's HUD budget request, the data presented to you today clearly indicates the inadequacy of this initiative.

Housing Preservation

In a multi-pronged strategy to solving the affordable housing crisis, the vouchers vs. hard units debate becomes irrelevant. Preservation of the existing assisted housing stock, principally public housing and Section 8 project-based housing, in which the federal taxpayer has invested considerable resources, is sound housing policy. No one supports keeping housing that is deteriorated beyond repair, but housing that is in good condition and is now someone's home should be cared for as we care for other publicly funded structures. Cuts to the public housing capital fund as the Secretary proposes are short-sighted. Besides dealing with the backlog in capital improvements to public housing, federal policy should support the transfer of privately owned assisted housing to the non-profit housing sector committed to assuring its long term affordability. This committee led the way in 1999 with legislation to help preserve the assisted housing stock. The House of Representatives overwhelmingly approved preservation matching grant legislation in 1999 as well. Please take up HR 425, the preservation matching grant, which has been introduced again in this Congress.

Housing Production

The third element of a comprehensive housing policy is continued replenishment of the affordable housing stock. The federal retreat from affordable housing production that began in the late 1970s must be understood as contributing to today's housing crisis.[5] Resources and incentives for the building of new rental housing have lagged far behind the demand, and the shortage of affordable rental housing in many communities is the

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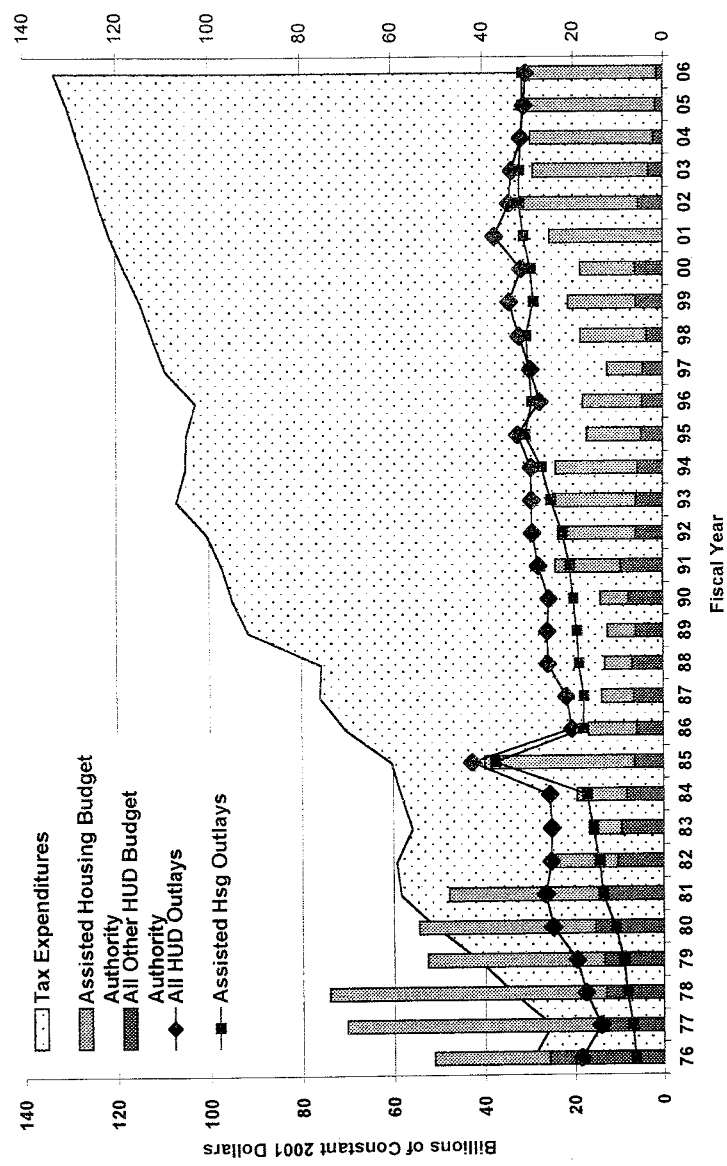
[5] Dolbeare, C. (2001). Changing priorities: The federal budget and housing assistance 1976-2000. Washington, DC: National Low Income Housing Coalition.

result. In the last full year of the Ford Administration, HUD's budget authority was three times what it is today. In the same time period, total federal budget authority has almost doubled. While low income housing outlays have increased at a slow rate, housing related tax expenditures have quadrupled in the last 25 years. The more expensive one's home is, the greater the subsidy one receives through tax expenditures. The value of homeowner assistance via the tax code is now nearly four times greater than the HUD budget. While budget projections made by the Bush Administration reduce low income housing outlays in the next five years, tax expenditures on housing subsidies continue to accelerate. See the attached graph.

Production of new low income housing today is primarily achieved through the tax code with the low income housing tax credit, recently increased in the FY2000 budget. This is a valuable and essential program, but insufficient in and of itself to overcome the affordable housing shortage, especially for the lowest income families. The National Low Income Housing Coalition and our partners endorse the establishment of a National Housing Trust Fund, capitalized by a dedicated source of revenue, and devoted first to subsidizing the building of new rental units affordable to the very poorest households. One hundred fifty state and local housing trust funds have been established around the country in the last 15 years and offer good models on which to build the national effort. A national housing trust fund should not be seen as a substitute for existing housing programs, but rather as an additional tool to be used in affordable housing development. Rather than build housing that segregates poor people away from their more prosperous neighbors, trust fund dollars should be used primarily in mixed income developments where they are applied to building housing that is most affordable to the lowest income households. Attached to my testimony is a brief summary of our national housing trust hand proposal, as well as some additional information about housing trust funds.

Thank you again for the opportunity to speak and to represent our members in this important matter. We look forward to continued discussion toward good solutions to the affordable housing crisis.

GRAPH 1. HUD, HOUSING ASSISTANCE, AND HOUSING-RELATED TAX EXPENDITURES



NATIONAL LOW INCOME HOUSING COALITION/LIHIS

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National Affordable Housing Trust Fund National Campaign—Proposal for Legislation

The National Low Income Housing Coalition is leading a nationwide campaign of national, state and local organizations to enact into law an affordable housing production and preservation program. This effort builds on bipartisan support for new housing production and preservation programs. Senators Bond, Kerry, Santorum, and others promoted affordable housing production and preservation bills last year. Congress should build on the momentum of last session and move forward with legislation that synthesizes both the production and preservation proposals, as follows:

- **Goals and Objectives.** A National Affordable Housing Trust Fund should be established to serve as a source of revenue for the production of new housing and the preservation, or rehabilitation of existing housing that is affordable for low income people. The initial goal of the National Affordable Housing Trust Fund should be to **produce, rehabilitate, and preserve 1,500,000 units of housing by 2010**.

- **Source of capital.** The Trust Fund should be capitalized with **ongoing, permanent, and sufficient sources of revenue** to meet the goal of 1,500,000 housing units by 2010. The initial sources should be **excess FHA and Ginnie Mae revenue**. FHA and GNMA revenue over the amount necessary to maintain the soundness of these funds should be dedicated to the Trust Fund. Revenue produced by federal housing programs should be used to solve housing problems. Other sources of funding should be identified and dedicated to the Trust Fund and, if necessary, additional appropriations should be made to meet the goal.

- **Eligible activities.** The Trust Fund should be used for the production of new housing, preservation of existing federally assisted housing, and rehabilitation of existing private market affordable housing. **The Trust Fund should be primarily used for rental housing**. We support allowing between 15 and 25% of funds to be used for homeownership activities, so long as very low and extremely low income people are served.

- **Targeting.** At least 75% and up to 85% of the **Trust Fund dollars should be used for housing that is affordable for extremely low-income households** (those with incomes under 30% of area median income), who would pay no more than 30% of their incomes towards rent. The rest of the funds should be targeted to very low income families, those whose incomes are under 50% of area median income.

- **Term of affordability.** Housing funded through the Trust Fund should be required to **remain affordable for the useful life of the property**.

- **Tenant Protections.** New legislation should require that tenant's rights to participate in major operation and management decisions at properties funded with Trust Fund money are guaranteed.

(over)

- **Operating subsidy.** Projects funded through the Trust Fund should assure that any operating subsidy needed to make the housing affordable for a range of extremely low income people is provided. That could be by using Trust Fund assistance to underwrite the operating subsidy for new or rehabilitated units for one year, after which the operating subsidy will be funded from the Housing Certificate Fund and renewed through the Section 8 program thereafter, or the applicant could devise another operating subsidy mechanism (which may be able to be applied to the match requirement.)

- **Distribution.** Ninety percent of Trust Fund assistance should be distributed by **formula allocation**. The formula should be developed by HUD, using criteria that assure distribution in proportion to the need for eligible housing. The distribution of funds should ensure that every type of community has access to funds, and should encourage regional consortia. If a state or locality declines to apply for Trust Fund assistance, an alternative application process should be established so that other entities in the jurisdiction can receive and distribute the Trust Fund dollars. Grantees will distribute the funds to eligible entities prepared to conduct activities that are eligible for Trust Fund support. The remaining 10% of Trust Fund assistance should be distributed through a national competition that supports eligible entities that are pursuing innovative approaches to production, preservation, and rehabilitation of affordable housing.

- **Match.** States, localities, or non-profit organizations receiving Trust Fund assistance should **match the federal funds** in the following manner: If the entity uses state, local, or private revenue for the match, they will receive two federal Trust Fund dollars for every dollar they provide. If an entity uses locally controlled federal dollars (HOME, CDBG, LIHTC, private activity bonds, TANF funds, project based assistance) for the match, they will receive one Trust Fund dollar for every dollar of match they provide.

- **Mixed Income.** New housing production and financing should be done in a way that assures that **extremely low income households are not segregated from other income groups**. Thus, Trust Fund dollars should be utilized in conjunction with other funds to complete the financing for a new multifamily housing development, with the Trust Fund dollars supporting the construction of housing for extremely low income households. Trust Fund applicants that propose small projects in low-poverty neighborhoods, rural communities, or that serve special populations may be able to assure economic integration with Trust Fund dollars alone.

- **Compatibility with other housing programs.** The use of Trust Fund funds should be **flexible** to ensure its compatibility with Low Income Housing Tax Credits, private activity bonds, CDBG, HOME and other forms of assistance.

- **Other housing funds.** In addition to establishing a National Housing Trust Fund, we recommend additional investment in affordable housing with substantial increases in HOME, CDBG and USDA Rural Housing programs, as well as an examination of ways to reform the Low Income Housing Tax Credit program to improve access to the program by a wider range of non-profit, community-based housing developers. Substantial increases in the voucher program will also be necessary to assure affordability for the lowest income households.

For further information, please call the National Low Income Housing Coalition at (202) 662-1530.

April 11, 2001

The National Housing Trust Fund Campaign
c/o the National Low Income Housing Coalition • 1012 Fourteenth Street, NW, Suite 610 • (202) 662-1530

Background Information on Housing Trust Funds in the United States

- Housing trust funds are distinct funds established by cities, counties and states that permanently dedicate a source of public revenue to support the production and preservation of affordable housing.

- There are at least 150 housing trust funds in the United States. Thirty-six states have created these funds and the remainder are in cities and counties.

- More than $500 million is spent for affordable housing through these trust funds every year and this amount is increasing. On average, for every $1 committed to a housing project by a housing trust fund, another $5-10 is leveraged in other public and private resources.

- Hundreds of thousands of housing units have been supported through housing trust funds.

- Housing trust funds support a variety of housing activities for low and very low income households, including new construction, preservation of existing housing, emergency repairs, homeless shelters, housing-related services, and capacity building for nonprofit organizations.

- At any given time, as many as fifty additional jurisdictions are considering the creation of a housing trust fund. These unique funds are a fundamental aspect of emerging housing policy in the United States.

- Housing trust funds have demonstrated that when government makes a commitment to address critical housing needs, the on-going dedicated source of revenue allows for more intelligent planning to address housing needs and for improved proposals submitted by the housing industry in an effort to effectively use existing resources.

- Housing trust funds enable jurisdictions to elevate their funding of critical housing needs by committing resources to a process that treats affordable housing as an essential component of maintaining healthy communities. Jurisdictions have documented increased jobs, growing sales taxes, higher property tax revenues, and many other economic benefits from the operation of their housing trust funds.

Prepared by the Housing Trust Fund Project of the Center for Community Change for the National Housing Trust Fund Campaign

LOW INCOME HOUSING PROFILE

By Cushing N. Dolbeare

Low income households face a broad spectrum of housing problems. At one end is the most acute problem, homelessness. Individuals and families live on the street, in shelters, or in and out of temporary housing. Distributed along the rest of the spectrum are millions of others who may be housed, but their hold on their housing is precarious. Often, they do not have the employment stability or the necessary income to pay both for their housing and other basic necessities, such as food and clothing, or they do not have access to affordable housing near work, or they have experienced discrimination. Their homes may be overcrowded, unsafe or physically inadequate. Some face all or a combination of these problems. In addition, members of racial minority groups suffer from persistent housing discrimination and the resulting diminished choice and economic segregation. Although successful low income housing developments are increasing in number, most people in need of affordable housing still do not obtain it.

This chapter presents a profile of American households and their housing situation, with particular attention to households with severe or moderate housing problems. (See the Glossary for definitions of terms used in this section). The source of all data and tables are the raw data from the 1999 American Housing Survey (AHS), which was posted on the HUD website in the summer of 2000[1].

Additional information and estimates of rental housing affordability by county, metropolitan area, and state are available in *Out of Reach* (at www.nlihc.org). HUD's annual report on *Worst Case Housing Needs,* available on the HUD website, focuses on a limited portion of households with severe housing problems, i.e. unsubsidized renters with incomes below 50% of area median income (AMI). The data in here on severe housing problems include the "worst case" households, plus all other renters and homeowners paying more than half of their incomes for housing or living in seriously substandard housing.

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[1] A brief note on methodology: The data in this chapter on housing cost burdens are derived differently from the data in the published AHS and also differ from, and are higher than, the numbers used in HUD reports. This is because the raw AHS data do not contain a variable on housing costs as percent of income, so this must be calculated by the user.

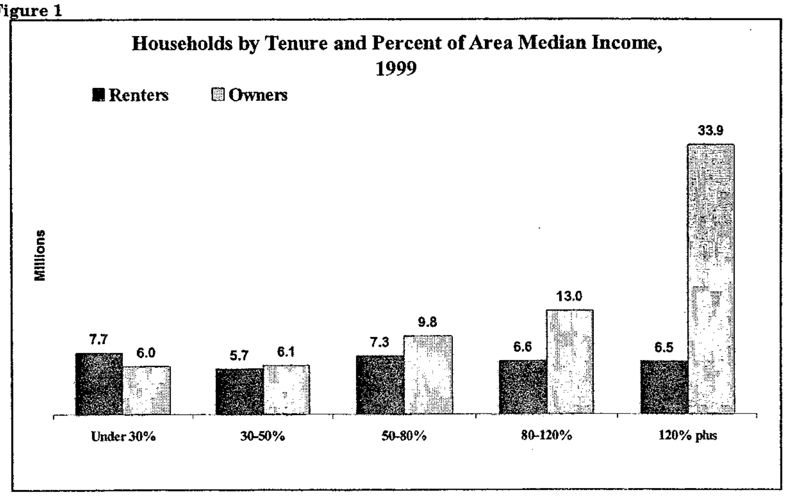
The data on cost burdens in this report are based on two variables that are calculated by the Census: annual household income and selected monthly housing costs. Using these two variables, housing cost burden is calculated by dividing annual housing costs (monthly times 12) by annual household income for the preceding year. This approach, of course, does not work for households with zero or negative income. It does work for no cash rent households, since the number of households with no cash rent and no other housing costs (such as utilities) is small. Zero or negative income households are included in the category of severe housing costs on the assumption that if severe costs are defined as more than 50% of income, any housing cost is severe if you have no income. These households are also counted as having incomes below 30% of area median.

The Big Picture

Tenure and Income. There were 102,800,000 households in the United States in 1999. Of these, 68,800,000 (67%) were owners and 34,000,000 (33%) were renters. Owners are more affluent than renters, and occupy better housing. The median income of renter households was $24,772 or 53% of the median income of owner households of $46,616. The median monthly housing cost (excluding units with no cash rent) was $580 for renters, $581 for owners and $581 for all households. Median housing costs as percent of income were 15% for owners and 28% for renters, or 19% for all households.

In all, 40% of renter households were very low income, defined as having incomes below 50% of the area median. Twenty-three percent were extremely low income, defined as having incomes below 30% of AMI. An additional 22% of renters were low income, with incomes between 50% and 80% of AMI. Only 19% of renters had incomes above 120% of AMI. In contrast, only 18% of owners had incomes below 50% of AMI. Another 14% had incomes between 50% and 80% of AMI. Almost half of owner households (49%) had incomes above 120% of AMI. See Figure 1.

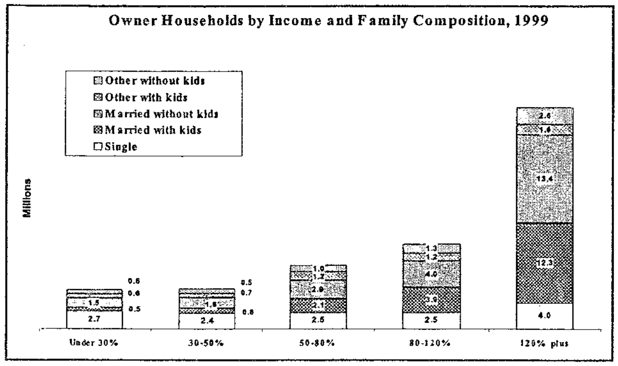
Figure 1



Household Type. Just over a quarter of all households (26%) were single individuals; 25% were married with children present; 27% were married but had no children present; 12% were "other" households with children, primarily single parents; and 11% were "other" without children. Married couples, with or without children, are likely to be homeowners. Only 22% of married couples with children and 14% of those without children rented. In contrast, 55% of single-parent households, 47% of single persons, and 47% of "other" households without children are renters. See Figures 2 and 3.

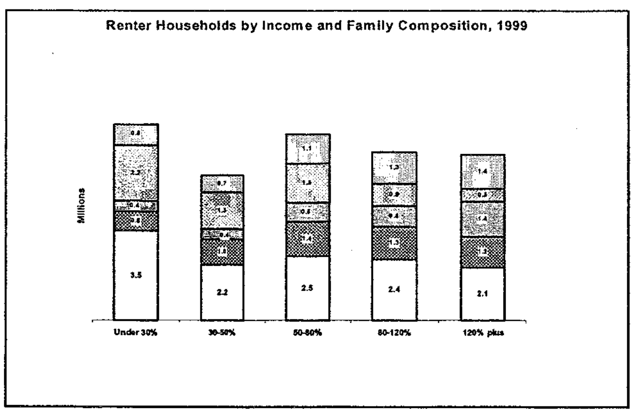
Location. Almost one third (30%) of all households lived in central cities, and more than half (55%) lived in the suburbs or near-suburbs of metropolitan areas. The remaining 15% lived in nonmetropolitan areas.[2] There were marked differences in type of tenure by location. Half of central city households were renters, while only 28% of suburban and near-suburban households and 18% of nonmetro households rented.

Figure 2



Racial Minorities. Racial minorities comprised one quarter of all householders. Twelve percent were African-American, 9% were Hispanic, and 4% were of other racial or ethnic backgrounds. Most racial minority households were renters: 53% of African-Americans, 55% of Hispanics, and 50% of other minorities. In contrast, only 26% of white households rented. See Figures 4 and 5.

Figure 3

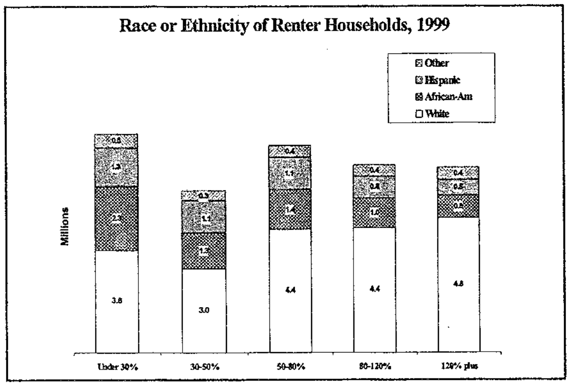


[2] Because of a coding error, the 1997 AHS does not provide data on urbanized and rural (nonurbanized) areas. However, in 1990, 65% of the nation's 1,980 metropolitan counties were 100% rural, using the "nonurbanized" definition.

Housing Problems of Renter Households

Nature and extent of renter housing problems. Half of all renter households (51%) had either moderate or severe housing problems. Forty-three percent had high housing cost burdens, with 22% having severe housing cost burdens (paying over 50% of income) and another 21% having moderate housing cost burdens (paying 30-50% of income). Twelve percent lived in housing with severe or moderate physical problems, and 5% of renter households were overcrowded. Moreover, 56% of overcrowded households also had problems of quality or cost burden. Almost two-thirds (65%) of the households with quality problems were also overcrowded or had high cost burdens. In contrast, only 17% of renter households with high cost burdens had other major housing problems. See Figure 6.

Figure 4



Extremely low income renter households had by far the most acute housing problems. Fully 87% of these renters had severe or moderate housing problems: 65% had severe cost burdens, 14% had moderate cost burdens; 15% had quality problems; and 6% were overcrowded. Worse, 91% of extremely low income overcrowded households and 87% extremely low income households living in poor quality housing had housing cost burdens as well.

Figure 5

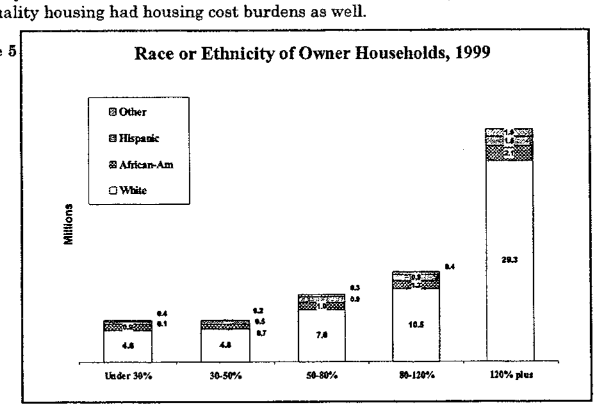
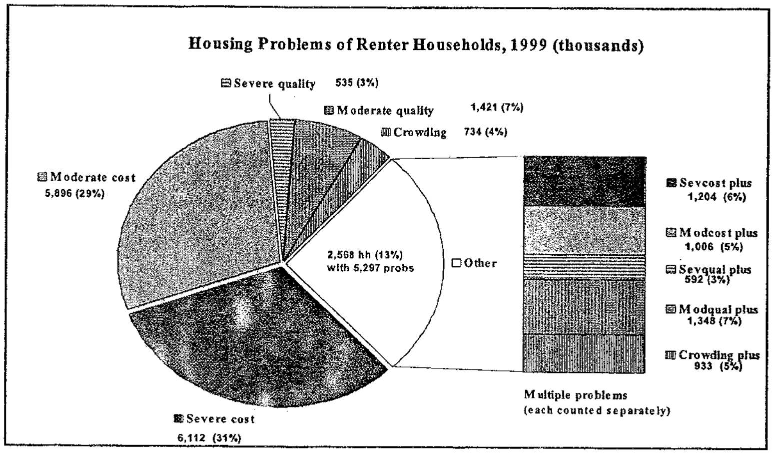


Figure 6



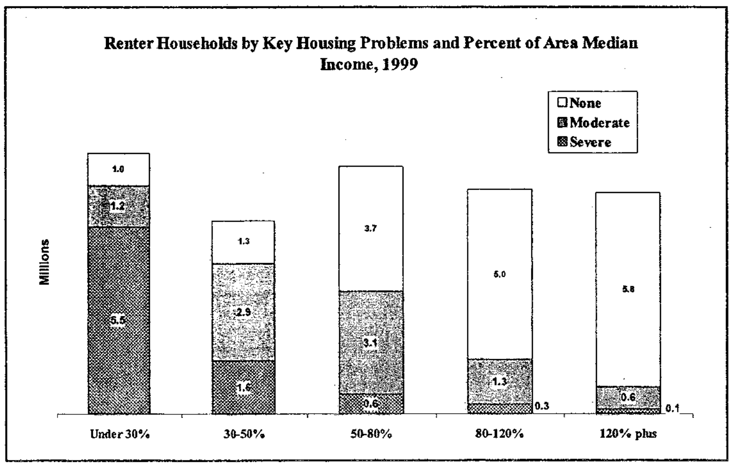
Severe housing problems. Severe housing problems reported in AHS are housing cost burdens above 50% of income and occupancy of severely inadequate housing. In all, some 8,200,000 renter households, or 24% of all renter households, had such problems. This number is higher than HUD's calculation of "worst case" housing problems because HUD's definition of worst case is limited to unsubsidized renter households with incomes below 50% of AMI. In 1999, there were 2,000,000 very low income households with severe problems living in subsidized housing.

Severe housing problems were highly correlated with low income. Very low income households comprised 87% of all renter households with severe housing problems; 68% had incomes below 30% of AMI and 19% between 30% and 50%. In contrast, 7% had incomes between 50% and 80% of AMI, and only 6% had incomes above 80% of AMI. These data confirm that subsidizing housing for renters with incomes below 30% of AMI substantially reduces the number of households with severe problems. See Figure 7.

Very high housing cost was the primary housing problem of these households. Only 7% had the sole problem of living in severely inadequate units. The rest had either severe cost burdens (75%) or multiple problems that included cost burdens or quality (19%). Eleven percent had severe cost burdens and were in inadequate housing; 3% were in severely inadequate units with moderate cost burdens; 3% were overcrowded, with severe cost burdens; and 2% had all three major problems of severe housing cost, poor quality, and overcrowding.

Most renters with severe housing problems were either single (44%) or households with children present (35%). Almost one fifth of the householders (19%) were elderly, while 41% were under age 35. Over half (52%) lived in central cities, while 42% were in suburbs or other metro areas, and 6% in nonmetro areas. Racial minority households were more likely to have severe problems. Thirty-one percent of African-American households, 27% of Hispanic households, and 21% of white households had severe problems.

Figure 7



Moderate housing problems Moderate housing problems reported by the AHS consist of cost burdens between 30% and 50% of income, overcrowding, and occupancy of moderately inadequate units. In 1999, 9,100,000 renter households, or 27% of all renter households, had one or more of these problems. However, moderate housing problems were far less likely than severe problems to be correlated with very low incomes. Only 13% of households with moderate housing problems were extremely low income households, while 32% were very low income, 34% were low income, and the remaining 22% had incomes above 80% of AMI.

Sixty-five percent of these households faced only the problem of moderate cost burdens. Another 16% were living in affordable, but moderately substandard units, while 8% were in affordable but overcrowded housing. Eleven percent had two of the three moderate cost, moderate quality or crowding problems and 1% had all three problems.

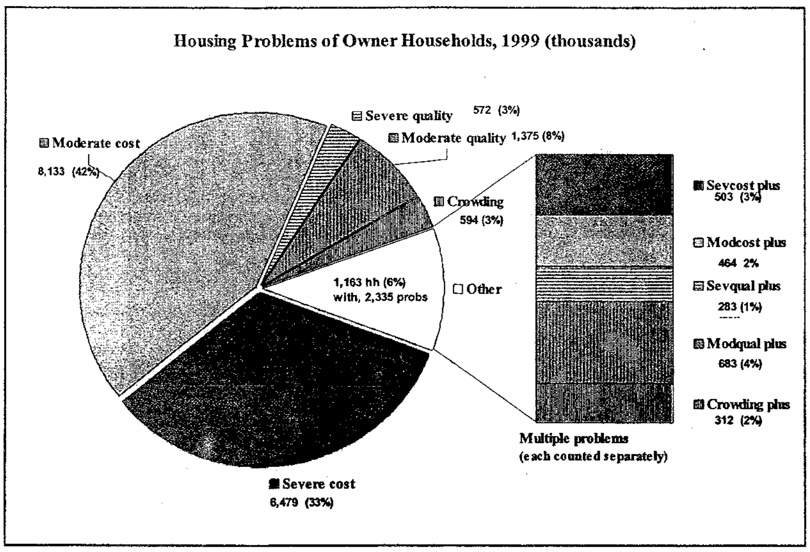
Most renters with moderate housing problems had children (42%) or were single (35%). They were less likely to be elderly and more likely to be younger than renters with severe problems. Thirteen percent were elderly householders, while 45% were under age 35. Forty-eight percent lived in central cities, 44% in suburbs or other metro, and 7% in nonmetro areas. More than one third (35%) of Hispanic renters had moderate housing problems, as did 28% of African-American renters and 24% of white renters.

Housing Problems of Homeowners

Nature and extent of homeowner housing problems Over one quarter (26%) of all owner households had either moderate (15%) or severe (11%) housing problems. However, because there are almost twice as many owners as renters, there were more homeowner (18,300,000) than renter (17,300,000) households with housing problems. Nine percent of homeowner households had severe cost burdens and another 12% had moderate cost burdens. Three percent lived in substandard housing, 1% were overcrowded, and 2% had multiple problems, generally including cost burdens. See Figure 8.

The housing problems of owners were not as correlated to very low incomes as housing problems of renters. Still, 88% of extremely low income owners had housing problems: 61% had severe cost burdens, 16% had moderate cost burdens, 2% were in substandard housing, and 8% had multiple problems. Only .3% were overcrowded.

Figure 8

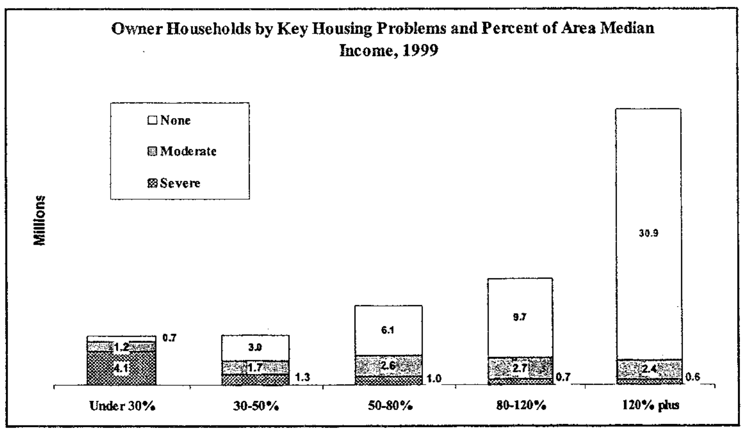


Severe housing problems. Eleven percent of all homeowners had severe housing problems. Fifty-four percent of these 7,700,000 owners had incomes below 30% of AMI and 17% fell between 30% and 50% of AMI. In other words, over two thirds of all homeowners with severe housing problems were very low income households. Another 13% had incomes between 50% and 80% of AMI, 9% had incomes between 80 and 120% of AMI, and 8% had incomes above 120% of AMI. See Figure 9.

Eighty-four percent of homeowners with severe housing problems had severe housing cost burdens only, 7% were in seriously inadequate units, and 9% had multiple problems. Twenty-eight percent were families with children, 35% were singles. Thirty-eight percent were elderly; only 12% were under age 35.

Thirty-seven percent of homeowners with severe housing problems were first-time home buyers. Fifty-six percent were suburban or other metro, 27% lived in central cities, and 18% were nonmetro. Ten percent of white homeowners had severe problems, compared to 16% of African-American homeowners, and 15% of Hispanic homeowners.

Figure 9



Moderate housing problems. Fifteen percent of homeowners have moderate housing problems. Twenty-eight percent of these 10,600,000 owners had incomes below 50% of AMI. Twenty-five percent had incomes between 50% and 80% of AMI. Forty-eight percent had incomes above 80% of AMI. Seventy-seven percent had moderate cost burdens only, 13% were in inadequate units, 6% were overcrowded, and 5% had multiple problems. Forty-two percent were families with children, while 25% were singles. Twenty-five percent were elderly and only 17% were under age 35.

Thirty-three percent were first-time homebuyers. Fifty-nine percent were suburban or other metro, 24% lived in central cities, and 17% were nonmetro. Fourteen percent of white homeowners had moderate housing problems, compared to 26% of Hispanic and 22% of African-American households.

The findings on housing problems of homeowners are especially important, given the strong emphasis in contemporary housing policy on promoting home ownership for low income people. Clearly, home ownership does not solve all housing problems. Especially noteworthy are the number of first time homebuyers with severe or moderate housing problems. These may be families who have been aided by the numerous home buying assistance programs available today, but nonetheless these homeowners have housing problems.

The Gap Between Income and Affordable Rental Housing

The rental housing gap shown in Table 1 compares renter households by income and rental units by cost. In this comparison, "affordable units" are those units that cost no more than 30% of income of the households within that income range, regardless of whether or not those units are actually occupied by households in the same income range. "Occupied units within income range" are affordable units that are indeed occupied by households with incomes within a particular range, i.e. 0-30% AMI, 30-50% AMI, etc. However, this does not mean that these households have no cost burdens; it only means that their housing costs fall somewhere in the affordable range. In fact, 20% of the extremely low income households in units in the affordable range had severe cost burdens and another 28% had moderate cost burdens.

Table 1 shows the number of renter households that fall within the categories of extremely low income, very low income, low income and above. These data indicate that even if all of the units in the affordable range for extremely low income household were occupied by these households, there would still be a shortage of 2,783,000 units that are affordable for these households. Over a third (36%) of these extremely low income households are in units that were affordable only to higher income ranges.

Table 1

RENTAL HOUSING GAP BY INCOME RANGE, 1999 (thousands)

	Under 30%	30-50%	50-80%	80-120%	Over 120%	Total
Households	7,715	5,706	7,323	6,628	6,542	33,914
Affordable units	4,932	7,274	13,961	6,033	1,714	33,914
Occupied units within income range	2,378	2,814	6,057	6,339	6,542	24,130
Shortage (excess) units within income range	-2,783	1,568	6,638	-595	-4,828	0
Occupancy gap	-5,337	-2,892	-1,266	-289	0	-9,784

The occupancy gap for extremely low income renters is 5,337,000 units. The rental housing shortage is most acute for these households, and further, these data indicate that there is not a shortage of rental units that are affordable for households in the income ranges above 30% of AMI. Indeed, there are almost twice as many affordable units as there are households in the 50-80% AMI group. Less than half (48%) of the units in the affordable range for households in the 0-30% AMI group are occupied by these households; over half (52%) of these units are occupied by higher income households that are paying less than 30% of their income for their housing.

These findings indicate that the conventional wisdom that as housing ages, it filters down to be affordable for lower income groups, does not apply for the lowest income groups. Rather, this analysis suggests "filtering up" may be the more appropriate policy objective. Increasing the supply of rental housing that is affordable for extremely low income households could result in substantial increases in availability for households in the next higher income ranges.

Note that this analysis is based on occupied units only. While the AHS also contains information on some 3,000,000 vacant units, none of them appear to have costs that fall within the affordable range for extremely low income households.

Changes in housing between 1997 and 1999

The number of households grew by 3,400,000 between 1997 and 1999, and 99% of this growth was in the number of homeowners. Renter households increased by a mere 31,000. Both the 1999 AHS and the Current Population Survey indicate declines in poverty and in critical housing needs of extremely low income people. The AHS also indicates that severe housing problems, previously had been almost exclusively confined to households with incomes below 50% of AMI, have been creeping up the income scale, particularly for homeowners.

Extremely low income households. The 13,800,000 households with incomes below 30% of area median (7,700,000 renters and 6,100,000 owners) comprised 13% of the nation's households in 1999, a decline from 16% in 1997. The number of extremely low income households with severe housing problems fell by 9% between 1997 and 1999, with the bulk of the decline occurring for extremely low income renters. The number of these renters fell by 13% and homeowners in this group fell by 3% between 1997 and 1999.

Evidence of progress notwithstanding, it remains that 68% of the nation's households with severe housing problems had incomes below 30% of the area median, specifically 75% of extremely low income renter households and 60% of extremely low income owner households had severe problems. Only 15% of*all* households have severe housing problems. Since such a large majority of extremely low income households had severe housing problems, there were relatively few with either moderate problems (19% in 1999) or no problems at all. Owner households with moderate problems fell by 17%, and renter households by 27%. In all, extremely low income households with severe problems constituted 9.4% of all U.S. households (5.4% renters and 4% owners) and those with moderate problems were 2.3% of the total.

Very low income households. The 11,800,000 households (6,100,000 owners and 5,700,000 renters) with incomes of 30-50% of area median comprised 11% of all households in 1999, a decline of only 1% from 1997. In 1999, half of all renter households in this income range and 29% of the owner households had moderate housing problems, a decline of 4% drop from the 1997 level in both cases. The number of homeowners with severe problems declined slightly (2%), but there was a 15% increasein renters with severe problems. One explanation for the sharp increase in the number of very low income renters with severe housing problems is that most of these renters had increased income, which moved them out of the 0-30% of AMI group, but the increase in income was not enough to reduce their housing costs to less than half of their income.

In all, very low income households with severe problems constituted 2.8% of all U.S. households (1.5% for renters and 1.3% for owners), those with moderate problems were 4.5% (2.8% for renters and 1.7% for owners), and those with no problems were 4.2% (1.2% for renters and 3% for owners).

Low income households. The 17,100,000 households (9,800,000 owners and 7,300,000 renters) with incomes between 50% and 80% of the area median comprised 17% of all households in both 1997 and 1999. While the percent of total did not change, the number of low income owners fell by 1% and low income renters increased by 6%.

Striking changes did occur in housing problems however. In 1999, there were 3,700,000 low income renter households with no problems, 3,100,000 with moderate problems, and 600,000 with severe problems. Although low income renters with severe housing problems grew by 200,000 households, this increase constituted a 41% rise in severe renter problems in this income group, because there was such a small number (400,000) of such households in 1997. Renters with moderate problems also increased by 300,000, but this constituted an increase of only 11%.

There were 6,100,000 low income owner households with no major problems, 2,600,000 with moderate problems, and 1,000,000 with severe problems. Low income owners with severe housing problems rose by 23% from 1997 to 1999. The number of low income owners with moderate problems and those with no problems both declined however, by 40,000 and 300,000 respectively.

In all, low income households with severe problems constituted 1.7% of all U.S. households (1% for owners and .7% for renters), those with moderate problems were 5.5% (3% for renters and 2.5% for owners), and those with no problems were 9.6% (6% for owners and 3.6% for renters).

Moderate income households. The 19,700,000 households (13,100,000 owners and 6,600,000 renters) with incomes between 80% and 120% of median comprised 19% of all households in both 1997 and 1999. But there were changes similar to those of low income households, with the increase in moderate income renter households (9%) greater than the 3% increase for moderate income owners.

Five percent of moderate income households had severe housing problems in 1999. This proportion was identical for both moderate income owners and renters and is a 2% increase from the level in 1997. In all, 700,000 moderate income owners and 300,000 renters had severe problems. This was an increase of 87% for renters and 71% for owners. As with low income renters, the percentage increases in these severe problems are so large, because there were so few such households in 1997. Indeed, moderate income households with severe problems constituted only 1% of the nation's total households in 1999.

Twenty percent of moderate income households had moderate housing problems. The 200,000 additional owners with such problems represented a .9% increase, while the 300,000 renters were a 32% increase from 1997. In all, moderate income households with severe problems constituted 1% of all U.S. households (.7% for owners and .3% for renters), those with moderate problems were 3.9% (1.3% for renters and 2.6% for owners), and those with no problems were 14.3% (9.4% for owners and 4.8% for renters).

Above-moderate income households. The 40,400,000 households (33,900,000 owners and 6,500,000 renters) with incomes above 120% of median comprised 39% of all households in 1999. The number of owners in this income range increased by 4,000,000, while renters increased by only 600,000.

Ninety-one percent of the owners with incomes above 120% AMI and 88% of these renters had no major housing problems. Seven percent of the owners and 10% of the renters had moderate problems, an increase of 16% for owners and 20% for renters between 1997 and 1999. The growth in households with severe problems was relatively greater, although absolutely smaller. The 300,000 additional owners was a 92% increase, while the less than 100,000 increase in renters was 21% higher than the 1997 level.

In all, above-moderate income households with severe problems constituted .7% of all U.S. households (.6% for owners and .1% for renters), those with moderate problems were 3% (.6% for renters and 2.4% for owners), and those with no problems were 35.7% (30.1% for owners and 5.6% for renters).

Conclusion

This profile provides facts about low income housing problems on a national basis and documents the scale of housing problems by income and need. It does not offer a portrait of the range and diversity of housing markets at the regional, state, county, local and neighborhood levels. Advocates should use these data to help place their local circumstances and concerns into a broader context.

As is often stated, the United States is the best housed country in the world. Most Americans enjoy the prosperity and security that comes with safe, decent, and affordable housing. They have little contact with or knowledge of the pervasive poverty and lack of opportunity that faces the millions of households with acute housing problems. But the housing problems of the poor affect everyone and should be of concern to all of us.

LISC
Helping neighbors
build communities

Testimony of

Michael Rubinger
President and Chief Executive Officer
Local Initiatives Support Corporation

Regarding

Housing Affordability and Availability

Before the

U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity

May 3, 2001

Michael Rubinger
President and Chief Executive Officer
Local Initiatives Support Corporation

Good afternoon, Madam Chairman and members of the Subcommittee. My name is Michael Rubinger. I am President and Chief Executive Officer of Local Initiatives Support Corporation (LISC). I appreciate the opportunity share our perspective on affordable housing needs.

How LISC Helps Communities Develop

LISC helps neighbors build whole communities. In 21 years, LISC and its affiliates have raised from the private sector and provided $4 billion to 2,200 nonprofit low-income community development corporations (CDCs). These CDCs have used our funds to attract an additional $7 billion. This combined $11 billion investment has produced over 110,000 affordable homes and 14 million square feet of commercial and industrial space, 40,000 jobs, and numerous childcare facilities, charter schools, youth recreation programs, crime and security initiatives and many other programs. Although LISC's work with CDCs is funded by over 2,000 private sources, federal participation is essential to all of the work we support.

Rehabilitating dilapidated apartment buildings, increasing homeownership, building a new supermarket, and opening a childcare center are typical steps towards restoring a healthy and economically viable community. In many low-income areas, CDCs are the primary engines of revitalization. CDCs form working partnerships with both the private and public sectors. By blending a pragmatic vision with community accountability and business discipline, CDCs have conclusively proven that sound investments – both public and private – produce tangible and sustainable results for communities and their residents.

Faith-based organizations are among the CDCs we support. Since 1980, LISC and its affiliates have provided almost $500 million to faith-based community developers. This amount has directly generated $1.5 billion in investments, helping more than 220 community faith-based groups develop approximately 19,000 homes and apartments and build 1.2 million square feet of commercial and industrial space.

The Affordable Housing Challenge

Ironically, the hot economy is contributing to a housing crisis by driving up rents and house prices out of reach. The housing crisis weakens families and communities, contributes to traffic congestion and air pollution, and makes it hard for growing businesses to find and keep employees.

In spite of the robust economy of the last few years the housing crisis for many low-income urban and rural residents has worsened.

- According to the Center for Housing Policy, a nonprofit research affiliate of the National Housing Conference, 15 million American families – one in seven – have critical housing needs. The problem has spread beyond the elderly, the disabled and the unemployed, and now affects 3.5 million moderate-income families earning at wages equivalent to at least one full-time job at the minimum wage.

- The dwindling supply of affordable housing is a major part of the problem. HUD's most recent study of worst case housing needs documents the loss of 1.14 million homes affordable to very low-income renters without assistance over just the two last years for which data are available, 1997 to 1999.

Stable neighborhoods and affordable housing are two sides of the same coin. If we fail to preserve the neighborhoods that already house so many low-income families, we will lose far more housing to community deterioration than we can hope to replace through government subsidies. Housing is likewise crucial to stable low-income communities. Many families with severe housing needs live there. Housing production contributes to community revitalization by removing blight, stabilizing the population base, attracting reinvestment and restoring weak markets. And affordable home ownership builds family wealth and contributes to a healthy income mix.

In communities across the country, some 3,600 CDCs have rehabilitated and built more than 550,000 homes and created 247,000 private sector jobs.[1] The result is that for the first time in a generation, we're not just talking about a successful project here or a renovated block there, but the transformation of entire neighborhoods. And not the easy neighborhoods either, but ones that, in many cases, had been given up for dead. The impact is clearly demonstrable physical revitalization. Moreover, crime is down, employment is up, property values are up, and investment is up. In community after community, there's a demonstrable improvement in the quality of life. This is a powerful story of hope and accomplishment.

Unfortunately, this remarkable progress is at risk of stalling because of a growing hyper-competition for scarce federal resources. In most communities until the mid-1990s, public resources were sufficient to support most sound housing development proposals. Today, however, most good proposals cannot be funded because federal resources are so greatly oversubscribed. If it is encouraging that so many more CDCs and their partners are now ready and able to rebuild housing and whole neighborhoods, it is doubly frustrating for them to miss opportunities to do so because of insufficient resources.

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[1] National Congress for Community Economic Development, *Coming of Age: Trends and Achievements of Community-Based Development Organizations*, Washington DC, 1999.

A balanced federal housing policy should including production, preservation, tenant assistance, and stabilizing the low-income communities where the private market serves so many low-income families. However, the allocation of funds within the HUD budget is not balanced. HUD now spends about $19.5 billion each year to support existing housing, but invests only about $5.9 billion each year to expand the supply of affordable housing.[2] We do not support reducing subsidies for existing housing, but it is crucial to increase the supply of affordable housing. Simply adding more demand side subsidies like vouchers will only drive rents higher in already tight markets.

Two Excellent Federal Housing Production Programs

Two excellent federal programs have driven affordable housing production for the past 10 –15 years: the Low Income Housing Tax Credit and the HOME program. Both of these resources have proven highly effective over an extended period, and can be a sound foundation for federal housing and community development policy well into the future. Both are flexible block grants administered by states (and localities in the case of HOME). Both involve CDCs and other nonprofit and for-profit developers and private financing. Both subject housing sponsors to the strict discipline of the marketplace. Private investors and lenders would lose money if the housing is poorly developed or managed, and that has been a very rare occurrence.

Last year Congress expanded the volume of Low Income Housing Tax Credits by 40% over two years to stimulate more private equity investment for low-income rental housing production. It is important to recognize, however, that this increase is insufficient to make up for inflation since the Housing Credit volume cap was previously set in 1986. In light of both the growing housing shortage and the overwhelming bipartisan consensus that Housing Credit is both effective and efficient, we urge Congress to expand the volume of Housing Credits further.

Moreover, most Housing Credit deals – and virtually every one in low-income communities – require additional public funds to fill financing gaps. The HOME program is the primary resource for filling those financing gaps. It is important that HOME funding expand along with Housing Credits to ensure that the overall housing production system can expand smoothly.

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[2] Based on FY 2001 appropriations. For purposes of this analysis, subsidies for existing housing include the housing certificate fund ($13.923 billion), public housing operating subsidies ($3.242 billion), maintenance and repair funds under the public housing capital fund (estimated at $2.25 billion), and the tenant based rental assistance component ($62 million) of HOME. Investments in expanding the affordable housing supply through new construction and substantial rehabilitation include: HOME ($1.7 billion), public housing capital funds (substantial rehabilitation and new construction activities estimated at $750 million), HOPE VI ($565 million), housing funds under Community Development Block Grants (estimated at $1.8 billion), a portion of homeless assistance grants (estimated at $226 million), Section 202 elderly housing ($679 million), Section 811 housing for the disabled ($217 million), and the Indian Housing Loan Guarantee Fund ($6 million).

HOME is a proven, flexible and extremely cost-effective housing production program. HOME works effectively in both urban and rural communities. [3]

- HOME now finances over 80,000 affordable rental and ownership homes annually. Since its inception in 1992, 359,849 homes have been completed, with almost 200,000 more underway.

- Each HOME dollar attracts $2.29 in other funds. The average HOME funding per unit is a cost-efficient $15,125.

- HOME is a block grant that works through states and localities. It is flexible in meeting local needs for both homeownership and rental housing. HOME may be used in the construction of new housing as well as the rehabilitation and preservation of existing housing. HOME serves families, the elderly, the disabled and the homeless.

- HOME reaches genuinely low-income families and communities. For rental housing production, 42% of HOME funds reach households with incomes below 30% of area median, and 82% help those with incomes below 50%. For homeowner assisted housing, 31% of HOME funds serve households with incomes below 30%, and 69% serve households with incomes below 50%. Of assisted homebuyers, 30% have incomes below 50% of median.

- Both nonprofit and for-profit developers are eager participants in HOME. Since the inception of the HOME program, 19% of allocated funds have been reserved for non-profit community housing organizations (CHDOs).

Additional Federal Tools

While HOME and Housing Credits work very well, there are limits to what they can do.

- First, it is very difficult to build rental housing for extremely low-income tenants without some kind of rental subsidy. The General Accounting Office reports that about 39% of the tenants in Housing Credit properties have incomes below 30% of the area median. [Source: GAO/GGD/RCED-97-55, page 136.] Similarly, HUD data show that about 42% of the tenants in rental housing financed by HOME funds have extremely low-incomes. These tenants cannot generally afford to pay enough rent to support the cost of operating a property. Rental subsidies – both project-based and portable – have helped Housing Credit and HOME financed properties to reach extremely low-income tenants. Such subsidies are seldom available in conjunction with housing production.

[3] HOME data from HUD's HOME fund report of 1/31/01.

- We appreciate that Congress last year enacted legislation to encourage project-based Section 8 rental assistance vouchers to promote mixed-income housing. However, HUD's interim guidance prohibits the use of this tool in neighborhoods with at least 20% poverty. It is precisely these communities that need new and rehabilitated mixed-income housing as part of a community revitalization program. We urge the Subcommittee to direct HUD to reverse this policy.

- We are aware that Congress has sometimes been reluctant to fund additional rental subsidies because the cost of annual renewals can be high. The Section 202 elderly housing program may offer a useful model for minimizing the cost of project-based subsidies. The annual cost of the rent subsidy component of Section 202 is only about $3,000, compared with about $5,800 for a Section 8 voucher. The difference is that Section 202 assumes that the government will pay the full cost of building the housing. The rent subsidy only has to cover the difference between the cost of operating the housing and what a tenant can pay. Section 8 vouchers start with a higher payment standard – fair market rent – so they must cover a larger affordability gap. Congress may wish to consider providing a project-based subsidy following the Section 202 structure, to facilitate the production of mixed-income family housing as well as housing for homeless and other special needs populations. In most cases a majority of the property would have no rental subsidies and would have to compete in the local housing market. HOME and Housing Credits would have to cover the full development cost of the targeted units, but we believe this approach holds great promise.

- Second, the Bush Administration has proposed a new single family housing tax credit, the "Renewing the Dream" tax credit, as part its $1.7 trillion tax cut bill. This new tax credit would attract nearly $2 billion of private investment annually for the construction and rehabilitation of homes in low-income communities for sale to low-income buyers. LISC strongly supports this new tax credit and urges the Congress to include it in any tax package enacted this year. The Renewing the Dream tax credit would make a huge difference for low-income communities and for low-income families. Expanding homeownership is a critical element of most communities' revitalization strategies. However, the existing housing stock often cannot meet the needs of homebuyers. Substantial rehabilitation or new construction are required, but large subsidies are necessary to bridge the gap between development costs and the price that the market can support and low-income buyers can afford. Existing programs like HOME cannot fill such large financing gaps. The Renewing the Dream tax credit can solve this problem, just as the Low Income Housing Tax Credit did for rental housing production.

Conclusion

The worsening housing shortage is a destructive side effect of economic prosperity, but we are in a good position to meet the challenge. For too many years we as a nation lacked confidence in our housing and community development programs. Now we know how to build housing while rebuilding whole communities and lives at the same time. For too many years federal budget deficits compelled our nation to defer these needed investments. As President George H.W. Bush used to say, we had "more will than wallet." Now that the budget is in surplus and our wallet is full, let us not lose the will to leave no child, no family, and no community behind.

CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR
THOMAS M. MENINO

Testimony of
Mayor Thomas M. Menino of Boston
And
Chairman, U.S. Conference of Mayors Advisory Board

Submitted to the
House Financial Services Committee
Subcommittee on Housing and Community Opportunity

May 3, 2001

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Remarks of Mayor Thomas M. Menino of Boston
Chairman, United States Conference of Mayors Advisory Board
Congressional Testimony before the
U.S. House Financial Services Committee
Subcommittee on Housing and Community Opportunity
May 3, 2001

Good morning Chairman Roukema, Ranking Member Frank, and distinguished members of the committee. I want to thank you for this opportunity to speak with you about an issue that dramatically affects people in cities and towns across this country.

As Chairman of the U.S. Conference of Mayors Advisory Board, I want to bring you the message that the comeback of our cities will not be complete until we have a national commitment to quality housing for everyone.

Affordable housing is an issue that I deal with on a daily basis. Every time I visit the neighborhoods for a ribbon cutting on a new business, the opening of a new park or attend a little league game, I meet a constituent who is being priced out of his or her home and the neighborhood where they hoped to raise their children.

Each story is a reminder that even prosperity has a price. And for cities like Boston that price is high – we risk becoming a place where only the very rich and the very poor can afford to live.

I know that Mayors across the country will agree with me when I say that the comeback of our cities has helped our country grow stronger and helped more Americans live better lives.

Cities are the economic engines of our country. The new census data shows – what many city leaders already knew – that our cities are more diverse than ever, and that we are gaining strength from that.

We have to keep our cities diverse. We have to make sure that everyone has the opportunity to share in what cities have to offer. One way to keep our cities growing is to make housing a top priority from Boston to Burbank.

The challenges cities face today are different from the ones we faced 8 years ago. Back then we had high unemployment, a high crime rate, and high interest rates were forcing many foreclosures on family homes. But today, there are 22 million new jobs, crime has dropped to a 25 year low, home ownership is at the highest rate it's ever been, and foreclosures continue to drop.

This is our chance to build on our success. We must extend the range of choices so that everyone – not just the fortunate – have access to a better life.

Cities like Boston are thriving in our new economy. In Boston, we've created 120,000 new jobs in the last 8 years, and the quality of life in our neighborhoods has never been better.

One of Boston's greatest challenges is a direct result of our new prosperity. We simply cannot produce enough housing to meet the demand.

It's hard to believe that in this time of record surpluses and record employment – working men and women who make a good salary are having a hard time finding an apartment or house that they can afford.

In Boston, the median mortgage is 1, 625 dollars a month, and the median price on a 2 bedroom apartment is now 16 hundred dollars a month. When you apply the standard of using 30 percent of a worker's income to go toward housing, here's what some individuals have to spend.

- A minimum wage worker -- $322,
- A janitor -- $456,
- An administrative assistant $724,
- And a computer programmer -- $1,588.

Those numbers show that even a computer programmer making 63 thousand dollars a year has trouble finding an affordable place to live. And I don't think any of us here today can imagine the anguish of trying to find a place to live with 3 hundred and 22 dollars in our pockets.

Affordable housing isn't just about assisting the poor and building public housing. It's about working people. It's about people who make a decent living and search the Sunday Real Estate Section and shake their heads and wonder how this happened. And it's about parents who wonder if their children can afford to live in the neighborhood they grew up in

I am proud of what Boston is doing to produce more housing.

- We've set aside 30 million dollars in city resources for housing;
- Last year, we had more than **2,600** housing starts.
- We saved **1,400** units from being converted to market rate.
- We announced a new 3-year housing strategy to increase housing production.
- We will use 8 million dollars in gap financing to renovate and fill 11 hundred units of vacant public housing.
- And since it was announced, we have permitted 1,997 more units and more than 1,000 of those units are affordable.

While we have accomplished a great deal, we're approaching the limits of what a city can do. We will keep moving forward. We will continue to come up with creative ideas. But our heart-felt efforts will never be enough until the federal government and state houses across the country return to the business of housing production.

Unfortunately, this year's budget for HUD does not show an adequate commitment to the issue of affordable housing. It cuts investments in public housing. It doesn't set aside enough to preserve the housing we have. And while we all applaud the progress we've made over the last 8 years with homeownership, 15 hundred dollars for a down payment won't buy much. Let alone solve the housing crisis.

And with all due respect to Secretary Martinez, poor management in public housing is not the reason why Section 8's aren't being used. They aren't being used because there is no place to use them in Boston.

Certain people in Washington seem to be more focused on how to cut taxes rather than on how to help people. The President's tax cut appears to be dictating the priorities. If you eliminate the top 2 percent and focus on low-income and middle income families, then you wouldn't have to cut:

- 700 million dollars from the Public Housing Repair Program;
- 310 million dollars in Public Housing Drug Elimination funds;
- 40 million dollars for Section 8 vouchers for low-income disabled tenants;
- And tax incentives to increase development in the Inner Cities.

Those incentives were developed by a bipartisan coalition, including Speaker Hastert. They should be highlighted, not hijacked.

"Housing Crisis" is the phrase that's used a lot in Boston. But I don't think it's used enough across the country and especially in Washington.

Nor do people truly understand the fear, despair, and frustration that so many parents feel when they've learned that their rent has increased. Or the seniors who have served their country well only to learn that they are being priced out of their apartment due to something called "expiring use". Or the disabled who are forced to choose between keeping their medical care or loosing their housing.

The housing crisis continues to impact cities in a number of ways. Homelessness has increased 63 percent since 1990. The number of children living in shelters has tripled. Families represent 34 percent of the homeless population. Food pantries have seen a steady increase of 10 percent a year. And more students are being deprived of an education because they simply can't get a goodnight's sleep in the family car.

These are real moments of crisis for real people. It happens every day in every city and town across America. And that's why -- city leaders, banking leaders, and leaders on this committee and in the House -- have to come up with a national housing agenda **now.** Not next year or the year after that but now.

The market won't fix this crisis. We have to.

It's time to:

- Create a new national housing production program. There is bipartisan support for such an initiative and I want to commend **Senator John Kerry** of my state and **Senator Kit Bond** of Missouri for recognizing this need. As well as, Congressman Capuano and Congressman Frank;
- Increase the Low Income Tax Credit to help developers who build moderate income units as well. We know that mixed income housing works, let's provide the incentives to build it;
- Encourage more flexibility in HOME to aid new homeowners;
- And it's time for the federal government to provide matching dollars to states and cities that invest in housing. Let's reward those who step forward and put their own resources on the table.

The bottom line is we need the federal government to be our partner. Back in the 1970's, it produced almost 250,000 units a year. Now, it's a mere trickle while demand continues to rise.

It's important to say that we shouldn't go back to days when we built 30 story eyesores that destroyed the quality of life in the neighborhoods. Today, we know how to do things right. We know how to build not just housing units but communities as well.

In Boston, thanks to the HOPEVI grants we transformed two public housing developments: Mission Main and Orchard Gardens. And I invite this committee, all of Congress, Secretary Martinez and the administration to look at how we worked with local partners. Not only do those units mean a great deal to the people who live there, but the common-sense approach to building housing that blends with the neighborhood has helped revitalize those parts of the city.

I am proud of our efforts in Boston. We have an ambitious housing agenda. There are plenty of programs out there -- in a number of cities -- that show how to build housing in the right way.

This is our chance to use our nation's surplus wisely. Housing isn't a luxury; it's a fundamental right. With trillion dollar surpluses, families shouldn't be sleeping in cars, working men and women shouldn't live in tents, and our seniors shouldn't spend their later years trying to survive on the streets.

We can right these wrongs by making housing a national priority. I want to thank you for this opportunity to speak with you today. I know that if we work together, we can make a difference and create quality housing for everyone. Thank you.

NAHB
NATIONAL ASSOCIATION
OF HOME BUILDERS

Statement of Robert Nielsen
on behalf of the
National Association of Home Builders

Before the Subcommittee on Housing and Community Opportunity

United States House of Representatives
Washington, DC

May 3, 2001

ACROSS THE COUNTRY · HOME BUILDERS CARE

Critical Housing Needs

The national homeownership rate, the percentage of households who own their own home, reached an all-time peak of 67.1 percent in the first quarter of 2000, and an all-time annual peak of 66.8 percent in 1999. Certainly a robust economy has been a contributing factor. In fact, the market-driven housing market is as healthy as it has ever been. New home sales hit a new record in March of this year and existing home sales were up as well. Mortgage interest rates remain very competitive and many home owners are finding this a good time to sell their existing home and buy a new or another existing home.

However, there are many, many households left behind who cannot afford even the barest of housing. A recent study from researchers at the University of North Carolina commissioned by the Center for Housing Policy found that 13.7 million Americans pay more than half their incomes for housing or still live in substandard housing. Census Bureau data show that the homeownership rate among young households is still below the peak that it reached in the late 1970's and that the homeownership rate for minorities is still 20 percentage points below the national average. HUD's latest update on the worst case needs reaffirms that millions of renter families cannot find affordable rental housing. We know from our builder members across the country that some new home buyers must commute long distances to work because they cannot find affordable housing in the communities where they work. In other words, there is a critical shortage of affordable housing that affects many segments of our society. This testimony reflects NAHB's recommendations on numerous programs or proposals for addressing our housing needs.

FHA Multifamily Mortgage Limits

The FHA multifamily mortgage insurance programs support new construction and substantial rehabilitation of apartments and are a cornerstone of efforts to meet the critical needs for affordable rental housing. The existing statutory mortgage limits for these programs are too low, preventing usage of the program in a number of major markets.

There is a dramatic shortage of rental housing affordable to moderate-income working families in many areas across the country. A report published by the National Housing Conference's Center for Housing Policy noted that more than 730,000 working families with one or more blue-collar workers spend more than half their incomes for housing, as do more than 550,000 service workers and a similar number of retail sales workers.

One factor contributing to the shortage of affordable housing, especially in high-cost areas, is the fact that the FHA multifamily mortgage limits have not been increased since 1992. Construction, land and other costs have increased dramatically during that period. The Annual Construction Cost Index, published by the Census Bureau, increased over 23 percent. In addition, preliminary results from a recent survey conducted by NAHB's Economics Department show that land costs in 10 metropolitan areas have increased by an average total of 25 percent over the past eight years.

These rising construction and other costs have resulted in a shortage of moderate cost or affordable rental units. Rent increases now exceed inflation in all regions of the country, and new affordable units are increasingly rare. Because of current dollar limits on loans, FHA insurance cannot be used to help finance construction in a number of high-cost urban areas. Statistics published by FHA show that in high-cost areas, such as New York and Philadelphia, only a few multifamily loans providing new or substantially rehabilitated affordable rental units have been insured in the last six years.

NAHB has proposed that the current statutory mortgage limits be increased 25 percent, which is consistent with reported increases in construction and land costs. We applaud Housing Subcommittee chair and ranking member Marge Roukema (R-NJ) and Barney Frank (D-MA) in introducing legislation (H.R. 1629) that would provide such an increase. NAHB feels it is also important that the limits be indexed based on increases in the Annual Construction Cost Index so that the programs can continue to meet demand with out additional interruptions. Increasing the dollar limits for multifamily loans that can be insured by FHA will foster the development of affordable housing, especially in high-cost center city areas where it is needed most.

Credit Subsidy Appropriations for FHA Multifamily Mortgage Insurance Programs

A more immediate problem blocking the use of FHA multifamily mortgage insurance in meeting affordable housing needs is inadequate funding in the federal budget. The Department of Housing and Urban Development must receive budget appropriations, in the form of credit subsidies, to operate the FHA's multifamily mortgage insurance programs. Such appropriations are required by the Federal Credit Reform Act, which applies to all federal direct loan and guarantee programs. The purpose is to recognize the potential cost of these programs in the federal budget.

For each program, the required credit subsidy is the dollar amount of losses that are expected over the life of the loans that are made or guaranteed in the budget year. The Office of Management and Budget establishes subsidy rates for each federal loan and guarantee program, based on an evaluation of the historical performance of those programs. The subsidy rates determine the amount of money that must be appropriated for any given level of program activity. (Programs that produce income rather than losses are assigned, what is called, a negative subsidy rate. Higher activity levels in these programs, which include the FHA single family mortgage insurance program, increase federal budget revenues.)

Each of the different FHA multifamily mortgage insurance programs has been assigned an individual credit subsidy rate. Based on projected program activity in each of these programs, it is estimated that FHA will require about $255 million in credit subsidies to operate the multifamily mortgage insurance programs in FY 2001. Only $101 million was appropriated, however, and that amount was exhausted before the end of April 2001. Such a shortfall means the loss of production of 50,000 units of affordable rental housing. In addition, the President's FY2002 budget proposal for HUD seeks no credit subsidy funding for multifamily mortgage insurance. The budget instead proposed to increase the mortgage insurance premiums for these programs, which would eliminate the need for credit subsidy but would undercut the ability of the programs to provide affordable rental housing.

NAHB is seeking the enactment of a supplementary appropriation of $155 million (including utilization by HUD of $40 million of already-appropriated conditional credit subsidy funds) of credit subsidy for FHA multifamily mortgage insurance programs. NAHB is also seeking inclusion in the FY2002 budget of credit subsidy funds sufficient to meet the demand for FHA multifamily mortgage insurance in that year.

Over the longer term, NAHB joins many other housing and real estate organizations in supporting H.R. 1481, "The FHA Shutdown Prevention Act" introduced by Rep. John LaFalce (D-NY). H.R. 1481 would allow the negative subsidy (the profits made by programs within the General and Special Risk Insurance account) to be used in the event of a future shortfall in credit subsidy. NAHB urges members to cosponsor and support movement of this legislation.

New Multifamily Housing Production Initiative

There is a need for a new multifamily housing production program that would meet the affordable rental housing needs of households with incomes between 60 percent and 100 percent of median income, America's "working poor," achieving an annual production goal of between 60,000 and 70,000 multifamily units.

The unprecedented economic expansion that our country has enjoyed for the better part of this decade has done little to solve America's affordable housing crisis. In fact, an estimated three million moderate-income working families continue to pay more than half their incomes for housing or live in severely deteriorated housing units.

As mentioned earlier, a recent study by the National Housing Conference's Center for Housing Policy shows that a significant number of American renter families spend more than half their total incomes on housing and/or live in severely inadequate units. The report went on to say that vital municipal workers – such as teachers and police officers – are also increasingly vulnerable. More than 220,000 teachers, police, and public safety officers across the country currently spend more than half their income for housing, and the problem is growing worse. In short, the study says that having a job does not guarantee a family will have a decent place to live at an affordable cost.

Federal housing policy for the past 20 years has been targeted almost exclusively to the needs of American families who make up our lowest income populations. While these families continue to need assistance, it is clearly time to recognize that public policy focused exclusively on the lowest-income Americans does not begin to address the scope of the problem. NAHB estimates that at least 60,000 to 70,000 new multifamily units annually are needed for America to begin to meet the housing needs of working families.

Early last year, NAHB formed a working group comprised of leading multifamily builders and lenders from across the country to develop the basic tenets of a new multifamily housing production program. This new production initiative would reaffirm the goal established by Congress in the 1949 Housing Act to "provide a decent home and suitable living environment for every American family."

The new program would be targeted to households with incomes between 60 and 100 percent of area median income (115 percent in high cost areas) who are not currently served by federal or other publicly supported housing programs. Mixed-income projects would be encouraged and set-asides of funds for the production of housing for the elderly (some with service components), small projects, and rural housing development opportunities should be considered. Lower or very-low income residents and housing could be supported through increased funding for vouchers, tax credit increases, HOME or Community Development Block Grant funds.

NAHB recommends that the new housing production program provide a very low (1 percent) fixed interest rate. Interest rate risk was identified as the most pressing issue facing developers. An interest rate reduction and stabilization program would eliminate this risk and provide a solid project base. The Section 236 program could be used as the basis for the design of this program, but a new initiative should incorporate greater returns, particularly for small projects; greater flexibility for commercial space; and, vouchers for elderly and other special need populations. To assist in filling any financing gaps, the new program should be compatible with existing housing and community development programs such as CDBG, HOME, FHA Mortgage Insurance, and the Low Income Housing Tax Credit program. Very low-income residents would be limited to no more that 15-25 percent of an entire development to further promote income mixing and make these developments more acceptable to local communities and neighborhoods.

While the exact flow of funds in a new program requires discussion among the affected parties, funds could be allocated on a per capita basis. This could be coupled with some minimum "bonus" award to those who reduce barriers and regulatory burdens related to affordable housing production as well as to those that provide state or local contributions either monetary or in-kind.

Housing Impact Statement

NAHB strongly supports removing regulatory barriers that affect housing affordability. Home building is a highly regulated activity. Perhaps in no other industry must the producer obtain a permit or undergo inspection for each individual unit of the entire production. For example, home builders must comply with site-development standards, while applying for building permits and undergoing building code inspections. The effect of regulation on the affordability of housing is undoubtedly negative. Layers of excessive and unnecessary regulation imposed by all levels of government, - federal, state, and local- can add between 20 percent and 35 percent to the cost of a home, which translates into thousands of dollars, making it difficult, or even impossible for families to own their home or find affordable rental housing.

NAHB is working with Congressman Mark Green (R-WI) towards a legislative proposal, which would require certain relevant agencies to designate a staff position to monitor the rulemaking processes to determine whether a particular rule would have a detrimental impact on housing affordability. We commend Rep. Green for his leadership on this issue and want to offer our assistance in any way we may be helpful.

Low-Income Housing Tax Credit "Eligible Basis" Clarification

The low-income housing tax credit has provided a key part of the financing for nearly all the affordable rental housing built in the last decade. The credit, in effect, provides equity financing which allows for lower mortgage amounts, reduced debt service and, therefore, more affordable rents for tenants at or below 60% of area median income. Each state receives an allocation of tax credits in an amount based upon population. Developers compete for credits to build properties based upon a state designed Qualified Allocation Plan. Each state agency evaluates the proposed costs associated with each property to assure that the amount of credit allocated to a property is not more than necessary to finance the project. The amount of credits an agency allocates is based on a percentage of the property's "eligible basis." Eligible basis is, in turn, based upon certain of a property's development costs.

We understand that the House Financial Services Committee does not have jurisdiction over tax issues, but we wanted to raise an issue involving the low-income housing tax credit (LIHTC) with the members of the Housing Subcommittee. The Internal Revenue Service (IRS) has made public five Technical Advice Memoranda ("TAMs") which have been applied industry wide. These TAMs " attempt to set forth standards for determining what costs are includable in eligible basis for purposes of calculating the low-income housing tax credit. They are creating a program-wide disruption in the allocation of credits and the development of affordable housing. In fact, the IRS is applying these new restrictive rules to existing properties under audit, as well as urging state agencies to apply them to properties being proposed for development

While the program has been in existence for fourteen years, the TAMs took aggressive positions contrary to common industry practice that would eliminate from tax credit eligible basis reasonable, legitimate and necessary costs incurred in typical transactions. The economic result of the TAMs would be to reduce the level of equity financing available for each project making a number of affordable housing properties financially infeasible and weaken the economics of those that still pass minimum underwriting requirements. The TAMs also have created uncertainty among investors as to whether the credits for which they have paid will be realized. The TAMs, therefore, threaten to reduce the amount which investors will be willing to pay for each tax credit. This loss of efficiency hurts both low-income tenants and the Federal taxpayer, by further reducing the amount of housing that can be produced from a given amount of tax credits. Finally, the TAMs would impose an indefensible administrative burden upon owners of affordable housing properties, state agencies and the IRS, itself, in order to prove compliance to auditors.

Under the positions taken by the TAMs, state and local impact fees, which must be paid as a condition of developing a property, would not be includable in eligible basis. These fees, covering a wide range of infrastructure improvements (e.g., sewer lines, schools, roads), are imposed because of the "impact" of construction improvements on the land and would not be incurred if the land remained undeveloped.

Furthermore, under the TAMs, certain landscaping and other land improvements would be includable while other, equally legitimate, costs would be excluded. For example, the developer of a low-income housing tax credit property would have to distinguish between trees and shrubs planted near the building and those on the rest of the property. In addition, to properly determine the developer fees allocable to the land and to the building, the developer would have to keep track of the time he spent with the landscaper outling and describing the shrubbery near the building compared to shrubbery planted elsewhere on the property.

Rep. Nancy Johnson (R-CT) has agreed to introduce legislation that would allow certain development costs which have been included in tax credit eligible basis as generally accepted industry practice to continue to be includable in basis eligible for the low-income housing tax credit. To accomplish this, the legislation introduces the concept of "development cost basis" and then specifically identifies costs that will qualify. The identified costs include: site preparation costs, state and local "impact" fees, reasonable development fees, professional fees related to basis items, and construction financing costs (but not financing costs to acquire land). Including these development costs in the eligible basis of Low Income Housing Tax Credit affordable housing projects will achieved the objective of providing increased quality affordable housing for each tax credit dollar. NAHB strongly supports this legislation and urges its speedy enactment.

Testimony on Housing Affordability
House Committee on Financial Services
Subcommittee on Housing and Community Opportunity

Barbara J. Thompson,
Director of Policy and Government Affairs
of the
National Council of State Housing Agencies

May 3, 2001

Chairwoman Roukema, Representative Frank, and members of the Subcommittee, I am Barbara J. Thompson, Director of Policy and Government Affairs for the National Council of State Housing Agencies (NCSHA). I will become NCSHA's Executive Director on July 1.

I am testifying today on behalf of NCSHA, which represents the Housing Finance Agencies (HFAs) of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands.

At the outset, I want to thank you, Chairwoman Roukema, Representative Frank, and the many other members of this Subcommittee who cosponsored legislation enacted in the last Congress to increase substantially the caps on tax-exempt private activity bonds (Bonds) and the Low Income Housing Tax Credit (Housing Credit) and index them for future inflation. With this increased authority, tens of thousands of additional lower income families each year will have the opportunity to buy their first home or rent a decent, affordable apartment.

Unfortunately, even with these increases, many people qualified to receive housing help under these programs still are not getting it, because of three obsolete provisions: the Ten-Year Rule, which forbids states to recycle billions of dollars in MRB mortgage payments to make new mortgages; MRB purchase price limits, which are based on eight-year-old home sales data, despite a 30 percent increase in home prices in the last eight years; and Housing Credit income and rent rules, which make development infeasible or very difficult in very low income, frequently rural, areas.

Representatives Houghton (R-NY) and Neal (D-MA) have introduced H.R. 951, the Housing Bond and Credit Modernization and Fairness Act of 2001, to fix these problems. Thank you, Chairwoman Roukema and Representative Frank, for your early cosponsorship of this important bill. We urge all members of the Subcommittee to cosponsor H.R. 951 soon and to ask your leadership and Ways and Means colleagues to include it in a tax bill this year.

The State HFA Affordable Housing Delivery System Works

During the last three decades, state HFAs have assumed a primary role in financing affordable housing. Their success in blending business-like efficiency with accomplishing their public mission has earned them the respect of the Congress, their states, and the community at large.

Congress, in turn, has entrusted state HFAs with administering the Bond and Housing Credit programs, the only federal programs dedicated to financing lower income first-time homebuyer mortgages and low income apartment construction.

Congress has also empowered the states to administer the HOME program, FHA-HFA multifamily risk-sharing, and Section 8 restructuring and contract administration and to borrow funds directly from the Federal Home Loan Banks. Employing these and other programs and resources, state HFAs administer the full range of affordable housing programs, including homeownership, rental, homeless, and all kinds of special needs housing.

State HFAs have strong management, broad experience in underwriting and finance, and expert staffs which number as many as 300 in the larger agencies. They have issued nearly $140 billion in Bonds to finance homeownership and apartment construction without a default and with foreclosure and delinquency rates far lower than industry averages.

State HFAs have achieved significant results, but they do not work alone. HFAs have built strong partnerships with local governments, nonprofits, the private sector, resident and community groups, and service providers to address the unique and diverse housing challenges they confront. The results are dramatic. HFAs have financed more than 2 million first-time, lower income homebuyer mortgages and more than 1.8 million apartments, including more than 1.2 million through the Housing Credit.

State HFAs have also been strong and successful partners with HUD, when HUD rules have permitted them to use their talent and expertise to do the job. Most recently, 33 HFAs have assumed HUD's responsibility for the administration of 750,000 Section 8 project-based units.

HFAs have accomplished these results because Congress has empowered them to employ federal resources flexibly and leverage them to meet a variety of affordable housing challenges. As you well know, housing needs and conditions vary dramatically among and within states. One-size, Washington-driven housing solutions simply don't fit all.

That's why programs like the Housing Credit and Bonds are so successful. They let states and their partners respond effectively and imaginatively to their most pressing housing needs.

Build On What Works

With your leadership and support, we've won some important affordable housing battles in recent years—more HOME funding than ever before, tens of thousands of new vouchers after years of none, steady renewal of Section 8 contracts previously in jeopardy, and Bond and Credit cap increases of a size few thought possible. But we're still not winning the war. HUD's budget is half what it was two decades ago, and the Bond and Credit cap increases aren't even enough to restore the purchasing power of those vastly oversubscribed programs.

Meanwhile, one out of every seven American families has a critical housing need. That's 13.7 million families, ranging from the very poor to the middle class, according to The Center for Housing Policy's June 2000 report, *Housing America's Working Families.*

Indisputably, though, those families hit hardest are those with the least income. Of the more than 13 million families with critical housing needs, 80 percent earn 50 percent of area median income (AMI) or less. Nearly 60 percent have incomes of 30 percent of AMI or less.

HUD's 1999 Worst Case Housing Needs study shows that the number of rental units affordable to extremely low income households (households with less than 30 percent of AMI) dropped by 750,000 and the total number of units affordable to very low income households (those with less than 50 percent ofAMI) fell by 1.14 million between 1997 and 1999. HUD found that in every region of the country, rental housing affordable to extremely low income renters was in shorter supply than housing affordable to other income groups.

The Joint Center for Housing Studies of Harvard University's 2000 report, *The State of the Nation's Housing,* reveals that, "Between 1993 and 1995, the number of unsubsidized units affordable to very low income households was down 8.6 percent—a decrease of nearly 900,000 units. At the same time, the number of units affordable to extremely low income households—those with incomes less than 30 percent of area median income—fell by an even more alarming 16 percent."

In the face of growing need among extremely low income families, state HFAs report increased difficulty housing them. Though the GAO reported in 1997 that Housing Credit properties with additional subsidies were reaching families with average incomes of 25 percent of AMI, state HFAs simply do not have sufficient subsidies to begin to meet the need.

Some will suggest that the Congress provide federal resources to address rental housing needs across the income spectrum. That may be a laudable goal. But while we have a scarcity of housing resources, we urge you not to divert resources from those with the most acute housing needs. We ask you to reject proposals to increase the income limits on existing rental programs, such as the Housing Credit, Bonds, and HOME, the resources for which are insufficient to meet the needs of those they are presently designed to serve.

Clearly, existing resources are insufficient to meet the nation's rental production needs, particularly those of extremely low income families. That's why one of NCSHA's highest legislative priorities and a priority of the National Governors Association is the creation of a new, state administered rental production program, targeted in significant part to extremely low income families. We want to work with you to design a program that builds on the success of programs like Bonds and the Housing Credit, utilizes the existing, proven state HFA delivery system, and is integrated with existing state housing allocation plans and funding systems.

States are in the best position to combine new, flexible funding with Bonds, Housing Credits, and other resources to reach extremely low income families. States know their housing needs and markets and have proven delivery systems in place that can provide one-stop shopping to the development community. State administration will also assure that the impact of whatever limited funding Congress makes available is not diluted by the distribution of funds to hundreds of local communities, as under the HOME program.

The program will only work, however, if states are given the flexibility they need to tailor innovative solutions to their unique and varied housing problems. HUD regulation must be limited to that which is necessary to assure nondiscrimination and accountability for the use of funds to achieve the goals Congress has set. Irrational and unnecessarily burdensome rules, regulations, and reporting requirements frustrate state HFAs and their partners, smother creativity, and delay results.

We propose that the new funds be allocated by state HFAs, subject to a state allocation plan, modeled on the Housing Credit qualified allocation plan. The plan, developed with extensive pubic input, would identify the state's priority rental housing needs and strategies for using the funds to address them.

States should be empowered to use funds for a wide range of activities, including tenant and project-based assistance, new construction, rehabilitation, preservation, and operating assistance. Funds should not be encumbered with program set-asides.

Finally, it is essential that any new program's income, rent, and other rules be compatible with those of other federal housing programs, for its combination with them will almost always be necessary to reach extremely low income families. This also creates an opportunity to streamline programs like HOME and the new Section 8 project-based voucher program, which are burdened with and limited by unnecessary federal directives.

A new program, regardless of its size, is not the whole answer. We must continue to improve existing programs that work through increased funding, deregulation, and where possible and practical, devolution of their administration to the states. That's why your support of the improvements NCSHA is seeking to Bonds and the Housing Credit through H.R. 951 is so important.

We also urge you to reauthorize HOME at a level sufficient to restore its purchasing power and extend its reach. Though Congress first authorized HOME at $2 billion more than a decade ago, HOME funding has never exceeded its present $1.8 billion. It would require an appropriation of $2 billion just to make up for inflation since HOME was first funded in FY 1992. We urge you to join us in urging House appropriators to provide at least $2.25 billion for HOME in FY 2002.

Thank you for the opportunity to share what state HFAs are doing and hope to do to create affordable housing opportunity. NCSHA and our member state HFAs are very grateful for your enthusiastic and sustained support of affordable housing. The state HFAs will continue to do their best to use federal affordable housing funds efficiently, effectively, and creatively, under the conditions unique to their states, and to earn the trust that Congress has placed in them.

The Premier Association of Real Estate Finance

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STATEMENT OF

John A. Courson

Vice President

Mortgage Bankers Association of America

on behalf of the

Mortgage Bankers Association of America

before the

Subcommittee on Housing and Community Opportunity

of the

Committee on Financial Services

U.S. House of Representatives

Hearing on

Housing Affordability

May 3, 2001

Statement
of the
Mortgage Bankers Association of America
before the
Subcommittee on Housing and Community Opportunity
House Financial Services Committee

May 3, 2001

Madam Chairman and members of the subcommittee, my name is John A. Courson. I am President and Chief Executive Officer of the Central Pacific Mortgage Company, Folsom, California. I am appearing before you today in my capacity as Vice President of the Mortgage Bankers Association of America (MBA)*. Accompanying me is Howard Glaser, Senior Staff Vice President for Government Affairs. MBA is grateful to have the opportunity to testify before the Subcommittee on Housing and Community Opportunity on the important subject of the crisis in affordable housing in the United States. We look forward to working with members of the subcommittee on initiatives that will help to alleviate this serious and deepening problem.

Today, in spite of a decade of economic growth and a still strong, but slowing economy, there is a crisis in affordable housing. As would be expected, this crisis certainly affects the poorest of the poor, but it is not limited to low-income families. This is a crisis that is deepening, and that is affecting more and more of America's working families. It is hurting people in many walks of life, including teachers, police officers, municipal workers and even people who work here in Congress. It is felt in every area of the country, although it is most severe in older cities that have limited supplies of housing stock. It affects renters, those who are trying to achieve the American dream of homeownership, and even those who already own their homes.

There are many statistics that document the problem. Last year, the National Housing Conference published a groundbreaking report entitled ***Housing America's Working Families***. This report states that, in the midst of unprecedented economic prosperity, one out of every seven American families, or 13.7 million households, faces a

*MBA is the national association representing the real estate finance industry. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand home ownership prospects through increased affordability; and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters excellence and technical know-how among real estate finance professionals through a wide range of educational programs and technical publications. Its membership of approximately 2,800 companies includes all elements of real estate finance; mortgage companies, mortgage brokers, commercial banks, thrifts, life insurance companies and others in the mortgage lending field. For additional information visit MBA's Web site: www.mbaa.org.

critical housing need. A "critical housing need" is defined as paying more than 50 percent of household income for housing, or living in severely dilapidated housing. As stark as this statistic is, it is not the entire story. The number of moderate-income families facing critical housing needs is significant and growing. In 1997, 1.2 million working families with moderate incomes were in this group. By 1999, the number had grown to 1.7 million, an increase of 38 percent. Between 1997 and 1999, the number of moderate-income families at the higher end of the income scale—earning 80 to 120 percent of median income—facing critical housing needs increased by 74 percent. Every year, more and more American families, often families with one or even two full-time wage earners, cannot find or afford decent housing.

Why is there a crisis in affordable housing?

What are the causes of this crisis? Why is it getting worse? There are a number of reasons. For one thing, there is simply not enough housing stock. This is particularly true in older, more established cities, such as Boston, San Francisco and Newark. The lack of existing housing, especially multifamily housing, has made cities, such as these, virtually unaffordable for many of the people who work in them. New Jersey ranks as the least affordable state in the country, and Massachusetts ranks as number four. A minimum wage worker making $5.15 in New Jersey would have to work 131 hours *per week* to earn enough to afford the fair market rent for an average two-bedroom rental.

Although the situation is dire in cities, such as Newark, New Jersey or Boston, other parts of the country are not immune. In Green Bay, Wisconsin, a full-time worker being paid the federal minimum wage would have to work eighty-one hours a week just to pay the rent on a two-bedroom apartment. In fact, there is not a single jurisdiction in the country where a full-time minimum wage worker can afford the HUD-defined fair market rent for a two-bedroom apartment. Further, there is evidence that housing prices are continuing to rise. According to Harvard University's Joint Center for Housing Studies, rents have been rising faster than inflation for each of the last three years.

One of the basic laws of economics—supply and demand—is at play in this crisis. Rents and home prices are high, and are continuing to rise, because supply is low. There are a number of reasons why there is a shortage of affordable housing. Production of new housing, particularly that built through private/government partnerships, such as those utilizing Federal Housing Administration (FHA) programs, is very low. Existing housing that is severely dilapidated or in disrepair is not being rehabilitated, and there is not enough preservation of older multifamily and single family units.

One significant cause of the current shortage in rental housing has been FHA's recent absence from the rental housing market in many high cost areas. FHA insurance is one of the most productive tools for motivating the market to increase affordable rental housing. However, in many cities across the country, FHA has not insured any new multifamily development in several years. A recent study by the Coalition for Affordable

Rental Housing, of which MBA is a founding member, found that in 2000, in fifteen large cities the FHA failed to insure a single new development. *Last year, no new developments were funded in Baltimore, Birmingham, Boston, Cincinnati, New York City, Providence, Salt Lake City, San Francisco, Syracuse or Tampa.* In over half of these cities, including Boston, New York and Syracuse, no new units have been insured for the *past four years*. In 2000, only one project was funded in Dallas, Los Angeles and Washington, D.C. Altogether, over the past four years, fewer than 130,000 units in the entire country have been insured by the FHA. This is due to certain program constraints that will be discussed in this testimony.

On the homeownership side, while the nation's overall homeownership rate has reached an all-time high of 67.5 percent, minorities have unfortunately not achieved an equal level of homeownership. In the final quarter for which we have numbers, an impressive 74 percent of white families owned their own homes, compared to only 48 percent of African-American families and 47 percent of Hispanic families. More has to be done to help minority families achieve the dream of homeownership.

Clearly, the crisis in affordable housing is real, and it affects every congressional district in the country. The crisis has deepened during the last decade, and as the economy slows, unless Congress and the administration take action, a growing number of families will be unable to find a decent place to live.

What are some of the solutions to the crisis in affordable housing?

MBA believes that the federal government has a critical role to play in both increasing the supply of affordable rental housing and expanding home ownership. Earlier this year, MBA released *A Blueprint for Reform from the Real Estate Finance Industry: Building Communities, Expanding Homeownership, Improving Access to Credit.* This document lays out an agenda to increase affordable housing and expand homeownership. Many of the steps outlined in this *Blueprint for Reform* require only small legislative changes. Some can be achieved through simple regulatory adjustment. If implemented, we believe that these measures will have a positive impact on attracting investment to build neighborhoods, and will go a long way toward making housing more affordable and available. The recommendations contained in MBA's *Blueprint for Reform* include improving and strengthening FHA programs, increasing HUD's efficiency, enacting brownfields legislation and more.

Strengthen FHA as a source of credit for affordable homeownership. FHA was created in 1934 to increase affordable homeownership opportunities for American families, improve housing conditions in America and provide a stabilizing force for the American economy. Over the years, FHA has made capital available for the nation's single family housing market by providing government insured financing on a loan-by-loan basis. Today's FHA single family mortgage insurance program helps to provide mortgage credit to families who are underserved or not served at all by the private mortgage insurance market. The FHA program is a stabilizing influence in the nation's housing markets at times and in places where private mortgage insurance is not in sufficient supply.

Increase the FHA multifamily mortgage insurance loan limits. FHA multifamily mortgage insurance has traditionally been a key financing mechanism for the production of housing in urban areas, but the maximum mortgage limits have not been increased since 1992, making the programs unworkable in most areas. An increase in the FHA multifamily loan limits would be a first step in addressing part of this problem. MBA is pleased that both Department of Housing and Urban Development (HUD) Secretary Martinez and Chairman Roukema favor a 25 percent increase in the loan limits. MBA supports HR 1629, "The FHA Multifamily Housing Mortgage Loan Limit Adjustment Act of 2001", which was introduced by Chairman Roukema and Representative Barney Frank on April 26. FHA maximum mortgage limits should be indexed to reflect future cost increases, and maximum high cost percentages should be increased to allow for production in extremely expensive markets such as New York City, Boston and San Francisco. During an April 26 hearing on the HUD budget, Secretary Martinez, in response to a question from a member of the subcommittee, stated that he would consider indexing any increase to allow for inflation and market differences.

Reform credit subsidy. Effective for FY1992, the Federal Credit Reform Act changed the budgetary treatment of credit programs, including loan guarantee programs. In addition to estimating the losses from anticipated defaults on loans in its current portfolio, FHA is required to estimate the net costs to the government of insuring new mortgage loans. Also, agencies must have budget authority to cover the projected costs of a program to the government, before new loan guarantee commitments are made. The act requires FHA to determine, on an annual basis, an appropriate loan loss reserve—known as credit subsidy—for each of its programs. FHA management must accumulate sufficient, relevant and reliable data that provide a sound basis for the agency's estimates of future loan performance.

HUD and OMB have maintained that the FHA new construction programs required an annual appropriation of credit subsidy based on the prior default experience of the programs. It has become increasingly difficult to accurately project the amount of credit subsidy needed each year. The critical nature of the credit subsidy appropriation became apparent last month. Due to increased demand for the programs, a backlog of unfunded projects at the beginning of the fiscal year and an inadequate appropriation to cover this need, HUD ran out of credit subsidy for FY 2001 on April 19 and shut down the programs in the General Insurance and Special Risk Fund (GI/SRI Fund) that require credit subsidy.

This is a critical situation. Unless some action is taken the new construction or substantial rehabilitation of over 55,000 apartments with a total mortgage amount of over $3.75 billion will not take place. Without these funds, these projects will not be built and developers who have invested hundreds of thousands of dollars in up-front costs for land options, plans and specifications and other pre-development costs will lose those investments. In addition, this opportunity to provide an immediate economic stimulus will be lost. MBA estimates that the 55,000 units would generate over 80,000 new jobs, \$3.4 billion in new income to workers and business owners, over \$400 million in new local taxes and fees and over \$850 million in new federal taxes. All of this would result from an appropriation of only \$155 million.

There are several steps that can be taken to ensure that both the current and long-term problems with the FHA multifamily credit subsidy are resolved. First, we urge the administration to comply with the restrictions placed on the appropriation of \$40 million in credit subsidy included in the "Legislative Appropriations Act, 2001" passed last December. Release of these funds would result in the immediate reopening of the multifamily new construction and substantial rehabilitation programs. This \$40 million, which has already been appropriated, will provide for the new construction or substantial rehabilitation of over 15,000 units of rental housing with a mortgage amount of over \$1 billion. Second, MBA believes that an additional appropriation of \$115 million for FY 2001 would provide sufficient funds to keep the programs operational for the entire fiscal year.

Finally, with regard to credit subsidy, MBA seeks the support of members of the subcommittee for legislation that would allow the use of the profits generated by programs in the GI/SRI Fund—negative credit subsidy—to fund programs that experience a shortfall in credit subsidy. Representatives LaFalce and Frank have introduced "The FHA Shutdown Prevention Act" (HR 1481) that would allow negative credit subsidy made by programs within the GI/SRI Fund to be used in the event of a future shortfall in credit subsidy. This legislation presents one alternative to the current credit subsidy appropriations procedure.

Delay any increase in the Mortgage Insurance Premium. The administration has proposed a 60 percent increase in the annual mortgage insurance premium for its basic new construction and substantial rehabilitation program so that this program will not require an appropriation of credit subsidy. MBA believes that such an increase is unjustified and unnecessary. The Section 221 (d)(4) program has had an excellent track record over the past thirteen years. Even with the housing recession in the early 1990s, the claims rate on these loans has been less than 5 percent. MBA is working with OMB and HUD to ensure that the assumptions used in their credit subsidy calculations reflect the types of loans currently being underwritten, as required by the Federal Credit Reform Act. Once the assumptions are accurate, if they demonstrate a need for an increase in the mortgage insurance premium to make the program break even, we will not object to an increase. However, with the current formula and assumptions, the 30 basis point increase in the Mortgage Insurance Premium (MIP) from .50 to .80 percent will, we believe, have the unintended consequences of increasing rents and making many projects unfeasible.

Expand FHA's adjustable rate mortgage (ARM) product line. The Fiscal Year 2002 budget for HUD authorizes a new ARM product—hybrid ARMs—for FHA. MBA fully supports this action.

Hybrid ARMs have an initial fixed interest rate period of at least three years and thereafter the interest rate adjusts annually. These are commonly referred to in the industry as 3/1, 5/1, 7/1, 10/1 ARMs and are common conventional loan products. Hybrid ARMs carry interest rates that are lower than fixed rate loans, but are less risky than the current one year adjustable rate mortgage offered by FHA. Thus, hybrid ARMs strike a more appropriate balance between affordability and risk than do one-year ARMs. The current 30 percent limit on the percentage of FHA business that can be ARMs should be increased to 40 percent to accommodate the hybrid ARM program.

MBA also supports the following changes to FHA:

- The establishment of a uniform, nationwide loan limit for FHA home equity conversion mortgages (HECM) that is equal to the FHA high cost mortgage limit.

- Transfer the HECM program to the mutual mortgage insurance fund.

- Reform the treble damages penalty. Current law authorizes HUD to impose a penalty in the amount of three times the amount of an insurance claim, referred to as treble damages, for a lender's failure to engage in loss mitigation. MBA believes the treble damages penalty is excessive and could seriously jeopardize the attractiveness of servicing and originating FHA-insured loans. MBA believes that a more appropriate penalty is application of existing penalties for technical infractions or a maximum penalty of three times the amount of HUD's loss caused by the lender's willful pattern and practice of failing to engage in loss mitigation.

- Provide FHA with the authority to develop and insure new loan products, on a limited basis, as the marketplace dictates, without requiring FHA to have specific legislative authority for each loan product. This change would foster innovation and allow FHA to respond to a rapidly changing marketplace.

- Make the FHA simplified downpayment calculation permanent. Several years ago, the Congress enacted, as a pilot program, provisions to streamline and simplify the complex downpayment calculation used for FHA home mortgage loans. This simplification made it easier for FHA borrowers to understand how much of a downpayment was needed to obtain an FHA mortgage and made FHA mortgages more affordable. This simplified downpayment pilot program expires on December 31, 2002. By all accounts, the pilot program has been very successful and MBA urges Congress to make this program permanent.

Initiate a new multifamily production program. At the end of the last Congress, there was a growing consensus that the federal government should support programs that produce housing for families with critical housing needs. Many of these programs, however, are targeted to families whose incomes are below 60 percent of area median income. There is currently no program that is designed to provide rental housing for working families earning from 60 percent to 100 percent of median income who are unable to find decent, affordable housing near their work places. It is clear that there is a need for a federal program to address the housing needs of this segment of the population.

Partnering FHA mortgage insurance with an interest rate subsidy will, in most markets, encourage private production of rental housing at rents that would be within the reach of families at 60 percent to 100 percent of median income. Such a program could be used in conjunction with the low income tax credit program or vouchers, where appropriate, to meet the needs of lower income families in a percentage of the units.

Pursue brownfields development. The Environmental Protection Agency (EPA) defines brownfields as abandoned, idled or underutilized industrial or commercial facilities where expansion or redevelopment is complicated by real or perceived environmental contamination. Brownfields can present excellent redevelopment opportunities. They are an underutilized asset that could help communities address a number of issues, including revitalizing urban areas, increasing tax revenues and promoting sustainable growth.

On April 26, by a vote of 99 to 0, the Senate passed S 350, the "Brownfields Revitalization and Environmental Restoration Act of 2001", opening the door for the clean up and redevelopment of contaminated sites. Introduced by Senator Lincoln Chafee (R-R.I.) and supported by a bipartisan group of senators, the bill seeks greater private-sector involvement in brownfields cleanup by providing certain liability protections for prospective purchasers, landowners and contiguous property holders. The bill also would increase federal brownfields remediation funding and allow states to assume greater cleanup responsibilities. The proposal now moves to the House of Representatives. MBA supports S 350, which is the first significant legislation to address the cleanup of an estimated 500,000 brownfields across the country. Passage of this legislation would significantly advance the economic prospects for recycling such properties into a broad range of productive uses, including affordable housing.

Madam Chairman, MBA appreciates the opportunity to testify, and we are happy to answer any questions you and members of the subcommittee may have. We are also happy to provide additional information in writing.

The Premier Association of Real Estate Finance

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May 3, 2001

The Honorable Marge Roukema
United States House of Representatives
2469 Rayburn House Office Building
Washington, DC 20515

Dear Representative Roukema:

I am writing to alert you, as a key member of Congress, to the critical situation affecting Federal Housing Administration (FHA) multifamily housing production.

On April 26, the Department of Housing and Urban Development (HUD) announced a shutdown of the multifamily new construction and substantial rehabilitation insurance programs. All new projects will be on hold for the rest of the fiscal year unless Congress provides additional credit subsidy funds. Credit subsidies are used to cover expected losses on multifamily loans.

These programs provide an economic benefit and desperately needed affordable rental housing to the communities in your district. The MBA supports efforts by President Bush and HUD Secretary Martinez to stimulate our nation's economic growth. However, without action by Congress and the Administration, the housing industry's role as an engine of economic growth will be severely constrained.

In New Jersey, the credit subsidy crisis translates into $93,351,900.00 of multifamily housing development that has abruptly come to a halt, because the federal government has needlessly cut off the supply of credit. More importantly, in your state, 800 families will be shut out of affordable housing. Congress and the Administration must take the lead now to avert disaster.

FHA insurance programs are not a form of federal subsidy for apartment owners or lenders. Rather, they are loan guarantee programs that provide insurance to lenders in the event of default.

The Federal Credit Reform Act requires FHA to estimate net costs to the government of insuring new mortgage loans and to determine, on an annual basis, an appropriate loan loss reserve—know as credit subsidy—for each of its programs. Agencies must have budget authority to cover the projected costs of a program to the government before new loan guarantee commitments are made.

The funds appropriated for FY2001 have now been fully committed, preventing FHA from insuring any new mortgages under these programs. Apartment buildings currently in processing for insurance will not be built.

Specifically, I ask that the Congress take the following actions:

- Urge the Administration to release the $40 million appropriation of credit subsidy included in the "Legislative Appropriations Act, 2001" as passed in December, 2000.
- Appropriate an additional $115 million in FY2001 to provide sufficient funding to keep the FHA programs operational for the rest of this fiscal year.
- Support legislation that would allow the use of the profits generated by programs in the General Insurance/Special Risk (GI/SRI) Fund—negative credit subsidy—to fund programs that experience a shortfall in credit subsidy. Representatives LaFalce and Frank have introduced "The FHA Shutdown Prevention Act" (H.R. 1481) that would allow negative credit subsidy made by programs within the GI/SRI Fund to be used in the event of a future shortfall in credit subsidy. This legislation presents one alternative to the current credit subsidy appropriations procedure.

This is a critical situation. Unless some action is taken the new construction or substantial rehabilitation of over 50,000 apartments with a cumulative mortgage amount of over $3.4 billion will not take place. Without these funds, these projects will not be built and developers who have invested hundreds of thousands of dollars in up-front costs for land options, plans and specifications and other pre-development costs will lose those investments.

In addition, this opportunity to provide an immediate economic stimulus will be lost. MBA estimates that the economic stimulus of the $3.4 billion investment in 50,000 units would generate over 80,000 new jobs, over $400 million in new local taxes and fees and over $850 million in new federal taxes.

It is vital that Congress and the administration work together to ensure the uninterrupted flow of credit for FHA multifamily loan production. When the federal government needlessly cuts off the supply of credit, thousands of families risk being locked out of rental housing. Your action on this issue will be a major step in producing housing and in providing an important and immediate economic stimulus.

Sincerely,

John A. Courson

John A. Courson
Vice President

The Premier Association of Real Estate Finance

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Impact of FHA Rental Housing Shutdown

May 2001

Impact of FHA Rental Housing Shutdown - May 2001

	City	Loan Amount	Units
Alabama	Auburn	$6,500,000	152
	Clanton	$3,900,000	64
		$10,400,000	**216**
Arizona	Apache Junction	$9,336,800	176
	Chandler	$4,013,700	127
	Lake Havasu	$4,500,000	300
	Mesa	$17,069,600	264
	Prescott	$6,486,300	124
	Prescott Valley	$19,845,000	268
	Surprise	$15,500,000	256
		$76,751,400	**1515**
California	Citrus Heights	$15,000,000	300
	North Hollywood	$23,000,000	198
	Perris	$5,000,000	186
	San Francisco	$2,150,000	55
	San Jose	$8,500,000	88
		$53,650,000	**827**
Colorado	Aurora	$18,000,000	200
	Colorado Springs	$18,000,000	252
	Commerce City	$10,639,800	162
	Denver	$22,300,000	260
	Denver	$4,325,500	155
	Golden	$2,400,000	34
	Greeley	$5,567,100	160
	Lakewood	$7,000,000	100
	Ridgeway	$2,759,000	192
		$90,991,400	**1515**
Connecticut	Groton	$20,000,000	240
	Hartford	$25,222,200	97
	New Haven	$8,721,000	85
		$53,943,200	**422**
District of Columbia	Washington	$37,892,100	194
	Washington	$11,706,800	275
		$49,598,900	**469**
Florida	Casselberry	$18,260,200	240
	Cornerstone Commons	$12,800,000	104
	Davenport	$10,375,500	160
	Delray Beach	$18,485,100	165
	Fort Myers	$20,616,500	300
	Fort Pierce	$1,200,000	59
	Gainesville	$29,199,700	332
	Harbor Island	$7,000,000	60
	Hypoluxo	$6,600,800	88

	City	Loan Amount	Units
Florida (cont.)	Lake Wales	$5,583,300	100
	Lake Worth	$21,913,700	285
	Miami	$20,000,000	200
	Miami	$8,000,000	60
	New Port Richey	$17,296,000	220
	New Smyrna Beach	$14,500,000	216
	Ocala	$8,713,800	162
	Orlando	$15,235,900	198
	Orlando	$16,000,000	165
	Pasco County	$16,846,600	252
	Port Orange	$15,759,600	223
	Sarasota	$3,000,000	38
	St. Augustine	$12,851,300	178
	St. Petersburg	$17,681,000	261
	Tallahassee	$19,100,000	242
	Zephyrhills	$15,976,500	224
		$352,995,500	**4532**
Georgia	Athens	$13,936,100	208
	Athens	$6,100,000	190
	Atlanta	$8,504,800	208
	Atlanta	$23,448,600	300
	Atlanta	$7,005,800	216
	Atlanta	$10,618,800	180
	Carrollton	$6,653,400	120
	Newnan	$8,326,900	284
	Pooler	$20,291,600	309
	Villa Rica	$13,598,500	220
	Villa Rica	$5,295,400	96
		$123,779,900	**2331**
Iowa	Des Moines	**$24,000,000**	**335**
Illinois	Elburn	$1,737,500	46
	Fairview Heights	$15,600,000	228
	Gurnee	$20,000,000	260
	Park Forest	$35,000,000	632
		$72,337,500	**1166**
Indiana	Ft. Wayne	$8,000,000	240
	Indianapolis	$10,044,000	162
	Indianapolis	$12,384,400	208
	Indianapolis	$17,314,800	163
	Lowell	$4,637,900	72
		$52,381,100	**845**
Kansas	Andover	$11,250,000	168
	Desoto	$10,000,000	200
	Kansas City	$6,986,800	120
	Topeka	$18,600,000	288
		$46,836,800	**776**

	City	Loan Amount	Units
Kentucky	Florence	$36,000,000	493
	Louisville	$12,659,200	200
		$48,659,200	**693**
Louisiana	Lafayette	$12,400,000	158
	Lake Charles	$2,500,000	104
	Lake Charles	$7,000,000	208
	New Orleans	$4,750,000	160
	New Orleans	$1,400,000	56
	Shreveport	$6,500,000	126
		$34,550,000	**812**
Massachusetts	Amesbury	$6,000,000	69
	Westford	$24,479,100	177
		$30,479,100	**246**
Maryland	Baltimore	$53,252,100	315
	Baltimore	$6,000,000	262
	Baltimore	$3,000,000	110
	Baltimore	$3,000,000	123
	Cambridge	$1,850,000	140
	Frederick	$8,000,000	96
	Frederick	$20,000,000	250
	Frederick	$11,849,600	144
	Gaithersburg	$3,800,000	33
	Landover	10500000	276
	Pasadena	$20,000,000	223
	Salisbury	$11,845,400	168
	Silver Spring	$8,378,200	99
	Silver Spring	$16,123,400	221
	Upper Marlboro	$1,011,100	160
	Upper Marlboro	$13,415,700	155
		$192,025,500	**2775**
Michigan	Alpena	$6,500,000	120
	Canton	$17,400,000	192
	Detroit	$2,200,000	16
	East Lansing	$24,764,600	264
	Grand Haven	$12,400,000	210
	Howell	$7,500,000	100
	Lansing	$6,484,400	136
	Norton Shore	$11,800,000	210
	Roseville	$1,500,000	18
		$90,549,000	**1266**
Minnesota	Birch Glen	$5,216,000	60
	Country Manor	$4,700,000	144
	Kenwood Crossing	$25,000,000	243
	Lakeview Apts.	$2,534,000	50
	Marcy Park	$6,500,000	53
	Pennock Place	$10,800,000	106
	Shadow Hills	$28,000,000	318
	St. Louis Park	$46,726,000	317

	City	Loan Amount	Units
Minn (cont.)	Stonegate Apts.	$3,225,000	43
	Timberland @ Foliage	$14,000,000	208
		$146,701,000	**1542**
Mississippi	Pascagoula	$11,378,900	200
	Starkville	$7,504,500	120
	Hattiesburg	$11,833,600	200
		$30,717,000	**520**
Missouri	Columbia	$12,000,000	182
	Ellisville	$16,000,000	160
	Gladstone	$8,795,000	154
	Kansas City	$11,900,000	440
	Kansas City	$16,329,632	256
	Kansas City	$24,800,000	324
	Lake St. Louis	$30,625,000	344
	O'Fallon	$8,900,000	168
	St. Charles	$7,128,000	93
	St. Charles	$23,000,000	182
	St. Louis	$18,800,000	200
	St. Louis	$9,234,000	82
		$187,511,632	**2585**
North Carolina	Charlotte	$22,000,000	174
	Charlotte	$9,600,000	144
	Charlotte	$10,184,700	144
	Fayetteville	$8,500,000	136
	Greensboro	$5,180,800	60
	High Point	$8,300,000	96
	High Point	$8,288,600	85
	Holly Springs	$5,500,000	100
	Lexington	$8,281,000	160
	Mocksville	$6,652,800	132
	Morganton	$4,099,100	70
	Raleigh	$10,000,000	128
	Raleigh	$16,914,600	238
	Raleigh	$10,000,000	156
	Raleigh	$16,600,000	264
	Saxapahaw	$5,900,000	93
	Saxapahaw	$5,485,400	90
		$161,487,000	**2270**
New Jersey	N. Bergen	$31,000,000	174
	Newark	$20,122,000	422
	Palisades Park	$42,229,900	204
		$93,351,900	**800**
Nevada	Las Vegas	$2,624,000	58
	Las Vegas	$4,450,800	51
	Las Vegas	$2,673,308	41
	Reno	$4,000,000	194
		$13,748,108	**344**

	City	Loan Amount	Units
New York	Nanuet	$8,006,500	106
	Rochester	$14,592,200	125
		$22,598,700	**231**
Ohio	Akron	$16,028,600	130
	Ashland	$6,736,200	128
	Cleveland	$41,000,000	331
	Cleveland	$5,000,500	165
	Cleveland	$20,504,500	139
	Columbus	$7,678,400	152
	Columbus	$17,898,300	280
	Columbus	$16,200,000	180
	Columbus	$27,063,400	276
	Columbus	$18,539,800	180
	Copley	$10,500,000	160
	Kettering	$5,400,000	165
	London	$4,557,000	80
	Marion	$3,662,300	80
	Mt. Verno	$2,574,300	52
	Northwood	$6,000,000	200
	Pickerington	$4,000,000	52
	Warrensville	$4,900,000	96
		$218,243,300	**2846**
Oregon	Hillsboro	$5,920,000	65
	Portland	$21,350,000	326
		$27,270,000	**391**
Pennsylvania	Hermitage	$3,949,300	54
	Palmyra Township	$14,716,500	85
	Scott Township	$29,841,000	300
	Pittsburgh	$13,383,000	144
		$61,889,800	**583**
South Carolina	Bluffton	$29,150,000	360
	Bluffton	$5,453,100	112
	Columbia	$1,429,000	35
	Columbia	$11,600,000	184
	Duncan	$10,000,000	168
	Greenville	$10,900,000	168
	Greenville	$11,156,800	192
	Greer	$12,500,000	208
	Orangeburg	$6,068,300	120
	Rock Hill	$8,300,000	120
	Simpsonville	$10,212,900	168
	Walterboro	$7,700,000	84
	Walterboro	$7,665,600	120
		$132,135,700	**2039**
Tennessee	Ashland City	$3,570,000	116
	Gallatin	$2,375,000	72
	Maryville	$1,500,000	30
	Memphis	$9,470,600	133

	City	Loan Amount	Units
Tenn (cont.)	Memphis	$1,300,000	14
	Pulaski	$1,200,000	52
	White House	$6,150,000	106
		$25,565,600	**523**
Texas	Austin	$13,561,200	192
	Austin	$3,402,000	180
	Austin	$20,637,000	300
	Austin	$25,507,000	362
	Austin	$22,225,000	348
	Austin	$13,700,000	212
	Beaumont	$4,835,000	150
	Burleson	$5,000,000	50
	College Station	$8,000,000	200
	Corpus Christi	$12,759,700	228
	Crowley	$5,900,000	125
	Dallas	$43,000,000	364
	Dallas	$17,790,000	280
	Dallas	$5,000,000	192
	Dallas	$5,161,000	117
	Dallas	$15,280,300	248
	Denton	$27,174,700	300
	Denton	$12,401,700	240
	Desoto	$13,500,000	222
	El Paso	$9,707,500	289
	Falfurrias	$2,300,000	60
	Floresville	$2,600,000	76
	Fort Worth	$9,010,200	160
	Fort Worth	$11,947,000	190
	Fort Worth	$5,000,000	176
	Fredericksburg	$5,000,000	80
	Houston	$2,049,300	102
	Houston	$16,131,500	276
	Houston	$23,462,100	362
	Houston	$15,000,000	300
	Houston	$13,062,700	200
	Houston	$19,151,000	300
	Houston	$12,277,100	429
	Houston	$7,486,000	224
	Houston	$9,386,000	272
	Houston	$7,454,000	144
	Lakeway	$28,000,000	342
	Laredo	$11,000,000	250
	Lewisville	$20,088,500	312
	Magnolia	$5,610,281	164
	New Light Village	$6,150,000	184
	Pearland	$2,994,927	225
	Pearland	$12,473,400	168
	Plano	$14,462,400	220
	Port Arthur	$11,699,100	200
	San Antonio	$21,000,000	250
	San Antonio	$14,100,000	250
	San Antonio	$13,000,000	250

	City	Loan Amount	Units
Texas (cont.)	San Antonio	$14,043,000	240
	San Antonio	$15,137,000	368
	San Marcos	$16,173,700	204
	Terrell	$9,000,000	180
	Wichita Falls	$5,000,000	100
	Wichita Falls	$3,122,000	41
	Wylie	$9,976,500	180
		$678,889,808	**12078**
Utah	Draper	**$18,887,400**	**258**
Virginia	Alexandria	$40,000,000	400
	Ashburn	$49,640,000	443
	Bealeton	$8,800,000	132
	Charlottesville	$20,000,000	250
	Chester	$7,436,800	105
	Fairfax	$22,000,000	209
	Newport News	$27,000,000	383
	Richmond	$3,531,300	45
	Richmond	$6,000,000	71
	Richmond	$32,000,000	378
	Suffolk	$22,248,400	328
	Warrenton	$13,625,000	158
		$252,281,500	**2902**
Washington	Blaine	$687,800	24
	Cheney	$1,213,500	40
	Everett	$1,955,300	40
	Ferndale	$1,409,600	38
	Kennewick	$2,261,400	104
	Moses Lake	$1,166,100	40
	Mt. Vernon	$1,057,700	36
	Othello	$1,043,200	30
	Seattle	$12,960,000	86
	Steverson	$1,480,700	36
	Wapato	$788,800	24
		$26,024,100	**498**
Wisconsin	Brookfield	$18,900,000	311
	Lake Delton	$2,400,000	40
	Milwaukee	$18,000,000	110
	St. Francis	$14,500,000	120
		$53,800,000	**581**
	Totals	**$ 3,555,031,048**	**51,732**

Note: The data are complied from information on 33 states plus the District of Columbia.

Statement of Phil Carroll, President
National Affordable Housing Management Association
Subcommittee on Housing and Community Opportunity
House Committee on Financial Services
May 3, 2001

Madam Chair, Congressman Frank and members of the Subcommittee, the National Affordable Housing Management Association (NAHMA) appreciates this opportunity to present its views on affordable housing issues. NAHMA is a national association representing owners and professional managers of government-assisted housing developments.

Virtually everyone agrees that we face a crisis of affordable housing, nationally and in every region of the country. We are all aware of HUD's annual reports that have shown a steady rise in worst case housing needs. Other studies indicate that many other low-income, working families are finding it increasingly difficult to obtain affordable housing. In short, affordable housing is not just a problem of the very poor. Finding solutions to this problem should be a national priority.

Affordable housing problems vary from community to community. In suburbs ringing most major cities, housing markets are tight and getting tighter. In many rural communities as well, affordable housing simply does not exist and isn't being built. In other communities, the problem is not with the supply, but with the ability to pay for housing. This problem does not offer itself to one-size-fits-all solutions. What works in one community may not work in another.

NAHMA believes that attacking the roots of the affordable housing problem requires a Toolbox with tools that permit a variety of different approaches, and the flexibility to use those approaches effectively. NAHMA recommends these five essential tools:

- Preservation
- Project-based Assistance
- Tenant-based Rental Assistance
- Tax Credits and Bonds
- Production of New Affordable Housing

These tools can be used effectively and in combination by both for-profit and nonprofit entities to provide the right mix of affordable housing. I want to give NAHMA's perspective on these tools, and also mention a number of legislative and HUD regulatory issues that bear directly on the Federal government's ability to be a positive force for affordable housing.

First – Preservation. There is already a supply of more than a million units of privately owned housing that was created to be affordable to low-income families. Eighty-seven percent of it is good quality housing, and we cannot afford to lose it. Congress has taken steps to discourage owners from prepaying their mortgages or opting out of the low-income housing program. These incentives to keep existing housing affordable should be continued and, if feasible, expanded, and tenants should be given protections in the event of opt-outs. There are significant regulatory disincentives to staying in affordable housing programs that need to be addressed. And it goes without saying that the Federal government's commitment to renewing all expiring section 8 contracts must continue.

Second – Tenant-based assistance. In many communities, affordability is a bigger problem than availability. Tenant-based vouchers have a high success rate in many communities. But in others vouchers are a ticket to a frustrating and unsuccessful housing search for many residents. As you know, HUD recent issued a rule increasing the payment standard in tighter rental markets. This tool applies, however, to fewer than 40 markets nationwide, and many more markets have problems fully as significant as those communities that are currently empowered to raise payment standards. Vouchers have an important place in the affordable housing toolbox We are pleased that the Administration recognizes that there is a problem with voucher utilization and intends to address it.

The base of this problem is the Fair Market Rent; it is neither fair nor market. So long as we cling to the fiction that the fair market rents are reasonable the voucher program will have difficulty succeeding in any tight or rising market. The problem of poor voucher utilization is particularly acute where owners have opted out of the section 8 program. In many markets, vouchers cannot be utilized given current FMRs, and in such cases families are at risk of being displaced. We suggest replacing the current FMRs with a system that truly reflects the market, both in rents and in timing.

Third – Low Income Housing Tax Credit. The tax credit has been a useful tool for creating up to 100,000 units of affordable housing each year, although it is not as deeply targeted as some other Federal programs. We believe Congress took an important step last year in raising the allocation cap on the tax credit from $1.25 to $1.75 per capita and making other useful changes in the program. The corresponding increase in the private activity volume cap is also very important to the development of affordable housing. NAHMA would support H.R. 951, introduced by Rep. Houghton, and S. 677, introduced by Sen. Hatch, which would make it easier to use the tax credit in rural markets.

Nonetheless, we would caution that the increase in the tax credit cap alone will not solve the affordable housing problems. In some states, like Colorado for example, the demand for tax credits exceeds supply by 10 to one, and the credit is not necessarily efficient in all markets.

Fourth – Project-based assistance. We already house 1.3 million low– and generally very low-income families in project-based units, nearly as many as receive vouchers, and those families live in good housing. We believe it would be impractical and unwise to expose all of those households to the marketplace as contracts expire. We already have a mark-to-market program that both reduces rental subsidies and preserves housing as affordable. Despite its flaws, we think mark-to-market should be extended beyond it October 2001 sunset date. We understand that the Administration intends to propose an extension of mark-to-market restructuring authority beyond this year.

The Fiscal Year 2001 HUD appropriations bill increased to 20 percent the percentage of a PHA's section 8 units that can be project-based. We believe this was a wise decision, because it allows PHAs to respond more effectively to market conditions. We encourage Congress to consider increasing project-basing beyond 20 percent.

A key to the success of project-basing is keeping owners in the program. As I indicated earlier, I believe that Congress in particular has been responsive to the need to prevent owners from opting out of the program. Nonetheless, I will mention several issues that are still of major concern to private owners of assisted housing developments.

First, there should be a standard for the timely payment of both landlords and residents. NAHMA members are commonly owed money in the six and seven figure ranges. Contract renewals are a nightmare; some take as much as six months. Congress has provided adequate funding for all renewals. The problems appear to lie, rather, with HUD and the Office of Management and Budget. Getting funding from appropriations to a site typically takes four to six months, during which time owners end up financing the Federal government.

Second, high utility costs have become a serious burden for project owners. In the absence of a HUD policy that would have permitted most owners to reflect these dramatically higher costs in their rent structures, owners paid for these dramatically higher costs – sometimes $20 to $30 per unit each month – from project reserves. After several months of internal discussion, which began in the last administration, HUD issued a utility cost policy for assisted housing only two weeks ago. We know that the new Administration moved as quickly as possible on this issue. But by the time many assisted housing owners apply for and receive relief, half a year will have elapsed since the problem began. The utility cost problem is not going to be of short duration, and we encourage the development of policies that will address this problem – which is serious both for private owners and PHAs – over the longer term.

Third, we are very concerned by the budget proposal to terminate funding for the public and assisted housing drug elimination program. While a great deal of attention has been focused on the impact of this budget cut on public housing agencies, the impact will be equally severe for the assisted housing industry. Approximately $45 million was available to private owners last year – through a set-aside in the core drug elimination grant program and $20 million in "New Approach" drug grants. These competitively awarded funds enabled many owners around the country to respond effectively to drug abuse problems in their developments. While PHAs are, at least, getting an increase in their operating subsidies to compensate for the termination of the drug elimination program, private owners have no recourse whatsoever.

Fourth, while Congress has made it easier for PHAs to evict for drug-related offenses while maintaining reasonable due process safeguards, private landlords participating in the section 8 program still have only a limited ability to evict in a timely fashion tenants who threaten the health and safety of other residents. We urge Congress to consider ways in which this situation can be remedied, so we can ensure that the precious housing benefit goes to people willing to live by the rules.

Fifth – Production. No broad-based strategy for addressing the affordable housing shortage would be complete without consideration of production programs. A new production program can and should be a tool for buying down the cost of housing in hard-to-develop areas or where there is an inadequate supply of housing for poor families.

In our view, resources for production should be targeted at families with income below 30 percent of area median. We believe we should avoid concentration of the poor by locating these new production units – which may or may not be tied to project-based rental assistance – in conventional, mixed-income and mixed-finance developments. We would oppose tying production exclusively to projects developed with the tax credit, simply because the tax credit does not work uniformly well in all areas. We also believe that a new housing production program should ensure a level playing field and permit access to capital for both for-profit and nonprofit entities with the capacity to develop and maintain affordable housing over the long term. Earlier discussions which only contemplated grants effectively shut out for-profit operators. Without them you will simply not have enough capacity to ensure these initiatives work. There is a proven track record of both for-profit and nonprofit providers doing excellent, innovative assisted housing development.

We support creating a production program that is as close to market-based as possible, Recent history is replete with examples of failed production programs that have been dependent on deep Federal subsidies for both operations and maintenance.

Let me also state for the record that we would also encourage Congress to look at ways in which existing programs – HOME, FHA multifamily and Rural Housing Service programs – can be improved to better meet the need for affordable housing development.

We understand that there are numerous complex issues that should be carefully and thoughtfully considered in the development of a new production program and ways to make it workable over the long term. We hope that these discussions can begin early in this Congress.

HUD Secretary Martinez said at his Senate confirmation hearing that HUD's management problems must be solved if the Department is to operate more efficiently and serve its constituencies effectively. We heartily agree, and we urge this Committee and the Congress to work closely with Secretary Martinez as he attempts to deal with HUD's management deficiencies. I mention three that directly affect our members' participation in HUD programs.

The Department has generally done a poor job of matching its personnel with its programmatic needs. HUD must consider the distribution and training of its staff and devote its resources realistically to places where they are needed most. The quality and quantity of staff varies widely from office to office, and the corps of well-trained middle management at HUD has been depleted and must be strengthened.

In addition, HUD has historically ignored the need to upgrade and improve its management and information systems. From NAHMA's perspective, this manifests itself in problems with tracking and processing payments to landlords and late payment on assisted housing contracts.

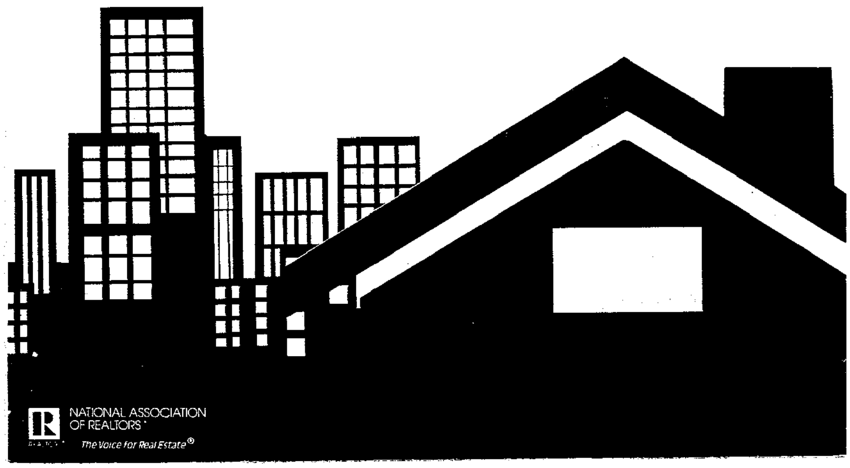
Finally, continual, and in some cases ill-conceived, "reinvention" of the Department has created turmoil within HUD, confused people who do business with the agency, and discouraged many entities from continuing to do business with the Department. HUD's programs and staffing must be stabilized, and new mandates for the Department should be viewed in the context of HUD's capacity to carry them out.

As private owners and managers of affordable housing, we have worked closely with HUD's Office of Housing, state housing agencies and local agencies around the country. We believe each agency – and each of HUD's private sector partners – has their own individual strengths and weaknesses that should be considered as we move to address the crisis in affordable housing, either through new initiatives or improvements in existing programs. For example, we believe that NAHMA's affordable housing professionals are well-suited to the management of public housing, which would free public housing agencies devote more time to entrepreneurial activities and policies to enhance development of their own affordable housing programs.

Madam Chair we believe that with the five tools:

- Preservation
- Project-Based Assistance
- Tenant-Based Assistance
- Tax Credits and Bonds
- Production of New Affordable Housing

in the hands of nonprofit and for-profit entities and relevant Federal state and local agencies, we can achieve the right mix of affordable housing and ease the housing burdens of so many of our citizens. We look forward to working with this Subcommittee as we move together toward this objective.



Statement of the

NATIONAL ASSOCIATION OF REALTORS ®

The Voice for Real Estate

THE WORLD'S LARGEST TRADE ASSOCIATION

To: House Subcommittee on Housing and Community Opportunity
On: Hearing on Housing Affordability and Availability
Date: May 3, 2001

Statement of the
NATIONAL ASSOCIATION OF REALTORS®
on Housing Affordability
May 3, 2001

On behalf of the nearly 740,000 members of the NATIONAL ASSOCIATION OF REALTORS®, we are pleased to submit this written statement on housing affordability. The NATIONAL ASSOCIATION OF REALTORS® represents a wide variety of real estate industry professionals including residential and commercial real estate development, mortgage banking, home building, property management, appraisals and syndication. The Association has a long tradition of support for innovative and effective affordable housing programs and we work diligently with the Subcommittee and Congress to fashion housing policies that ensure Federal housing programs meet their mission and objectives responsibly and efficiently.

We commend the Subcommittee for their continuing efforts on behalf of American families who need and desire affordable housing opportunities. Even in these strong economic times where we have seen the greatest boom in homeownership rates, many working families are not able to find decent affordable housing.

NAR has consistently maintained that homeownership serves as a cornerstone of our democratic system of government and that homeownership continues to be a strong personal and social priority in the United States. Living in one's own home is central to the concept that a person has achieved a measure of security and success in life.

NAR has equally and forcefully maintained that rental housing has an immediate and beneficial effect on the prosperity of a community, providing a range of housing options that not only attract top employers but also generate local taxes, fees and income to benefit a local economy.

Yet, despite our nation's unprecedented economic prosperity, there is a continuing, growing crisis in housing affordability and ownership that is gripping our nation. Specifically, while our nation enjoys a record homeownership rate, the homeownership rate for ethnic Americans continues to lag below 50 percent. The number of working families with worst case housing needs has increased sharply. The stock of rental units that are affordable and available is rapidly declining. And, home sales prices in certain market areas are rising far faster than the US average, resulting in an exacerbated affordability crisis.

The need for affordable housing is well documented in various research reports from a variety of institutions and interest groups, with one out of every seven American families having a critical housing need, including millions of working families. More than a quarter of low-income households must now spend over half their income on rent. Those families can't accumulate enough savings to buy a home of their own. Recent studies have determined that 13.7 million households, including 7.5 million renters, faced critical housing needs. Further, recent Census Bureau figures revealed that the number of moderate-income families facing a critical need for rental housing increased by 64 percent between 1997 and 1999, from 433,000 to 711,000 families. The problem is not only one of affordability but also one comprising inventory shortages in many areas of the country.

Very simply, families should not have to pay more than half their income for housing nor live in severely dilapidated homes. Our country is built on the foundation that a decent home in a suitable living environment is a basic tenet of American life. In light of the fundamental role that housing plays in the daily lives of Americans, the lack of affordable housing for working families -- and constructive solutions to address it -- justifies prominence on the national policy agenda.

NAR believes that federal mortgage finance and assisted-housing programs that have proven records for producing and preserving affordable housing must not only be preserved but also strengthened and provided with significant additional resources. Moreover, to encourage homeownership opportunities for all Americans and increase the supply of affordable housing nationwide, necessary initiatives, programs and policies must be developed and supported by key policymakers.

Accordingly, NAR promotes the following:

- Creation of an affordable housing production program to provide housing opportunities for working families, especially those who are unable to find decent, affordable housing near their places of employment;

- Modifications to federal single-family mortgage programs to remove barriers that inhibit homeownership opportunities, particularly among African-American, Asian and Hispanic households, first-time homebuyers, and rural residents;

- Enhancements to the veterans housing program to improve its marketability among military personnel and veterans and position it as a viable homeownership vehicle for the 21st century and beyond;

- Promotion of programs that encourage the removal of regulatory barriers to housing rehabilitation such as excessively long development review processes and requirements for unreasonable and expensive improvements to ensure preservation and modernization of older structures and to keep housing costs down;

- Strengthening and promoting the Section 8 homeownership program to ensure elderly, disabled and low-income families are afforded the opportunity to share in the benefits of the American dream of owning a home;

- Establishment of a national standard for homeownership counseling to increase consumers knowledge and understanding about the home purchase process; and,

- Promotion of free, open and accessible housing through renewal of our Fair Housing Partnership Agreement linked with our One America diversity certification agreement with the Department of Housing and Urban Development.

We believe that it is important to note that FHA's existing multifamily programs provide insurance that assists both the private and public sectors to finance the construction, purchase and rehabilitation, or the refinancing of rental housing projects, condominiums, and cooperatives. Generally, a project is eligible for multifamily mortgage insurance if the sponsors can demonstrate that there is a definite demand for the proposed housing in the market area, that the project will be economically self-sufficient, and that mortgage commitments from construction and permanent lenders have been received. Yet, the viability and usage of these programs has declined precipitously over the years.

The convergence of several factors altered the landscape of multifamily housing causing a scarcity of finance options and discouraging the participation of lenders in the multifamily market. These factors included the Tax Reform Act of 1986, changes in institutional lending mandated by FIRREA, and regulatory barriers limiting the program's effectiveness.

In the 1980's, thrifts were the primary source of financing to multifamily projects dominating other sources. However, by the early 1990's, the thrift industry began a rapid downsizing for economic and regulatory reasons. The Tax Reform Act of 1986 (TRA) particularly undermined the value of real estate, especially multifamily housing. TRA eliminated much of the tax-favored status of rental housing and consequently the development and ownership of multifamily projects. TRA policy changes caused the supply of new multifamily housing to plummet and contributed to depressed values in properties held by banks, thus decreasing the ability of banks to continue making appropriate real estate and business loans.

Just as thrifts were directing their activities away from multifamily loans because of tighter risk-based capital rules, banks were also constrained in their ability to fund commercial real estate due to the same regulatory pressures. Because multifamily loans were in the highest risk category for capital purposes, banks avoided investing in multifamily properties. The increased regulatory pressure coupled with the difficulties in traditional lending markets affected not only acquisition and development financing but also permanent financing of income-producing properties.

The NATIONAL ASSOCIATION OF REALTORS® supports governmental solutions to stimulate the availability of private financing to spur new production and substantial rehabilitation of affordable rental housing, particularly in high cost areas of the country. We support the recently introduced H.R. 1629, the "FHA Multifamily Housing Mortgage Loan Limit Adjustment Act of 2001". By increasing the multifamily loan limits, FHA will stimulate not only new construction, but rehabilitation of existing infrastructure in many cities across the country, that have previously been out of reach of the FHA program. Only 748 FHA-insured multifamily new-construction or substantial-rehabilitation loans, producing just 127,409 units, were made nationally over the past four years. The result has been a significant and growing gap between the demand for and the supply of affordable rental housing. Increasing the FHA loan limits is a first step towards increasing production in many of our nation's cities.

However, the FHA multifamily programs face another, perhaps even more immediate, problem. The credit subsidy that allows these programs to operate is quickly being depleted. The appropriation needed to operate these programs is for a loan loss reserve required by the Credit Reform Act. The funds available for the loan loss reserve will soon be committed which will mean that FHA can no longer insure mortgages under these programs. Those apartment projects currently in processing for insurance will thus not be built or their construction will be delayed until FY 2002 – assuming new funds are made available even then.

It is important to note that last year FHA multifamily programs ceased operations in July, causing a backlog of projects. On October 1st, properties pending FHA insurance from FY 01 used up much of the funding for FY 02. Congress appropriated an additional $40 million as an emergency supplemental, however the Bush Administration is unwilling to accept these funds. This $40 million will provide for the new construction or substantial rehabilitation of over 17,000 units of rental housing with a mortgage amount of over $1.3 billion. Without these funds, these projects will not be built and developers who have invested hundreds of thousands of dollars in up-front costs for land options, plans and specifications and other pre-development costs will lose those investments. In addition, this opportunity to provide an immediate economic stimulus and produce thousands of construction jobs will be lost. We urge Congress to work with the Department of Housing and Urban Development, to release this money to be used for its appropriated purpose, and help to meet the critical demands for rental housing.

Furthermore, the current crisis in affordable housing demands the use of FHA programs to stimulate affordable housing production. In recent years, funding for the credit subsidy has been underestimated, while the nation's affordable housing needs have grown. We urge Congress and HUD to increase the FY 2002 credit subsidy request above the Administration's proposal of $15 million to ensure that FHA multifamily programs remain operational and functional. The marketplace has been unable to respond to the housing needs of many of our nation's families because of imbalances in funding and program interruptions stemming from lax budgetary decisions. Congressional action is needed to increase production and rehabilitation and meet demand. Many developers and housing advocates are ready to respond to the housing needs in their area. But each year, as the credit subsidy expires, these projects remain unfunded. We cannot afford to lose any opportunity for affordable housing production.

Despite our growing economy, finding affordable housing is a burden for many working families. We urge Congress to work with HUD to create affordable housing opportunities for all our nation's families. Thank you for providing us the opportunity to provide this statement on behalf of the NATIONAL ASSOCIATION OF REALTORS®

Testimony of the National Leased Housing Association
Submitted for the Record
Housing Affordability Hearing – May 3, 2001
Committee on Financial Services
Subcommittee on Housing & Community Opportunity

The National Leased Housing Association (NLHA) is pleased to submit our views relating to housing affordability issues impacting the Section 8 programs. For the past thirty years, NLHA has represented the interests of developers, lenders, housing managers, housing agencies and others involved in providing federally assisted rental housing. Our members are primarily involved in the Section 8 housing programs – both project-based and tenant-based. NLHA's members provide housing assistance for nearly three million families.

NLHA's testimony will be limited to Section 8 issues relating to 1) voucher utilization; 2) preservation and 3) tax relief. We appreciate the opportunity to provide our views and look forward to working with the subcommittee on improving the housing opportunities for low and moderate income Americans.

Voucher Utilization: A critical component of any national housing policy is the Section 8 voucher program. Currently, over 1.5 million families are being served by this program. We encourage Congress to maintain funding for these families and to continue to increase the number of vouchers available each year.

We agree with congressional criticism that not all vouchers have been used and reforms need to be made to ensure that all vouchers are leased-up. However, we disagree with the scope of the problem. In FY2001, the congressional appropriators recaptured $1.8 billion in Section 8 funds. Many believe that these funds were recaptured voucher authority. Not so. Of the $1.8 billion, half of the funding was leftover Housing Assistance Payment (HAP) monies remaining in project-based Section 8 contracts that were not renewed.

The remaining $981 million were voucher funds that included litigation vouchers, conversion vouchers and special population vouchers that are special to a PHA's voucher program and for various legitimate reasons can not be leased-up within one year. We estimate that underutilization of regular vouchers comprise less than $350 million a year. Arguably, this is still unacceptable, but not as dire as has been portrayed.

NLHA has made a number of recommendations that we believe would improve voucher utilization in many communities (a paper submitted to HUD in 8/00 is attached). HUD has already taken one important step by allowing the increase in Fair Market Rents in some areas to be raised to the 50th percentile. We would urge Congress to expand this increase to all markets.

A second issue that plays a large role in preventing lease-up concerns the 40 percent cap. Currently, families that are receiving voucher assistance for the first time or are currently in the program, but wish to move to a new unit are not permitted to pay more than 40 percent of adjusted income for rent. NLHA supports a cap as a general rule, but believes flexibility is key to address extenuating circumstances.

The most obvious barrier to lease-up is the lack of available units. In a tight rental market, there is no incentive for landlords to rent to Section 8 voucher holders. A number of PHAs have been creative in finding ways to convince landlords to participate in the program, but when there is a tight supply, options are limited. Steps need to be taken in such areas to increase the supply of affordable units. Congress made a giant step forward in October by recognizing the flexibility of project-based vouchers and has made a number of statutory changes to the program to make it more user-friendly. A set of recommendations NLHA prepared for HUD is attached that outlines both legislative and regulatory changes that would ensure the successful use of project-based vouchers.

Preservation of Assisted Housing: By enacting the "mark up to market" provisions of MAHRAA in 1999, Congress has ensured the preservation of thousand of units of project-based Section 8. However, there are owners who are choosing to opt-out of the program rather than be subject to HUD rules and the administrative headaches associated with operating a government program. Further, for a number of ownership entities, conversion to market rate means relief from rules concerning limitations on distributions. In other words, some Section 8 projects may only distribute cash up to 6 or 10 percent of initial equity – a restriction that disappears when the Section 8 contract is not renewed. HUD has provided relief to owners who mark up to market, but other owners who voluntarily reduce their rents to market remain subject to the distribution limitations. A situation that will certainly contribute to additional opt-outs. We urge this subcommittee to encourage HUD to expand the relief from income distribution limitations to all properties who remain in the program.

Exit Tax Relief: Any comprehensive proposal to preserve the affordability of the low income housing stock must include provisions to address the tax implications facing the current owners upon transfer of the property. Under the current tax laws, a transfer of the property triggers a capital gains tax of 25 percent on <u>both</u> cash and non-cash gain (non-cash gain is due to depreciation). We believe many nonprofit and for-profit entities would be interested in buying existing Section 8 properties and would agree to maintain affordability for up to thirty years. However, the investors/owners will only agree to the transfer of the properties if the sale proceeds will cover their non-cash tax liabilities. It is the rare housing transaction that can generate sufficient funds to reimburse investors for the "exit" taxes. Hence, most investors will not agree to the sale, and a long-term preservation opportunity is lost.

A relief of the non-cash gain associated with the sale of HUD subsidized or insured multifamily properties would go a long way to facilitate the transfer of these properties for long-term preservation as affordable housing. Further, the Treasury would benefit from the revenue on tax payments based on any cash gain generated by the sale (money that the Treasury would not otherwise realize absent a property transfer). Keep in mind, that if the investor/owners retain the property until their estate is activated, the Treasury does not receive any revenue as the new owner receives a full step up in basis.

NLHA recognizes that tax law is not under the jurisdiction of this subcomittee, but considering the importance of such tax law on housing preservation, we urge your support.

NLHA remains committed to maximizing housing affordability and stands ready to assist the subcommittee in its work. Thank you for the opportunity to present testimony.

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NLHA

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NLHA Comments on Project-Based Voucher Program

The National Leased Housing Association (NLHA) is comprised of both public and private sector housing organizations and agencies engaged in the provision of affordable rental housing. We have significant experience with the Section 8 programs and are quite interested in the recent legislative initiative to improve the use of project-based vouchers. We agree that use of the program has been limited due to burdensome regulatory requirements and statutory limitations. The program changes outlined in the January 16, 2001 Notice represent a good faith effort but fall short in a number of respects. The following comments include recommendations for both statutory and regulatory relief critical to the success of the program.

Regulatory Changes

We applaud HUD for its effort to revise the project-based program regulations to facilitate the successful use of the program and offer the following recommendations:

PHA Flexibility: The current regulations impose numerous unnecessary and burdensome administrative requirements on PHAs that choose to utilize their statutory authority to project-base vouchers. PHAs should be able to outline plans for using project-based vouchers, including application requirements and selection criteria as an addendum to the PHA plan.The specific content of the written selection policy, the form of program advertisement, etc., should not be prescribed by HUD. HUD should set general parameters and lePHAs develop and implement the program based upon those parameters.

Further, relief from the project-based voucher competition requirements should be granted when the project has already received tax credits or bond financing as the projects have already gone through a competition process. HUD should also eliminate the requirement that it approve each housing site. The PHA is qualified to make a proper site selection. Seeking HUD approval delays the confirmation of a financing commitment. In addition, new construction and rehab projects should not be subject to the site and neighborhood standards. To do so inhibits PHA's ability to use project-based vouchers to facilitate revitalization efforts (e.g. HOPE VI redevelopment).

Section 236 Projects The current regs prohibit the use of project-based vouchers in projects that were formerly insured under the Section 236 program. This prohibition should not apply.

Rehab Standard: The $1000 per unit rehab standard is inadequate. The minimum rehab standard should be increased to $10,000. Anything less than that should meet the definition of existing housing.

Tax Credit Units: The January 16 notice appears to say that for tax credit rents outside of qualified census tracts, the rent for a project-based voucher unit may not exceed the tax credit rent, even if the tax credit rent is less than the maximum voucher payment standard. We believe that the statute provides that the tax credit rent may be an exception to a rent set at the maximum voucher payment standard, therefore a PHA may set the rent at the *higher* of the maximum voucher payment standard or the rent charged in tax credit units without rental assistance (for tax credit developments outside of qualified census tracts). For HUD to interpret the statute otherwise would mean that the rent for a unit with project based voucher assistance in a tax credit building in a poor neighborhood could be higher than the rent permitted in a tax credit development in a better-off neighborhood. Certainly HUD does not intend for this result. The regulations should be modified accordingly.

Legislative Changes

Many of the concerns with the project-based voucher program will need amendments to the current statute. Paragraph (13) of section 8(o) of the United States Housing Act of 1937 (42 U.S.C. 1437f(o)(13) is amended as follows:

Limitation on Project-based voucher units: Subparagraph (D) which limits project-basing to twenty-five percent (25%) of the units in any building except for single family properties and properties for the elderly, persons with disabilities or families receiving supportive services should be repealed.

Term of Assistance: Current HUD policy permits Section 8 contracts to be renewed under the project-based program for up to 20 years (subject to annual appropriations). The project-based voucher program should be no different. Subparagraph (F) (which would become subparagraph (E)) should be amended to increase the housing assistance payments contract term from 10 years to 20 years.

FHA Financing: A new subparagraph (F) should be added that for purposes of underwriting a loan insured under the National Housing Act, the Secretary may assume that any section 8 rental assistance contract relating to a project will be renewed for the term of such loan.

Maximum Rents: Subsidy determination in the project-based voucher program should be consistent with the "voucher" program. The law (we think mistakenly) sets rents at 110 percent of the FMRs and limits recipients rent to thirty percent of income. Subparagraph (H) should be amended to provide that the maximum rents for each unit assisted should not exceed 110% of the applicable payment standard, or such other level as determined reasonable by the PHA.

Rent Adjustments: Subparagraph I should be amended to provide that rents may be adjusted by the annual HUD published annual adjustment factor and in subparagraph I(i) the phrase "and may not exceed the maximum rent permitted under subparagraph (H)" should be deleted.

Waiting List: Subparagraph (J) should be amended in the first sentence to provide that selection of families should be the responsibility of the owner and shall be from a waiting list maintained by the Owner in accordance with applicable HUD requirements. Subparagraph (J) should be further amended in the second sentence to provide that projects will *not* be subject to the provision of section 16(b) applicable to tenant-based assistance.Or, in the alternative, that such projects shall be subject to the targeting requirements applicable to public housing as provided in section 16(a)(2)(A) of the Act, i.e., not less than forty percent (40%) of the units in the project must be made available to families whose incomes at the time of commencement of occupancy do not exceed thirty percent (30%) of area median income, as determined by the Secretary with adjustments for smaller and larger families.

Davis-Bacon: A new subparagraph (L) should be added that provides that section 12(a) of the Act (concerning Davis-Bacon Act requirements) should not be applicable to projects with less than 50 units. The current exemption for section 8 is only for 8 or fewer units

Portability: Introducing the concept of portability into a project-based program raises concerns that tenants may move into a project only to move out of the project a year later (in effect jumping the waiting list). This is unfair to tenants who are higher up on the waiting list. This provision should be eliminated.

VOUCHER UTILIZATION RECOMMENDATIONS
SUBMITTED BY THE NATIONAL LEASED HOUSING ASSOCIATION

PHAs see full utilization of program resources as a fundamental program and organizational goal. However, in striving to maximize the use of program resources, PHAs encounter several programmatic and financial obstacles that impede their efforts. We have categorized these issues into five categories — the need for increased PHA flexibility, FMR and payment standards, the cost of lease up, other statutory and regulatory changes, and training. The following is a summary of the issues the task force identified as suggestions to minimize obstacles and maximize the use of resources.

INCREASED FLEXIBILITY

1. To facilitate successful leasing and to encourage participation by owners, we believe that HUD should permit PHAs to start housing assistance payments to owners of properties that have only minor HQS violations.

In the Section 8 program, assistance contracts may not begin until the PHA has certified that the property owner has corrected all HQS deficiencies. When the HQS deficiency is minor and does not threaten the family's safety or security, many landlords see the subsequent delay in renting the unit as unnecessary and bureaucratic. PHAs and program participants would be more successful if the PHA had the authority to start the housing assistance contract immediately after the first inspection if the only HQS violations are minor. Of course, the owner must agree to make corrections within a 30-day period. In this scenario, the PHA would still follow through with a reinspection and would apply existing non-compliance remedies if the landlord failed to complete the repairs.

The way the voucher program is currently structured, newly leasing families are treated differently than a family whose unit is undergoing an annual inspection. If the PHA finds a non life-threatening HQS deficiency during the annual HQS inspection of a property already on the program, the PHA continues subsidy payments for thirty days. This gives the landlord a reasonable amount of time to make the repairs. However, for new families, the PHA may not begin subsidy payments until the unit is free of all HQS deficiencies. Some HQS deficiencies are minor and easily corrected. Delaying rent payment until such repairs are completed limits the number of owners willing to participate in the program, makes the PHA seem intractable and bureaucratic and further limits the families' choice of units.

2. Allow PHAs to use relocation, litigation, and other special purpose vouchers on an interim basis to provide housing assistance to other families.

HUD may assign new voucher units to specific PHAs for relocating public housing residents or for litigation purposes. Current rules prohibit the PHAs receiving these special allocations from issuing the new vouchers until the families affected by the demolition/disposition, modernization, or litigation need the relocation assistance. In some cases, years have passed between the time HUD dispersed the special allocations and the time the rules permitted the PHAs to use the assistance. A better approach would be to allow PHAs to use the vouchers on an interim basis to provide housing assistance to other families. Of course, affected PHAs would have to show that they would have the resources to assist the targeted families when the time comes.

3. HUD should establish longer lease-up periods for PHAs receiving vouchers for special programs or special populations.

Frequently, the additional demands for leasing targeted populations require more time than leasing the non-targeted families. PHAs and the families need additional time for conducting special procedures such as targeted outreach, coordination with service providers, working with families toward meeting the prerequisite milestones, and finding accessible units. HUD should extend the leasing periods to at least eighteen months or preferably to two years.

FMR AND PAYMENT STANDARD

The task force encourages HUD to advocate for an increase in the FMR to the 50th percentile.

Under the current 40th percentile rule for FMRs, many voucher families fail to find any rental units that have rent and utility costs low enough to lease under the program (even when the PHA has used its flexibility to establish payment standards above the FMR.) In some communities, voucher families are able to find a limited selection of units, but only in high poverty areas where the rents are lower than the average rent for the area.

In addition, the rent cap, set at 40 percent of the family's adjusted income, limits the amount over the payment standard the family is permitted to pay. In the best scenario, these two factors combine to significantly reduce the number of rental units available to voucher families. In the worst, but all too common circumstances, families are unable to find qualifying units and must turn their vouchers back in to the PHA.

1. The NLHA task force would like to see HUD give local HUD field offices the authority to grant exception rents.

PHAs need greater flexibility to set the payment standards higher. One way to accomplish this is by authorizing the local HUD field offices to grant higher exception rents — up to 150 percent of the FMR.

2. Given rising utility costs in many parts of the country, we suggest that HUD adjust the FMRs semi-annually in areas that are experiencing rapid increases in utility costs.

According to our members, utility costs are increasing dramatically. These increases further exacerbate the too-low FMR problem. Since the FMR is supposed to support both rent and utilities for voucher families, increasing utility costs require even lower rents. This makes fewer and fewer rentals available forcing many voucher holders to simply give up their search for housing. The impact on families is devastating. In many cases, they have waited a very long time to receive housing assistance. However, for many families, the wait is futile. After finally receiving their long-sought voucher, they are unable to find affordable housing and must forfeit their opportunity for rental assistance. This scenario also negatively affects PHAs by lowering the housing authority's lease rate.

COST OF LEASE-UP

1. Create or expand programs such as the Regional Opportunities Counseling program (ROC).

Funding for counseling programs provides tenants with a broad range of services including housing search assistance, landlord outreach, referrals to self-sufficiency and other supporting services, and post lease-up assistance. This type of support is especially important to families moving from high to low poverty areas.

Counseling programs have been shown to improve the PHA's lease-up rate by improving the family's chances of successfully finding and leasing a unit. In Boston, for example, the ROC program participants had a lease rate of 85 percent compared to 50 percent for those not receiving help. Similarly, the Metropolitan Council of Minneapolis' lease-up rate for families participating in this type of supportive program rose to 70 percent. Families without such assistance had a 15 percent success rate for finding and leasing units. The positive impact and return from investing in such programs is evident

2. PHAs would like the option to use a small fraction of HAP funds to help voucher holders with move-in deposits and fees.

In some jurisdictions, applicants fail to lease units because they cannot afford the up-front costs. Such costs may include fees, security deposits, and first and last months' rent deposits. PHAs could turn unsuccessful housing searches into successful housing searches (and potentially shorten the time successful families look for dwellings) if HUD permitted PHAs to use a small percentage of their HAP funds to help families defray these costs.

3. We recommend that HUD provide funds to PHAs to defray the costs of leasing new families.

We would like to see HUD provide funding for each new family leased in the program, whether the voucher is an existing turn-over voucher or one received through a new allocation. Leasing-up a family new to the program is an expensive process. Legislation and regulations have increased PHA responsibilities and administrative tasks while at the same time diminishing overall funding. The new tasks are complex and time-consuming. For example, newer responsibilities require PHAs to add citizenship eligibility and certain criminal history background checks to the already-lengthy applicant screening process. Additionally, PHAs must now verify that the rent for the dwelling unit that a family wants to lease does not exceed a percentage of the family's adjusted income.

For many PHAs, new assistance is a mixed blessing. It provides additional resources for housing more families. However, it does not provide the necessary supporting funding to help the PHA conduct the tasks and provide the services necessary to bring the families onto the program. In some cases, the effort is a zero sum proposition for the PHA — costing more just to lease one family than it does to continuously assist families already on the program.

In some cases, a PHA that previously issued two vouchers to see one family successfully lease must now process and issue three or four vouchers before a family successfully leases. This puts a greater and greater administrative cost and burden on the PHA. The harder it is for families to find units, the higher the failure rate among new voucher holders. The higher the failure rate, the harder the PHA must work to achieve a reasonable lease rate. Consequently, the cost for leasing each family gets even greater.

4. PHAs need additional resources to implement special initiatives requiring extensive coordination with social service agencies, such as welfare to work, mainstream, and family unification. To help families with special needs succeed in finding and renting appropriate housing in increasingly more difficult leasing environments, PHAs need additional resources.

5. The task force suggests as an alternative to the lease up fee (for families new to the program), that HUD work with PHAs to establish a Voucher Success Fund.

The Voucher Success Fund would be a pool of funds that individual PHAs could tap to meet certain challenges to successfully leasing families. For example, one PHA might need to offer special counseling to non-English speaking families. The voucher Success Fund could provide the resources to assist the PHA with the additional costs such counseling would require. Another PHA, in a tight renal market, might need funds to help voucher families by providing security deposit loans or grants.

OTHER STATUTORY OR REGULATION CHANGES

PHAs should have waiver authority to adjust the 40 percent cap for certain families.

The 40 percent cap (restricting a family's search to only those units where the combined cost of rent and utilities does not exceed 40% of the family's adjusted monthly income) makes it extremely difficult for some families to find appropriate units. PHAs need the flexibility to waive or raise the cap under limited circumstances (for reasonable accommodation, uncounted income) or have a ready access to timely waiver authority. The cap especially affects a large number of elderly families.

1. Revise the project-based voucher regulations to (a) streamline the process: (b) allow owners rather than the PHA to maintain the waiting list; (c) eliminate the requirement for Davis-Bacon wage rates; (d) enable owners to receive rent increases that are more in line with market increases; and (e) provide for a five year ACC to make it possible for owners to find willing lenders.

2.The task force also recommends that HUD provide relief to Section 8 landlords from lead-based paint requirements (becoming effective September 15, 2000).

PHAs cannot keep landlords in the program when the burden on Section 8 landlords is so much greater than on non-Section 8 landlords. Without the participation of the landlords who own and manage affordable units, voucher families will be unable to find suitable affordable housing. We believe the current HQS requirements are effective in protecting children for lead poisoning and that the additional requirements imposed by Subpart M of the September 15, 1999 rule are overkill and will alienate landlords. Further, the tenant-based provision of the rule were not contemplated in the proposed rule and therefore deprived the public from an adequate comment period. At the very least, we believe HUD should provide free, broadly accessible training sessions open to all PHAs and owners. In addition, PHAs and owners need HUD to assist them in identifying fast and inexpensive dust analysis resources and provide the funding for the clearance tests. Implementation of the rule should be phased in according to the age of the unit as provided for project-based Section 8 and deferrals should be granted when lack of capacity is demonstrated.

3. Reduce the size and scope of the requirements for PHA plans (Section 8)

Many PHAs report that the plans are not more useful than previous procedures; yet putting the plans together is very time-consuming, particularly in terms of public notification and comment.

4. We suggest that HUD exempt elderly and disabled families from rent increases resulting from the conversion from the certificate program to the voucher program — in the same way that enhanced voucher participants are protected.

Rents that the PHA approved under the certificate program rules may become too costly for certain families (especially elderly and disabled families) when the PHA changes their assistance to the voucher program. In some cases, a certificate family may have resided in the same rental unit for many years. During that time, the PHA could have granted rent increases — in line with the certificate program's annual adjustment factors and rent reasonableness rules — that gradually raised the rent beyond the current FMR.

When the PHA converts the certificate contract to a voucher contract, the resulting family share of the rent may be above the payment standard. In these instances, the conversion means the family must pay a higher share of the rent for the same unit. The family share of the rent frequently increases beyond what the family can afford forcing the family to move to another unit. (PHAs report that rent increases of $150 per month are common.)

TRAINING

Given the number of changes that have taken place in the housing programs and the resulting complexity of administering the programs, we believe HUD should conduct training and provide tools to help PHAs understand and utilize the options that are available to them.

Over the last couple of years, PHAs have seen an enormous number of statutory and regulatory changes to the Section 8 programs — some of them very complex and time-consuming to adopt. For many agencies, just keeping up with the day-to-day changes in program operation has been overwhelming. We suspect that a significant number of PHAs are unaware of many of the finer points of the new rules.

For example, it used to be that a PHA could assist a greater number of families if it kept the payment standards as low as possible. However, under current funding methods, the lower payment standard this year will translate into a lower funding for renewals next year. By managing the program using out-dated assumptions, some PHAs may be missing opportunities to design better functioning programs that serve larger numbers of families.

Many PHAs still do not understand the complexities and relationship between funding and lease up. They do not understand that they may temporarily lease more units than authorized by their ACC. They are unaware that they may use reserves to fund units when their average costs are greater than the average funding available per unit. We believe HUD should conduct better outreach and training to help PHAs understand and utilize the options that are available to them. We suggest HUD create a lease up guidebook with separate sections for the executive, the financial manager, and the lease up manager. The book should also include easy to use and understand worksheets to assist the PHA to determine their optimum lease-up count and a methodology for tracking funding throughout their fiscal year.

APPENDIX

May 22, 2001

Statement
Marge Roukema
Chairwoman
Subcommittee on Housing
and Commmunity Opportunity
Hearing on Housing Affordability
May 22, 2001

Good morning.

Thank you all for coming this morning. This is the second day of hearings planned by this Subcommittee on the issue of the availability of affordable housing. This country is facing a growing affordable housing crisis for low and moderate-income families. Despite the fact that more and more people are sharing in the American dream of home-ownership, many working families are finding it more difficult to find affordable rental housing. Through these hearings, I hope to better define the problems faced by many of our families who cannot find affordable housing, and to hear the viewpoints, observations, and solutions we may use in addressing this crisis.

The growing economy has created a major dilemma for an increasing number of working class and low-income Americans. In many areas, better economy means higher rents. These hard working Americans suddenly can't afford the housing they are occupying, or can't even find any housing available that is geared to their income levels. I know this is a problem in my district. Ranking Member Frank will I am sure attest to the difficulty low and moderate income families in Boston are having in finding affordable shelter.

The problem is a complex one since the causes may vary depending upon the particularities of the real estate market. Local markets are highly individualized -- the economics of housing in Houston, Texas are obviously much different from Manhattan in New York City. Portland, Oregon has different factors at play than Detroit, Michigan. For example, in some areas existing federal programs, such as the use of Section 8 vouchers, may be working very well, while in other areas voucher utilization rates are very low. For these reasons, I am firmly convinced that in order to address successfully the housing affordability problem, we will need to consider a variety of approaches, including:

- whether we should develop a production program to encourage increasing the supply of housing;
- changes to existing federal programs that will help to foster production or improve the delivery of federal housing assistance; and
- removing the barriers to producing low and moderate housing.

The high cost of construction and the shortage of land have forced many builders to focus on only the high-end market. We must look for ways to remove those barriers that make it more costly or difficult to meet the demands of the low and moderate income housing market.

The solutions to this shortage of affordable housing will not come easily or quickly. I believe we must work to develop a comprehensive solution. However, there are several steps we can take now that will begin to address some of the problems.

Last week, Congressman Frank and I asked the Administration to release the $40 million in credit subsidy for the FHA multifamily housing program. Releasing these funds will allow us to resume lending under the FHA multi-family loan guarantee program while providing Congress the time necessary to determine the best way to proceed in funding this important program through the end of this fiscal year and in the years to come.

In addition, I would like to ask my colleagues to cosponsor legislation that Congressman Frank and I have introduced, HR 1629, which would raise, by 25 percent, the existing FHA multifamily loan limits. It is extremely expensive and difficult to build multifamily projects that produce moderately priced units and the resulting rents are often higher than many working families can afford. Without the assistance of the Federal Housing Administration (FHA), builders are building fewer and fewer multifamily projects, exacerbating the grave shortage of rental affordable housing.

Since 1992, construction, land and other costs have significantly increased. In ten metropolitan areas, for example, a preliminary survey by the National Association of Home Builders shows that land cost increased by an average 25 percent over the past 9 years. In areas such as New York City, parts of Philadelphia, Boston, San Francisco, to name a few, it costs more to construct or rehabilitate moderate cost housing units than the current mortgage limits. The FHA loan limits were never intended to exclude certain regions of the country. HR 1629 will fix that problem and I urge my colleagues to cosponsor this legislation.

Finally, last year Congress passed legislation to increase the cap in both Low Income Housing Tax Credits and Private Activity Bonds. Congressmen Houghton and Neal have introduced legislation to finish the modernization of these important programs, HR 951, the Housing Credit and Bond Modernization and Fairness Act.

Unfortunately, even with the increases we enacted last year, many people qualified to receive housing help under these programs still are not getting it because a few obsolete program provisions enacted as long as 20 years ago prevent it, especially in rural and high-cost areas. HR 951 makes three simple, low-cost, non-controversial tax changes: repeals the so-called MRB "Ten-Year Rule; reforms the MRB purchase price limit; and adjusts Housing Credit income and rent limits to get development into rural areas. The National Governors Association has recognized the importance of this legislation by endorsing its enactment, and I urge my colleagues to add their name as a cosponsor to this important legislation if you have not already.

We are very fortunate today to have a number of distinguished experts in the field of housing as witnesses today. There are many organizations working together through public private partnerships to provide affordable housing throughout this country. Today, we have several of those organizations who will share with us their experience and suggestions for addressing this growing crisis. I am particularly interested in hearing ways we can reform current programs. Thank you all very much for participating today. With that, let us proceed to the witnesses and begin our hearing.

MICHAEL G. OXLEY, OHIO, CHAIRMAN

U.S. House of Representatives
Committee on Financial Services
ONE HUNDRED SEVENTH CONGRESS
2129 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515

202–225–7502

May 17, 2001

The Honorable Mel Martinez
Secretary
Department of Housing and Urban Development
451 Seventh Street, SW
Washington, DC 20410

Dear Mr. Secretary:

We are writing to ask that you release the $40 million that is available as emergency funding for credit subsidy included as part of the Legislative Branch Appropriations Act, 2001 (Public Law 106-554; December 21, 2000).

As we have discussed, we are anxious to work with you in reviewing the programs at HUD to determine what reforms may be necessary and appropriate. However, we know that you agree that such a review deserves our deliberate attention and will take time. It is for this reason that we believe that the most prudent course of action is to immediately release the $40 million in Credit Subsidy funding. This would allow us to resume lending under the FHA multi-family loan guarantee program while providing Congress the time necessary to determine the best way to proceed in funding this important program through the end of this fiscal year and in the years to come.

This country is facing a growing affordable housing crisis for low and moderate-income families. Despite the fact that more and more people are sharing in the American dream of home-ownership, many working families are finding it more difficult to find affordable rental housing. It is estimated that $3.5 billion in federally backed loans to build 51,289 affordable rental apartments are in jeopardy unless we take steps to address the current shutdown of this program. This translates into lost construction jobs, unbuilt rental housing units and a significant economic impact which could ripple across the country.

This is a matter that requires our immediate attention. Releasing the $40 million now will address the immediate crisis and allow us the time necessary to determine a solution to future funding and operation of this program.

Thank you for consideration of this request.

Sincerely,

Barney Frank
Ranking Minority Member
Housing and Community Opportunity
Subcommittee

Marge Roukema
Chairwoman
Housing and Community Opportunity
Subcommittee

MICHAEL G. OXLEY, OHIO, CHAIRMAN

U.S. House of Representatives
Committee on Financial Services
ONE HUNDRED SEVENTH CONGRESS
2129 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515

202-225-7502

May 17, 2001

Dear Colleague,

On April 24, we introduced HR 1629, the FHA Multifamily Housing Mortgage Loan Limit Adjustment Act of 2001. We are writing today to ask for your support and cosponsorship. This legislation will provide another tool in the effort to produce much-needed affordable rental housing, particularly in high-cost areas, for our working families.

This country is facing a serious housing crisis. People in the lowest income brackets – those making 30 percent of area median income or less – face the most serious housing problems. But more recently, families earning more – 50 percent to 120 percent of area median income – are unable to find decent affordable housing.

It is extremely expensive and difficult to build multifamily projects that produce moderately-priced units and the resulting rents are often higher than many working families can afford. Without the assistance of the Federal Housing Administration (FHA), builders are building fewer and fewer multifamily projects, exacerbating the grave shortage of rental affordable housing.

HR 1629, when enacted, would raise, by 25 percent, the existing FHA multifamily loan limits for the first time since 1992. Since 1992, construction, land and other costs have significantly increased. In ten metropolitan areas, for example, a preliminary survey by the National Association of Home Builders shows that land cost increased by an average 25 percent over the past 9 years. In areas such as New York City, parts of Philadelphia, Boston, San Francisco, to name a few, it costs more to construct or rehabilitate moderate cost housing units than the current mortgage limits. The FHA loan limits were never intended to exclude certain regions of the country.

This legislation is supported by the National Association of Home Builders, the Mortgage Bankers Association, and the National Association of Realtors. This is an efficient and cost effective way for us to address part of the housing needs of the 13.7 million American families that have a critical housing need.

Please contact Cindy Chetti at 5-4465 to cosponsor this important legislation.

Sincerely,

Barney Frank
Ranking Minority Member
Housing and Community Opportunity Subcommittee

Marge Roukema
Chairwoman
Housing and Community Opportunity Subcommittee

Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Housing and Community Opportunity
"Housing Affordability"
May 22, 2001

Thank you Chairwoman Roukema.

Today is the second day of hearings by this Subcommittee to address a complex issue on the availability and affordability of housing in our communities.

Today's witnesses bring a unique perspective, representing the private sector and state and local governments.

The first panel will give us some insight on private sector initiatives and how the Federal government can partner with these lending institutions to leverage public and private funds to increase the supply of affordable housing.

Moreover, I am looking forward to our distinguished second panel consisting of elected and state/local housing officials who will discuss their experiences using our Federal housing programs.

In my May third statement during the first day of hearings, I expressed what many of my colleagues and I believe is the best economic development strategy—effective public safety, good schools, and affordable housing. When one of these factors is lagging, the community will deteriorate.

As challenges to one aspect of that strategy—affordable housing—differ greatly across the country, input from those at the local level is of the utmost importance to the debate. Solutions will need to place great emphasis on flexibility and allow communities the discretion needed to address their particular situations.

On a personal note, I welcome fellow Ohioan Mr. William Hinga, President of Banc One Community Development Corporation located in Columbus. As an example of the types of partnerships that leverage private investments with public resources, Banc One collaborated with the Ohio Capital Corporation for Housing to provide $3.7 million in equity capital for a new 77 unit low-income housing development in Steubenville, Ohio. I thank you and Banc One for your efforts in Ohio as well as your service around this country.

Once again, thank you Madam Chairwoman for providing leadership on this issue.

Statement of Congresswoman Sue Kelly
House Committee on Financial Services Subcommittee on Housing and Community Opportunity; Second Hearing on Housing Affordability

Tuesday, May 22, 2001
2128 Rayburn House Office Building

Chairwoman Roukema and Ranking Member Frank I want to thank you both for agreeing to hold today's hearing on the Affordable Housing crisis that is facing our nation. The lack of affordable housing is not solely a matter of importance to the working poor, it is an issues that effects all levels of our communities.

In my home of Westchester County the median price of a house is $412,000. HUD has declared that a fair market rent for a two-bedroom apartment is $1,144.00, that's higher than New York City. As of February 8, there are 13,207 people on the Section 8 waiting list. Yet the county and communities are not able to use all of their Section 8 vouchers because of a combination of a lack of available housing units and the inability of the Section 8 vouchers to cover the fair market rent for the area.

In looking for remedies for this situation we cannot solely look to the government. As this is an issue of importance to the entire community, we must look to private community groups and institutions for combination public – private efforts. It has been from these initiatives that I have witnessed some of the best work towards long-term solutions. In my opinion, any legislation looking to make serious progress towards a solution must include public - private partnerships, however the need to engage multiple entities acts as a drag on affordable housing development. Certain elements appear to need change if we are to enhance the ability of these public/private partnerships in meeting the housing needs of our communities today.

We must attempt to reduce some of the constraints on Federal funds which limit flexibility of their use. Funds must be set aside for upgrading current housing stock to bring older units viability again. Rehabilitation money must be made available. We must consider money for infrastructure needs; repairing and building new sewer systems, roads, sidewalks so affordable housing creates a decent quality of living. Flexibility of funds would allow use of Section 8 funds in areas where local community guidelines currently prevent their application. Coupled with this, we need to provide some Federal structure on a long term or permanent basis to ensure those building affordable housing can be assured of a basis for housing funding.

One of my foci today is to hear what else Congress might be able to do to strengthen those existing programs that are having positive results in addressing the need for affordable housing. As with most legislation, I believe a balanced approach is necessary. We should continue to work to ensure that effective programs receive all the support they deserve in every way Congress can provide.

I want to thank our distinguished panel of witnesses for taking time out of their busy schedules to discuss these issues with us. I look forward to working with my colleagues on both sides of the aisle to address these issues.

Again, thank you Madam Chairwoman, I yield back the balance of my time.

COMMITTEE ON SMALL BUSINESS
RANKING DEMOCRATIC MEMBER

COMMITTEE ON BANKING AND FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
SUBCOMMITTEE ON CAPITAL MARKETS, SECURITIES, AND GOVERNMENT SPONSORED ENTERPRISES

CONGRESSIONAL HISPANIC CAUCUS
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CONGRESSIONAL PROGRESSIVE CAUCUS

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Opening Statement of Congresswoman Nydia Velázquez
Financial Services Subcommittee on Housing and Community Opportunity
Hearing on Affordable Housing
May 22, 2001

I would like to thank Chairwoman Roukema and Ranking Member Frank for their efforts in holding this important hearing today.

We hear over and over again about how the homeownership rates are at an all time high. While I am greatly encouraged that two-thirds of all American families own their own homes, I am concerned that this lone statistic is obscuring a grim reality in our current housing market -- that 4.9 million American families have Worst Case Housing Needs. These are families who pay more than 50% of their income for rent or live in severely substandard housing. At the last hearing on this topic, several panelists indicated that the number of families in such situations might even be greater than the 4.9 million cited in HUD's most report on the topic.

Even more alarming, is the fact that the number of families who pay more than 50 percent of their income in rent is rapidly increasing in urban areas and among working minority families. These are many of the same people for whom our educational system is failing. This is especially hard on the children. When you add the burdens of an unstable housing situation, it is little wonder that these children are being left further behind with each passing year.

When he appeared before this Committee, HUD Secretary Martinez highlighted the first decrease in over ten years of families with Worst Case Housing Needs. However, what we must not lose sight of is the caveat which accompanies this good news. This progress is highly vulnerable to an economic downturn.

This is because the reduction results from increases in income among very-low-income renters -- not from an increased supply of affordable housing units. Indeed, HUD statistics show that from 1997 to 1999 the number of units affordable to extremely-low-income families declined at an accelerated rate. This means that an economic down turn will result in more families, making less money and competing for fewer affordable housing units.

We must act now to avoid such an occurrence. I urge this Committee to take decisive action in establishing an ambitious housing production program which will help alleviate the problem of declining stocks of affordable housing. I am particularly interested in hearing the thoughts of our panelist on how they would structure and fund such a program.

Let me say once again that I am pleased by the significant attention being granted to this crucial issue by the Subcommittee. There is a growing consensus among the Members of the Subcommittee that our housing situation is not as optimistic as our homeownership rates would lead us to believe. The next step is to take the knowledge we have gained from listening to our witnesses and put it to work to alleviate the crisis. I hope that we all can work together to ensure that all American families have access to safe, decent affordable housing. Thank you.

Statement by Rep. Bernard Sanders regarding the Housing Crisis
TUESDAY, MAY 22, 2001 AT 9:30AM IN 2128 RAYBURN

I would like to thank Chairwoman Roukema for holding this important hearing on the affordable housing crisis.

Madame Chairwoman, we all acknowledge that the issue of affordable housing has rapidly become a serious national problem -- one where thousands of low income elderly, disabled, and families with children are increasingly unable to afford privately-owned low income housing units. According to HUD, about 5.4 million Americans today are paying more than half of their limited incomes on housing or living in severely substandard housing. Since 1990, the number of families who have ``worst case" housing needs has increased by 12 percent -- that's 600,000 more American families who cannot afford a decent and safe place to live. For these families living paycheck to paycheck, one unforseen circumstance, a sick child, a needed car repair, or a large utility bill can send them into homelessness

According to a recent report by the National Low Income Housing Coalition, my state of Vermont is the fourth least affordable state for renters. 50% of Vermont renters are unable to afford the state median fair market rent of $607, including utilities, for a two-bedroom apartment. Another study conducted by the state of Vermont found that state and federal housing programs have been able to meet the needs of only 15,000 of the 37,000 Vermont rental households needing assistance.

In the midst of this affordable housing crisis, I find it very unfortunate that the Administration submitted a budget to Congress that seeks to cut the HUD budget by $2.2 billion in real dollars or 8 percent.

Instead, I believe that we should at the very least use a portion of the FHA and Ginnie Mae surplus to increase affordable housing in this country by creating an affordable housing trust fund. I will be introducing this legislation soon, and I hope that Members of this Subcommittee will join me in co-sponsoring this legislation and that the Administration will support.

Madame Chairwoman, according to Deloitte & Touche, FHA profits are expected to exceed $26 billion over the next seven years. Unfortunately, the President chose to use the projected $2.4 billion in FHA profits in FY 2002 not to increase affordable housing opportunities for hard working Americans, but to lower the net level of funding for housing. In the midst of an affordable housing crisis, I find this approach to be outrageous. According to housing experts, if we used the FHA surplus to build affordable housing we could more than triple affordable housing construction next year and provide shelter to more than 200,000 families. Madame Chairwoman, that is what I believe we need to be using the FHA surplus for and that is what I intend to push for in this Congress.

Over recent years, Congress has said that money that is put into the Highway Trust Fund can only be used for highways; money that is put into the Social Security Trust Fund can only be used for Social Security; money that is put into the Airway Trust Fund can only be used for aviation needs; but when it comes to the FHA surplus, we are apparently being told that this money must be put back into the Treasury. I think the time has come for Congress to put a portion of the FHA profits into an affordable housing trust fund to be used only for the purposes of increasing affordable housing opportunities for hard working Americans.

I thank the Chair.

Subcommittee on Housing and Community Opportunity

OPENING STATEMENT
Of Rep. Stephanie Tubbs Jones
May 22, 2001

Good Morning, Chairman Roukema, Ranking Member Frank and Members of this subcommittee. Madame Chairwoman, I ask unanimous consent that my full statement be included in the Record.

Madame Chairwoman, we are here this morning to hold a hearing on Elderly Housing and Affordability Issues. Many of us, on this committee, have heard from senior citizens, their families as well as housing advocates all feeling the pain from the shortage of available housing and supportive services for seniors. Moreover, in the wake of escalating housing, rental and energy costs, this issue, I believe, can only get worse unless we act in a proactive manner. Again, I echo my support for a housing production program that takes into account the additional housing needs of the elderly.

We, as a subcommittee, cannot overlook the critical role that housing plays in our nation. Housing plays a key role in where people live, where businesses, hospitals and schools and other facilities are located. The important of housing, relative to our capital markets, cannot be overstated.

How did we get here? Housing issues and shortages impacting the elderly are an offshoot of medical advances and technology. Today, 34 million seniors are living longer lives. Additionally, with access to information, seniors have changed the ways they look at housing choices and their living arrangements. Over the next decade, further increases in longevity will add another five million to the ranks of the elderly.

With seniors living longer, there are additional housing issues faced by them. Some of these issues includes providing appropriate affordable housing units with support services, protecting seniors from predatory lenders and providing incentives for housing units that provide home modifications for seniors.

The reality here is that seniors have the highest homeownership rates of any age group. About 25% of all homeowners are seniors. Also, with nine out of ten seniors preferring to stay in their homes, new housing alternatives will have to be developed as housing cost and thus, tax burdens on seniors escalate.

We must work to meet these special needs of seniors. About 10% of seniors live in age-restricted communities. Our regular housing stock, as well know, is not adequately designed to meet the changing needs and preferences of seniors as they age. Thus, the need for home modifications and healthcare services for seniors are growing. I am sad to say that this demand is not being met. Only about half of the disabled over age 65, have home modifications they believe they need. Thus, there are thousands of seniors who live without handrails, ramps, elevators or lifts that would help them function more easily at home.

As a member of this subcommittee and Chair of the Congressional Black Caucus Housing Task Force, we must address these public policy challenges. As our senior population grows, there will be greater strains on Social Security, Medicare, and Medicaid. What is also troubling is the disparity that exists between wealthier seniors and those with a net worth of less than $25,000. Their housing choices will be severely limited, especially those of color.

Right now, seniors face difficulties paying for their current housing. In 1995, 2.2 million of those age 65 and over, paid more than half their incomes in housing. With recent prices increases in energy and housing, these numbers have risen dramatically. Severely burdened homeowners will have difficulty maintaining their homes, notwithstanding home modifications and support services.

Homeownership and support for elderly housing must occur jointly in urban centers as well as rural communities. We cannot leave anyone out.

I am glad today that we have two distinguished panels that will share their insight on elderly housing and other public policy challenges. Housing is a serious issue. We must treat it that way.

Thank you, Madame Chairwoman, for the opportunity to present my remarks. I look forward to this hearing.

Statement of
Mary Kaiser, President

California Community Reinvestment Corporation

Before the

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

May 22, 2001

Testimony of

Mary Kaiser

President, California Community Reinvestment Corporation

Before the

Housing and Community Opportunity Subcommittee of the House Financial Services Committee

May 22, 2001

Good morning. My name is Mary Kaiser. I am President of the California Community Reinvestment Corporation (CCRC), a non-profit multi-bank funded lending consortium. I am also a member of the Executive Committee of the National Association of Affordable Housing Lenders, a member of the Low Income Housing Fund loan committee, and serve as an advisor to the Ventura County Community Foundation, and Chairman of the Board of Trustees for United Way. I have worked in commercial banking for more than 25 years and in community development for the past 6 years.

I want to thank the Financial Services Committee for the opportunity to tell you about some of the successes we've had in meeting affordable housing needs in California but also to make you aware of the enormous challenges that lie ahead – and how Congress might help us address those challenges.

By way of background, The Federal Reserve Bank of San Francisco and senior banking executives from California-based commercial banks created CCRC in 1989 to address the lack of long term mortgages for the development of multi-family and senior affordable housing. The Federal government had just created the Low Income Housing Tax Credit program and permanent, long-term mortgages to finance the units subsidized by the tax credits were hard to find. The perception of high risk in this type of lending led to the formation of a mitigated risk loan pool where all member banks would participate in each loan on a prorata share basis.

At the time when CCRC was launched, the world of affordable housing was quite different than it is today. Eleven years ago, the perception was that the risk of community development lending was excessive. The system for financing affordable housing in California, and elsewhere throughout the country, was generally fragmented. The pooling concept CCRC offered seemed a great innovation, allowing banks to meet their CRA requirements and providing a much-needed private capital financing vehicle for affordable housing. CCRC's member institutions have committed in excess of $250 million in private capital to meet this need.

Since 1989, at least ten other consortia were created in other states. In our particular business – underwriting tax credit, multifamily rental projects – we pioneered ways of underwriting and developing effective partnerships with nonprofit and for profit housing developers, local municipalities and state agencies to increase the production and rehabilitation of affordable rental housing for low-income families. In the last eleven years, CCRC has originated over $300 million in mortgages secured by projects containing over 15,500 housing units affordable to families and seniors. 100% of the units are affordable to those earning 80% or less of the area median income, and one-half of our loans represent housing units affordable to those earning 50% or less of area median income.

Through our willingness to create innovative loan structures, tailored to each project's needs, we have succeeded in doing the new, cutting edge, and hard-to-do deals that have helped increase the supply of affordable rental housing in California. And what we've done, has been done right. Through adherence to rigorous management practices, CCRC's loan losses since inception has been extremely low – only .32%, $622 thousand, of all loans originated – comparable to the performance for a good portfolio of investment grade bonds.

CCRC is proud of its contributions to affordable housing. In fact, CCRC recently received the Financial Supporter of the Year Award from the Southern California Association of Non-Profit Housing for our work in financing low-income housing. In California, we have become part of a strong affordable housing infrastructure, in which lenders, nonprofit corporations, commercial investors and state and local governments work together to meet a common cause: providing low- and moderate-income families and communities with decent, affordable housing. Our experience in affordable multi-family mortgage origination also has allowed us to meet community needs in other ways, such as our acquisition/rehabilitation lending program targeted to inner-city investors, a tax-exempt bond permanent loan program, acquisition/development lending, and direct investments in affordable housing projects.

But, despite all that we – and others – in California are doing, we simply don't have the resources to keep pace with soaring demand for affordable rental housing. The 1999 American Housing Survey conducted for HUD and released this month noted that of the 112 million year-round housing units in the nation, 30% are renters. The overall vacancy rate of rental units nationwide is 8%, less than 5% in California. California accounts for seven of the eight least affordable rental housing markets in the country. With low-income renters outnumbering available rental units on a 4 to 1 ratio, the housing wage in California now $15.20 an hour -- more than twice the minimum wage -- and adding only one housing unit for every 5 jobs created since 1990, we need help on every front to build sustainable communities.

What can we do to increase the production to start to narrow the increasing gap? The low-income housing tax credit is an important tool. While it does not reach to the very low income, those earning 30% or below of area median income, it does, combined with local subsidy and federally funded/locally allocated subsidy such as HOME and CDBG, reach effectively between 40% and 80% of AMI. The recent increase in the cap in both LIHTC and Private Activity Bonds will allow more units to be constructed and rehabbed, but won't come close to meeting the demand, and really cannot address the lowest income citizens of our state.

In California, where a waitress who earns minimum wage and tips falls in the 30-35% range earning $12,000 annually, production programs at the federal level are the only solution to the market failure to meet the needs of the very low income working poor. The housing wage of $15.20 means she would have to earn close to $30,000 annually to afford a fair market rent. Production programs with ongoing operating subsidy, such as Project Based Section 8, additional Section 8 vouchers, as well as specialized programs such as Shelter Plus Care and other specialized subsidy programs that make the numbers work when incomes can only support such low rents. The costs are the same to build any type of housing. The costs to operate real estate are the same. The conventional financing on the debt portion, the equity injection from tax credits and the subsidy from the public sector continue to provide the model for increased affordable housing production.

You can help us, by continuing to support programs at the Federal level that can be counted on, year in and year out, with similar restrictions and requirements as other programs developed in the private sector, to allow this important partnership to continue. The synergy between the private and public sector is maximized when we are striving to reach the same goal. Production programs for the very low-income working poor, where tax credits can't reach, need to be reinstated. Ongoing operating subsidy to cover the costs of running these properties where low income rents cannot support the costs need to be committed as well.

Thank you again for the opportunity to speak. I hope I've conveyed that the problem is real, quantifiable, and solvable. We have demonstrated that very fact on a small scale at the California Community Reinvestment Corporation.

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

May 22, 2001

Testimony of

Joseph F. Reilly

Senior Vice President, JP Morgan Chase Community Development Group

Before the

Housing and Community Opportunity Subcommittee of the House Financial Services Committee

May 22, 2001

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

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. 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. In addition, 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.

Statement of
Joseph Flatley, President

Massachusetts Housing Investment Corporation

Before the

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

May 22, 2001

Testimony of

Joe Flatley

President and CEO, Massachusetts Housing Investment Corporation
Before the
Housing and Community Opportunity Subcommittee of the House Financial Services Committee
May 22, 2001

Good morning. My name is Joe Flatley. I am President and CEO of the Massachusetts Housing Investment Corporation (MHIC), a private organization that finances affordable housing in Massachusetts. MHIC was created in 1990 as collaboration between the state's banking industry and community leaders. Today, we have 25 corporate investors including banks, insurance companies, and the GSE's. MHIC is a 501(c)(3) non-profit and a CDFI. I also serve as Chairman of the National Association of Affordable Housing Lenders (NAAHL). NAAHL, with more than 200 member-organizations, is the only association devoted to increasing private investment in low- and moderate-income communities – in affordable housing, community development, small business and micro-enterprises.

I would like to commend the House Financial Services Committee for holding hearings on the nation's affordable housing needs and thank you for the opportunity to give you my perspective on this issue.

I have worked in the field of affordable housing and community development for more than 30 years. The organization I head – the Massachusetts Housing Investment Corporation – last year provided over $100 million in private capital to finance the development of 45 affordable housing projects in Massachusetts. This brings the amount we have committed or invested over the past 10 years for affordable housing to over $500 million in 165 projects.

Over this span, we have seen both the "good" and the "bad" in affordable housing. The good news is that during the past decade, the affordable housing industry has experienced a very significant evolution and maturation in learning how to produce decent, affordable housing for low and moderate-income families and communities. For-profit and non-profit developers, lenders, investors, community leaders and government at all levels have learned to collaborate as partners in devising new solutions and creative financing strategies for financing and producing affordable housing in thousands of communities.

We have learned over the years about how to do it right – how to build affordable rental housing and homeownership that contains a mix of incomes, that is built with the discipline of the private market and that uses resources responsibly, that is of high quality and lasting value, that stays affordable over the long run and that people are proud to call home.

We have achieved these successes because, in large measure, we have been able to attract substantial private capital. For example, my organization, the Massachusetts Housing Investment Corporation, has raised over $500 million in private capital to finance affordable housing, we have had zero loan losses, and we have earned a respectable return for our investors.

However, in the face of all that has achieved over the past decade, we must recognize a central and indisputable fact: The need for affordable housing in thousands of communities throughout the country has never been greater. The lack of affordable housing has become pervasive as it impacts all segments of our economy. Working families, particularly the working poor, are finding it harder than ever to find affordable housing. Many people who have lived all their lives in city neighborhoods are having to move away because they cannot afford to stay. And businesses are seeing the costs incurred when employees can't find affordable, convenient places to live.

In some places, like Chicago, many affordable units are produced each year by Ma and Pa owners. Today they can readily find financing from a consortium like mine, a bank, or perhaps NHS, with little or no subsidy from a local agency.

However, in high-cost areas like Boston, in particular, the costs of new construction and renovation remain very high, while the number of apartments with rents affordable to low- and moderate-income families remains low. The underlying problem is a result of a mismatch between demand and supply, resulting in escalating rents and housing prices. Demand-side subsides, such as Section 8 certificates, are not workable solutions, as certificate-holders cannot find units with rents that qualify. Clearly, we need to add to the supply of affordable units.

However, even with strong public support for new units, an experienced non-profit developer, and a mortgage lender committed to providing credit for affordable housing, additional units can only be provided if subsidies fill the gap that exists between what families can pay and the overall cost to build, operate and maintain the units. Inevitably, public operating subsidies or capital subsidies must fill that gap.

Unfortunately, however, over the past decade, funding levels for federal housing programs have fallen short of what is truly needed to ensure every American of decent, affordable housing. If we are to make real progress in addressing the affordable housing shortage, new sources of subsidy must be made available to supply needed units. With only modest levels of new public investment, you will leverage enormous investment by the private sector, and by state and local governments.

As Congress considers solutions to the housing affordability crisis, the most effective long-term measure policymakers can take is to develop a new federal financing resource with the capacity and flexibility to, at the very least, "double" the existing supply of affordable rental housing. Such a resource should provide a stable, predictable source of capital – ideally free from the uncertainties of the Federal appropriations process – that would ensure providers of a dependable stream of revenue for leveraging the substantial sums of private capital today available for lending and investing in affordable housing.

Dependable, predictable funding is critical if we are going to create solutions to the housing affordability crisis that really work for the long run. These solutions depend on hard work over many years, on community outreach and planning, and on entrepreneurs who are willing to devote themselves to a multi-year effort, with some reasonable expectation of ultimate success in the end. This can't be accomplished with on-again, off-again public programs. With a consistent source of funding, more projects will enter the long pipeline of development. If you are willing to make the commitment to identify and secure a dedicated revenue stream, such as the proposed National Affordable Housing Trust Fund, you will leverage private resources many times over, along with marketplace discipline and entrepreneurship; you will leverage state and local resources, and build partnerships among levels of government; and most importantly, you will rekindle and rebuild a sense of community throughout America.

Similarly, expanding homeownership is a critical element of most communities' revitalization strategies. The President's Budget this year proposes a major new single-family housing tax credit. The Renewing the Dream tax credit would make a huge difference for low-income families and low-income communities by attracting nearly $2 billion of private investment annually for the construction and rehabilitation of homes in low-income communities for sale to low-income buyers. I strongly support this new tax credit and urge you to include it in any tax package enacted this year

Thank you for the opportunity to testify today and for your interest in exploring solutions to the nation's affordable housing crisis.

Statement of
William T. Hinga, President

Banc One Community Development Corporation

Before the

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

May 22, 2001

Testimony of

William T. Hinga

President of the Banc One Community Development Corporation
Before the
Housing and Community Opportunity Subcommittee of the House Financial Services Committee
May 22, 2001

Good morning Chairwoman Roukema, and members of the subcommittee. I am Bill Hinga, President of the Banc One Community Development Corporation, and I appreciate this opportunity to appear before you and share Bank One's involvement with affordable housing and community development. Bank One Corporation, headquartered in Chicago, is the nation's fifth largest bank holding company and has a domestic retail banking presence in 15 states (Illinois, Ohio, Michigan, Indiana, Wisconsin, Kentucky, West Virginia, Delaware, Florida, Louisiana, Oklahoma, Texas, Colorado, Utah and Arizona).

Our Community Development Corporation, based in Columbus, Ohio, is comprised of a team of 38 professionals strategically located in seven offices (Columbus, Cleveland, Chicago, Detroit, New Orleans, Dallas and Phoenix) across Bank One's footprint. Our sole mission is to provide debt financing and equity investments for affordable housing and community development. Banc One CDC alone has provided over $850 million in investments and community development loans across our markets, developing over 15,000 units of affordable housing.

I am also here as a board member of the National Association of Affordable Housing Lenders. NAAHL is the association devoted to increasing private capital investment in low- and moderate-income communities.

The past ten years has seen a major transformation in the formation and delivery of capital for affordable housing, and more recently, community development. Some history may be helpful. As Federal subsidies declined and FHA's share of the multi-family housing market dwindled, private sector organizations have had to become creative in finding financing solutions. Over time, "plain vanilla" debt financings, such as straight mortgages, were no longer enough to fulfill the nation's affordable housing and community development needs. Other financing vehicles were needed. So were other partners. What were once pioneering partnerships among insured depository institutions like Bank One and non-profit providers of affordable housing, often involving federal, state and local subsidies to make the housing units economically viable, are now the norm.

Perhaps several examples of the partnerships needed and the multiple financing layers required would help illustrate this point. In the Steubenville, Ohio market, we are partnering with the Ohio Capital Corporation for Housing to provide $3.7 million in equity capital for a new 77 unit low-income housing tax credit development. The balance of the capital will come from other bank financing utilizing the Rural Housing 538 program, and $600,000 in HOME funds through the State of Ohio. The development entity is a partnership of a non-profit social service provider and a for-profit developer. One of the unique features of the development will be a home ownership purchase option for 39 of the units at the end of the tax credit compliance period.

Additionally, in Chicago, Banc One CDC, in partnership with Enterprise Social Investment Corporation, is providing $4.2 million in equity capital for new construction of a 107 unit mixed income development, of which 25% of the units are Public Housing replacement units. The balance of the financing is comprised of: FHA insured Bonds, tax-exempt bonds, tax increment financing, Chicago Housing Authority HOPE VI funds and City of Chicago HOME and Empowerment Zone funds. Bank One is not alone in working with partners. Loan consortia, non-profit lenders, community-based development corporations, secondary market players and others are all a vital part of the affordable housing field today.

Banks finance affordable housing in a variety of ways, depending on their geographies and the bank's own business strategy. Some bring their underwriting expertise to the construction lending. Others offer permanent mortgages. Many, like Bank One, are major low-income housing tax credit equity investors. Although data is hard to come by, bank participation appears to have increased significantly in each of these areas.

Today, financing affordable housing and community development requires an intricate array of financial instruments and players. Subsidy providers like to spread their financial resources around and obtain the greatest possible leverage in each transaction. With a variety of subsidies involved in any one project and the varied requirements of each subsidy provider, the costs and fees of understanding and complying often reduces the actual funds available to build the units. A streamlining of rules and paperwork requirements in all Federal and state housing programs would help put more dollars into the housing and less into professional fees.

More broadly, Congress has seen the numbers showing that affordable rental housing production is falling short annually by hundreds of thousands of units, and the opportunities for home ownership also are falling short of demand. Private-sector institutions, in partnership with state and local entities, have demonstrated their ability to provide decent, affordable housing. But the total federal subsidy that we need to keep pace with burgeoning demand, until now, has not been forthcoming. It is clear that if the nation is to move forward with providing decent, affordable housing for our neediest citizens and communities, Congress must look at ways to increase the federal subsidy for affordable housing. There are a range of possibilities, such as proposals for an affordable housing trust fund, for increasing the FHA multifamily mortgage loan limits and the FHA credit subsidy, for increasing HOME and other grant programs, and for a new single-family housing tax credit. We ask you to look at all of them.

Thank you for your time and attention today.

To strengthen and promote cities as centers of opportunity, leadership, and governance.

National League of Cities

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TESTIMONY

of

MAYOR JOHN DESTEFANO, JR
NEW HAVEN, CONNECTICUT

SECOND VICE PRESIDENT
NATIONAL LEAGUE OF CITIES

before the

UNITED STATES HOUSE OF REPRESENTATIVES
FINANCIAL SERVICES
SUBCOMMITTEE ON
HOUSING AND
COMMUNITY OPPORTUNITY

Tuesday, May 22, 2001

Madam Chair, and members of the subcommittee, I am John DeStefano, Mayor of New Haven, Connecticut, and Second Vice President of the National League of Cities (NLC). I am here today to testify on behalf of NLC on the importance of the Community Development Block Grant (CDBG) and HOME Investment Partnerships programs to America's cities and towns. Let me tell you why.

Last summer, I was at Helen Powell's house. Helen was celebrating moving into the first home she ever owned. A house just constructed on the site of what had been New Haven's largest public housing project.

It was terrific. Neighbors partying, kids all around, a tranquil corner in a neighborhood – a scene that would have been unthinkable just a few years earlier. Full of the pride that any of us who have been a first time home owner has felt, Helen took me on a tour of the house, room by room – every nook and cranny.

When we were back in her yard I asked Helen about something odd that I had noticed. There was nothing hanging on any of the walls. No pictures, no shelves, not even a clock in the kitchen – although these things were sitting on the floor throughout the house just below where you could see Helen intended to have them placed.

Helen explained to me the reason – and it made sense. You see Helen had lived in the public low rises all her life. Four rooms, four walls, and each of them concrete. It is hard to place a wall hanger, or a nail into a concrete wall. Helen is in a much better place now.

And the fact is that in the year 2001 it is foolish and an act of denial to suggest that more working people like Helen Powell will realize their piece of the promise of America without programs like CDBG and HOME. Without these programs, millions of people – hard working people like Helen – will be condemned to rooms with barren walls and limited possibilities in their lives. And America can do better than that.

The National League of Cities represents more than 1,700 cities and towns, as well as 49 state associations, and is a resource and advocate for 18,000 U.S. cities that serve 225 million people across the United States. As the oldest and largest national organization representing municipal governments throughout the United States, NLC appreciates the urgency of examining the affordable housing shortage.

NLC's goal for every American is a decent home in an orderly neighborhood of families and friends. Between this goal and reality, however, are too many Americans who live in run down buildings in deteriorated neighborhoods, whose working class paychecks cause hard choices every week, and for whom the cost of decent housing is beyond the reality of matching their savings to their bills.

One of the key components of NLC's *Investing in Communities* agenda this year has been to support the availability of affordable low- and moderate-income housing. NLC believes that a housing production program should be an integral component of any strategy to build a stronger nation of neighborhoods, and we look forward to working with Congress and the Administration to find realistic solutions to this problem.

In partnership with an array of innovative local and state housing initiatives, NLC believes there is a significant role for the federal government in addressing our nation's affordable housing needs. The federal government spends many billions more subsidizing high and medium income housing through home mortgage interest property tax deductions on our federal income tax. So too is their a place for similar investments in low- and moderate income housing. And no two programs provide the flexible resources and outcomes with as much success as CDBG and HOME.

COMMUNITY DEVELOPMENT BLOCK GRANTS

For over 25 years America's cities and towns have used CDBG funds to promote economic growth and preserve affordable housing for the benefit of low- and moderate-income households. Local elected officials know that the CDBG program is a very effective form of federal assistance to mobilize and leverage other resources and address housing needs throughout our country.

CDBG provides annual grants on a formula basis to 1,000 metropolitan cities and urban counties. Between 1994 and 1999, an estimated 14 to 17 million households benefited from the CDBG program. In FY 2000, 31 percent of CDBG funds were used to build nearly 165,000 units of housing.

CDBG funds support a wide range of community development activities, including reconstruction and rehabilitation of residential properties and homeownership assistance. The flexibility of the CDBG program allows communities to respond to their particular development needs and to target assistance to where their low-and moderate-income residents need it most.

NLC believes the federal government must maintain CDBG as a separate block grant program to ensure that its distinct eligible activities are not compromised. NLC continues to support a program that is flexible, accountable and administered efficiently with sensitivity to local conditions. NLC opposes any set-asides in CDBG funding that diminish the funding levels for entitlement communities.

In particular, NLC opposes efforts to place more restrictive targeting requirements on CDBG for low-income households. While we believe that CDBG can and should be targeted to benefit low- and moderate-income people, increasing low-income thresholds would limit local flexibility and potentially erode support for this program in Congress. And CDBG is a program that works.

HOME INVESTMENT PARTNERSHIPS PROGRAM

HOME funds have also been a powerful tool in New Haven and throughout America in providing decent, safe and affordable housing. In my city we have used HOME funds to leverage investments from banks, Yale University, local foundations and a host of contributors to not only build housing, but to build a sense of connectedness between people, places and organizations that together build a fabric called a neighborhood.

Living together is a choice. Associating with each other, taking advantage of each other's skills and talents, is the foundation and defining characteristic of this immigrant nation. HOME funds leverage the kinds of partnerships and create the self interests that heal and make whole people and places into neighborhoods where people care about each other.

Since HOME was created, it has committed to producing more than half a million affordable homes for low-income families and to provide tenant-based rental assistance to more than 68,000 households. Almost 90 percent of HOME-assisted rental housing benefits families at or below 50 percent of area median income. Projects funded with HOME funds range from homeownership and rental housing developments, to rehabilitation, acquisition and new construction. This variety reflects the diversity of housing needs across the nation, and HOME's ability to meet such needs.

As with CDBG, NLC opposes set-asides within the HOME program. Of particular concern to our organization is the Administration's proposed $200 million set-aside for down payment assistance in this year's HUD budget request. Down payment assistance is already an eligible activity under HOME, and set-asides only serve to limit local decision-making flexibility. If the Administration and Congress want HOME to be a significant vehicle for homeownership, then funding levels should be increased to achieve that goal.

HOME represents one of the most effective federal programs for addressing local housing needs. Although NLC remains dedicated to debt reduction and fiscal restraint, we believe that the current HOME allocation of $1.8 billion just does not adequately reflect the housing needs in our nation's cities and towns. NLC supports an increase in HOME funding to $2.25 billion as one way to help alleviate the shortage of affordable housing.

CDBG AND HOME IN NEW HAVEN

You know, back in New Haven I am a member of the school board, and I appoint the other members of the board, so I am pretty involved in what happens to about 21,000 kids who are in classrooms in my community. And probably like a lot of you in this room, I spend a fair amount of time in those classrooms talking to – and learning from – these kids.

You know, the kids tend to ask a lot of questions – especially the younger ones – that on face value might seem naïve or silly: what kind of car do you drive, do you know the President, how much do you make? But they ask some pretty tough ones as well: why don't you do something about the drugs, why doesn't my mom have a job, why can't you fix up those ratty old houses next door to me?

But you know, there is an optimism in all their questions that says that there is not any problem that is beyond our ability to solve in America. That there are some things like drugs, like the dignity of work and like decent, safe, affordable housing that are just so obvious that we just ought to get the job done.

In New Haven, and in thousands of communities like us (and some not like us), CDBG and HOME are getting the job done.

You know, when I visit those kids I always make them a promise – a promise about this country. A promise that while everyone does not start at the same place in America, that it is the promise of this nation, of America, that everyone gets the chance to finish at the same place.

CDBG and HOME are two programs that do help us keep that promise.

Madam Chair, subcommittee members, thank you for your work in helping keep the promise of America. That we can look these kids in the eye – and ourselves in the mirror each morning - and truthfully and honestly say that they do have a fair chance.

CONCLUSION

Madam Chair, thank you for this time and thank you for all that you for all that you do to make America a better place for our families. NLC believes that the affordable housing crisis merits immediate attention from Congress and the Administration. CDBG and HOME are excellent models that provide localities with flexibility and resources that can be used to leverage additional funding and create effective partnerships between the public, private, and nonprofit sectors. NLC looks forward to working with you to explore ways to strengthen these programs and help improve the availability of quality, affordable housing throughout the country.

STATEMENT

By

Randy S. Patterson, Executive Director

Lancaster County, PA Housing and Redevelopment Authorities

Before the

House Subcommittee on Housing and Community Opportunity

On behalf of

National Association of Counties

National Association for County Community and Economic Development

National Association of Local Housing Finance Agencies

National Community Development Association

U.S. Conference of Mayors

on Housing Affordability Issues

May 22, 2001

Madam Chair and Members of the Subcommittee:

I am Randy Patterson, Executive Director of the Housing and Redevelopment Authorities of Lancaster County, Pennsylvania. I am appearing before you today on behalf of the National Association of Counties, the National Association for County Community and Economic Development (of which I am the immediate past President), the National Association of Local Housing Finance Agencies, the National Community Development Association, and the U. S. Conference of Mayors. We appreciate the opportunity to share our views and recommendations on the issue of housing affordability and the role that various federal programs play in addressing this critical national issue.

The Need for More Affordable Housing

Nearly five million renter households have worst case housing needs, according to HUD's *Report on Worst Case Housing Needs*. These households contain renters with incomes below 50 percent of area median income who pay more than half their income for rent or live in severely substandard housing. Progress in assisting these households is diminished by the substantial shortages of affordable housing. With rents continuing to rise faster than inflation, basic pressures for above-average rent increases at the bottom end of the rental stock are further eroding the supply of rental units that are affordable without government subsidies, according to the report. Between 1997 and 1999, the number of units with rents affordable to households with incomes below 50 percent of AMI dropped by 1.1 million, a loss of seven percent. The report's findings on the accelerated reduction in the number of affordable rental units show that the private market is not producing enough affordable rental housing to meet existing demand. One answer to this crisis is to produce more affordable housing. Effective federal housing programs, such as the HOME Investment Partnerships Program, must be increased in order to meet the demand for affordable rental housing. Recent legislation passed by Congress and signed by the President to increase available resources under the Low Income Housing Tax Credit, as well as for tax-exempt Private Activity Bonds, are other essential components of an effective affordable housing production strategy. Besides producing more housing, we also need to focus on preserving existing affordable housing.

In Lancaster County, for example, housing affordability is a serious problem. In order to afford a one-bedroom rental unit renting at the Fair Market Rent of $466/month, a person making just over the minimum wage ($7) must work 51 hours a week. For a two-bedroom unit, with a rent of $580, that same person would have to work 64 hours a week to afford that rent. For a three-bedroom unit renting at $758/month, that same person would have to work 83 hours per week.

As a further illustration, in Lancaster County, a three-bedroom unit can rent for as high as $666/month under the Low-Income Housing Tax Credit program. This rent is based on a hypothetical 4.5 person family (1.5 persons per bedroom) earning 50 percent of the County median income or $26,650 and paying 30 percent of its income for housing expenses. The occupancy of three-bedroom units in Lancaster County averages 3.5 persons.

The average income of a family occupying a three-bedroom unit averages 36 percent of the County median income. This average family earning 36 percent of the County median income would have to pay 45.5 percent of its income to rent this unit. An average three-person family would pay 48 percent of its income for the unit. This unit would be affordable only to four and five person families earning 50 percent of the County median income. The four-person family earning 50 percent of median income would pay 31 percent of its income for the unit, while a five-person family would pay 29 percent of its income for the unit. The same lack of affordability holds for one and two bedroom units under the rules of the tax credit program.

In Lancaster County a family of four earning 50 percent of the area median could afford to purchase an $85,000, but the average price of a single-family home is $127,000. In San Diego, California a family of four earning the median income could afford to purchase a $170,000 home, but the median price of a newly constructed home is $345,000 and the median price of an existing single-family home is $265,000.

Also in San Diego, where 13 percent of the workforce earns less than $8.35 per hour, the Housing Commission has reported that a family needs to earn approximately $20.00 per hour to afford the average apartment.

We have been asked to comment on the effectiveness of the HOME, Community Development Block Grant and other federal programs as tools in expanding affordable housing opportunities and undertaking neighborhood revitalization activities.

HOME Investment Partnerships Program

The HOME Investment Partnerships Program has been a catalyst in spurring new affordable housing development since 1992. HOME is useful in providing funding for housing production, particularly as gap financing for many rental projects. The flexibility of the program allows local participating jurisdictions to use the program funds in combination with other federal, state, and local funds, and to work with their non-profit partners, to develop affordable housing, both ownership and rental, based on locally-defined needs.

According to cumulative HUD data, since HOME was created in 1990, it has helped to develop or rehabilitate over 583,474 affordable homes for low- and very-low income families. Targeting is very deep in the HOME program. The majority of HOME funds have been committed to housing that will be occupied by very low-income people and a substantial amount will assist families with incomes no greater than 30 percent of median (extremely low income). As of the end of March 2001, more than 82 percent of home-assisted rental housing was benefiting families at or below 50 percent of area median income, while 41 percent was helping families with incomes at or below 30 percent of area median income.

HOME funds help low- and very-low income families realize the dream of homeownership by providing for construction and rehabilitation of housing as well as providing the down payment and/or closing cost assistance. Since 1992, HOME funds have been committed to 331,168 homeowner units.

HOME is cost effective and provides the gap financing necessary to attract private loans and investments to projects. For each HOME dollar, $3.87 of private and other funds is currently being leveraged. This clearly illustrates the judicious use of HOME funds by local governments.

We note that the Bush Administration is proposing a $200 million set-aside within HOME for a down payment assistance program to be administered by state housing finance agencies. We are opposed to this set-aside. HOME funds may already be used for downpayment and/or closing cost assistance. In fact, since 1992 $1.06 billion has been used to help families buy their first home. There is no need to create a separate program for this purpose for it would result in a $200 million cut in formula grants. Further, it chooses one delivery system – state housing finance agencies – for no proven programmatic purpose. By proposing this set-aside the Administration is deciding what it believes is the critical need to be addressed in communities. In Lancaster County, where the homeownership rate is above 70 percent, affordable rental housing is the critical need. The County is already using CDBG funds to provide downpayment and closing cost assistance.

During the 106th Congress there were a couple of proposals to create a new housing production program primarily targeted to households at or below 30% of area median income. In an effort to avoid a situation where such a program would compete with HOME, local officials propose that a housing production element be incorporated within HOME. The infrastructure is already in place to implement such a program.

Our proposal would provide grants for new construction, substantial rehabilitation and preservation of multifamily housing. Mixed income projects would be encouraged. All of the resources made available under our proposal must benefit households at or below 80 percent of median income, with at least 25 percent benefiting those at or below 30 percent of median income. Funds would be apportioned 60 percent to local participating jurisdictions and 40 percent to states using a formula that measures inadequate housing supply. We would be pleased to work with the Subcommittee on crafting a production program.

In addition, there are several other modifications/refinements to the HOME program that we offer for the Subcommittee's consideration:

- We recommend that a loan guarantee program be added to HOME, modeled after the very successful Section 108 program under CDBG. Such a program would enable participating jurisdictions to "borrow" against future entitlement grants in order to undertake large-scale projects. The House passed this proposal in 1994, but the Senate never acted;
- We recommend that HOME's targeting requirements be simplified by conforming them to those applicable to the Low-Income Housing Tax Credit Program, i.e. not less than 20 percent of the units reserved for households at 50 percent of median income or 40 percent of the households at 60 percent of median income, paying no more than 30 percent of their

income for rent;

- We recommend that the statute be changed to allow participating jurisdictions to provide matching funds on a program year, rather than the current federal fiscal year basis, to simplify program administration;
- We recommend permitting the substitution of a substantially equivalent state or local environmental review requirement for the environmental review requirements under NEPA;.
- We recommend providing an exemption from the environmental review requirements for rehabilitation of one to four units and all owner-occupied rental and homeownership projects;
- We recommend deleting the current-law requirement that the Secretary establish per-unit subsidy limits. The statute already requires participating jurisdictions to certify that they have not provided more funds than are necessary to assure a project's financial feasibility.

HOME is a sound program, with an excellent track record in developing affordable housing for households at various income levels. However, HOME is limited by the amount of funding that is appropriated each year. Funding for the program has increased very little since it first began in 1992. The amount allocated under the program in 1992 was $1.460 billion. The amount appropriated for 2001 was $1.8 billion. In order to expand efforts to meet the enormous need for affordable housing in this country, adequate resources must be appropriated for programs such as HOME. We propose a funding level of $2.25 billion for the basic HOME program in FY 2002, along with an additional appropriation of $2 billion for a rental production program within HOME once enacted.

Community Development Block Grant Program

Now in its 27th year, the Community Development Block Grant program is the Federal government's most successful domestic program. The CDBG program's success stems from its utility, i.e., providing cities and counties with an annual, predictable level of funding, which can be used with maximum flexibility to address their unique neighborhood revitalization needs.

Based on HUD's most recent annual report to Congress, between FY1993 and FY1996 an estimated 14-17 million households benefited from the CDBG program. During that same period an estimated 114,799 jobs were created through CDBG-funded economic development activities. In FY 1993, entitlement communities spent funds in the following manner: housing rehabilitation, assisting over 200,000 households (35.8 percent), public works and infrastructure (22.7 percent), planning, monitoring and program administration (14 percent), public services (12 percent), acquisition and clearance of property (7.3 percent), preventing or eliminating slums and blight (6 percent), and economic development (6 percent).

We are aware that legislation has been introduced, H.R. 1191, that would fundamentally change the nature of the CDBG program. It would destroy the program's currently flexibility and effectively eliminate area benefit activities. Instead of the CDBG program being a tool for expanding affordable housing opportunities and encouraging neighborhood revitalization, it would turn it into an "anti poverty" program, something Congress never intended. The bill increases from 70 percent to 80 percent the aggregate (i.e. over three years) amount of funding that must benefit low-and moderate-income persons, and 40 percent of that amount must benefit low income persons (those at or below 52 percent of the area median income). The bill further targets CDBG funding by disallowing low- and moderate-income benefit credit for activities undertaken in areas that are not primarily residential in character. In other words, use of CDBG funds in downtown areas that are not primarily residential would not count against the proposed 80 percent and 40 percent principal benefit tests. Yet, downtown business districts in many smaller communities are the central location for services and commodities available for the low-and moderate-income residents of these neighborhoods. We think it is inappropriate to establish national policy and restrictions on the use of CDBG funds, as the bill would do, to resolve what we understand is essentially a local issue.

The bill also reintroduces the notion of "proportionate accounting" of benefit. Under this provision area benefit activities would be considered to principally benefit persons of low- and moderate-income persons or persons of low-income in the same proportion as the proportion of such area that is comprised of low-and moderate- income or low-income persons. CDBG funds used for housing and job-creation activities would also be subjected to the same proportionate accounting of benefit.

We strongly urge you to oppose this harmful legislation.

There are several refinements to the CDBG program that we offer for the Subcommittee's consideration:

- We recommend that the threshold for application of the Davis-Bacon requirements for CDBG conform to that of the HOME program, i.e. 12 units or more;
- We recommend making CDBG expenditures for fair housing a directly eligible activity, rather than its being subject to the 20 percent administrative cap. This will take some of the pressure off the administrative cap;
- We further recommend eliminating the current law requirement that housing service activities under CDBG be subject to the 20 percent administrative cap. This is a technical correction. The law prior to the 1992 amendments did not place these activities under the cap;
- We recommend permitting the substitution of substantially equivalent state or local environment review requirement for the environmental review requirements under NEPA;
- We recommend exempting CDBG funding used for economic development from the Section 3 requirements, which create an unnecessary paperwork burden on businesses assisted.

We were, of course, pleased that for Fiscal Year 2001 Congress increased formula funding for the CDBG program by $200 million. This was the first increase in formula grants since 1996. Since 1995 formula funding had been eroding due to the proliferation of set-asides within CDBG, something that we strongly oppose. We are asking for an increase in formula funding for Fiscal Year 2002 to $5 billion. The needs, which CDBG addresses, are immense and increased funding is essential.

Other Federal Housing Production Programs

There are two other programs that play a key role in expanding the supply of affordable housing – Low-Income Housing Tax Credits and tax-exempt Private Activity Bonds. Tax credits provide equity investments for affordable rental housing, while tax-exempt bonds provide debt financing for affordable rental housing and first mortgage assistance for income-qualified, first-time homebuyers (Mortgage Revenue Bonds). We worked very hard over the past four years to convince Congress of the need to increase the statewide volume caps that apply to these two programs. We were very pleased that Congress increased both volume caps in a two-step process as part of last year's omnibus appropriations bill. Under the legislation, the tax credit cap increased on January 1, 2001 from the previous $1.25 per capita, per state to $1.50 per capita, per state. On January 1, 2002 it will increase to $1.75 per capita, per state. Similarly, the volume cap for Private Activity Bonds increased on January 1, 2001 from the previous greater of $50 per capita or $150 million per state to the greater of $62.50 per capita or $187.50 per state. On January 1, 2002 it will increase to the greater of $75 per capita or $225 million per state. Both caps are indexed for inflation going forward. In most states housing gets the lion's share of the bond volume cap.

However, the bond cap increase will be undermined by an obscure provision added to the tax code in 1988 applicable to Mortgage Revenue Bonds. It requires that mortgage prepayments made 10 years after the date that the bonds were issued be used to redeem the bonds, rather than recycling them into new mortgages. Recycling is permitted within the first 10 years. We believe it should be permitted after the first 10 years, and therefore support H.R. 951. This legislation, introduced by Reps. Houghton and Neal, would repeal the 10-year rule. H.R. 951 also provides an optional method for calculating the maximum allowable purchase price of a home that a first-time homebuyer can purchase with Mortgage Revenue Bond assistance. We urge the members of the Subcommittee to become cosponsors of this important legislation.

The final issue upon which we wish to comment is the need to renew expiring rent subsidy contracts under the McKinney Act's homeless housing programs. In order to assure continuity of services and rental assistance in these projects we recommend that the Supportive Housing Program renewals and Shelter Plus Care renewals be transferred to the regular Section 8-rental program. This would allow more funding to be available under HUD's homeless assistance programs for the development of new projects to assist the homeless.

Madam Chair, we again thank you for the opportunity to testify before you today. We look forward to working with you on addressing the housing affordability crisis.

Written Statement of Raymond A. Skinner

Secretary, Maryland Department of Housing and Community Development

United States House of Representatives

Committee on Financial Services

Subcommittee on Housing and Community Opportunity

May 22, 2001

Introduction:

Good morning Chairwoman Roukema, Representative Frank, and members of the Subcommittee, my name is Raymond A. Skinner and I am the Secretary of the Maryland Department of Housing and Community Development. I am here representing the Council of State Community Development Agencies (COSCDA). COSCDA supports the common interest and goals of states, with a major emphasis on community development, affordable housing, local economic development and state-local relations. COSCDA's members administer a wide range of federal and state programs focused on housing and community development. COSCDA advocates for the interests of states and seeks to enhance states' leadership role in these areas.

Before I begin, I want to thank you for holding this hearing and for recognizing the need to address the dramatic problem of affordable housing in America. COSCDA's members very much appreciate this committee's efforts to expand housing opportunities for low-income people. I am here today to discuss with you the tremendous need for affordable housing, AND to discuss our ideas for solving the affordable housing crisis.

Demonstrated need for affordable housing:

The need for affordable housing in Maryland and across the country has been documented in reports and newspapers across the country, and most notably in HUD's report on Worst Case Housing Needs. HUD's Worst Case Housing Needs study shows that the number of rental units available for very low-income households (households earning less than 50% of area median income) fell by more than 1 million units from 1997 to 1999. Even more alarming, the study noted that the number of units available to extremely low-income households (households earning less than 30% of area median income) dropped by 750,000 units.

The study also explains that these staggering figures represent severe housing shortages in almost every part of the country. It is also worth noting that the findings of these studies are consistent with reports from Harvard University's Joint Center for Housing Studies and other numerous studies across the country.

Current Programs That Work:

Although the need for affordable housing is staggering, there is some goods news. We know what works, and we know what is needed to address the problem. Currently, there are a number of federal and state housing programs working effectively and efficiently to address the housing needs of SOME Americans. But we need additional resources to more adequately address the problem. I would like to mention just a few of the successful programs my agency and others like it around the country currently administer.

First, the HOME Investment Partnerships Program. The HOME Program provides a proven, successful model for the development of affordable housing for low-income people. HOME provides state and local governments with the flexibility to meet the unique needs of communities. The program has assisted in the development of more than 580,000 units of affordable housing, with a substantial number of the rental units produced serving extremely low-income people.

Additionally, the HOME program has a proven record of fostering successful partnerships among state and local governments, for profit and non-profit developers, and other community organizations. In fact, for every dollar of HOME money invested in a project, more than three and half-dollars of additional financing are leveraged. COSCDA strongly urges Congress to increase appropriations for this effective program so that thousands more families can live in safe, decent, affordable housing.

In Maryland, we have use almost 65 percent of our allocation of HOME funds for rental housing. Forty-five percent of the tenants in the rental developments we have financed using HOME funds earn less than 30% of median income, and all of them earn less than 50%. We use most of the rest of our HOME funds primarily for rehabilitation of owner occupied housing, as well as group homes for persons with developmental disabilities, mental illness, and adults and children with AIDS.

Second, the Low Income Housing Tax Credit is a tremendously successful tool for producing affordable housing. Administered by states, the program has assisted in the development of more than 1,000,000 units of affordable housing. Frequently used in conjunction with other programs, including HOME, the tax credit serves as a major source for the development of affordable housing, and we appreciate that Congress voted to substantially increase the program last year.

While we are grateful for the increase, it is still not enough to address the need or the demand for affordable housing. We just completed our latest competition for tax credits in Maryland in April. Even with the increase, the request for tax credits exceeded supply by 4 to 1. This is important not only because it shows that we still need resources, but because it shows there are developers out there ready, able, and willing to produce affordable housing if the funding is available.

Tax Exempt Bond Program Congress also increased the cap in the Mortgage Revenue Bond Program last year and we are also very grateful for that. However, Maryland is already up against its MRB cap, and many States, especially larger ones, are severely impacted by these caps. Unfortunately, this problem is exacerbated by the 10-year rule, which prevents us from re-loaning funds that could be used for affordable housing since we are forced to retire rather than re-cycle bond funds.

Community Development Block Grant Program (CDBG): The Community Development Block Grant Program has served as a flexible source of funding for housing related activities for low-income people for more than twenty-five years. While the program provides resources for a wide variety of projects, States spend approximately 20% of their CDBG funds on housing. In Maryland, we use 30 percent of our CDBG funds for housing activities. There is no doubt that CDBG has aided in the production of hundreds of thousands of affordable housing units and remains a vital tool for the development of affordable housing.

Lastly, McKinney-Vento Homeless Assistance Programs: The McKinney-Vento Homeless Assistance Programs provide vital services and housing for homeless people across the country and include programs such as, Emergency Shelter Grants, Shelter Plus Care and the Supportive Housing Program, which provide permanent housing for homeless people. These programs are very effective tools for housing homeless people, but again the resources are not sufficient for meeting the need. For example, we did our preliminary rating and ranking for ESG funds in Maryland last week. The requests for funding we received exceeded what we have available to allocate by almost two to one. We strongly support efforts to shift the renewals of the Shelter

Plus Care Program and the Supportive Housing Program into the Housing Certificate Fund. This shift will increase the supply of permanent affordable housing for (formerly) homeless people and allow McKinney-Vento funds to be used for additional housing programs and services for the homeless. We also support block granting the McKinney homeless programs, so that States and Cities can anticipate their funding streams and provide better service to homeless people.

New Housing Production Program:

While all of these programs are very effective and have proven track records, we believe there is a real need for a new rental housing production program focused on extremely low-income households. COSCDA supports the creation of a new rental housing production program, administered by state agencies chosen by the Governor and modeled after the highly successful HOME Program.

The primary merit of creating a new rental housing production program is to fund greatly needed affordable rental housing. Nationwide, production levels are far below what they have been historically. According to the National Association of Homebuilders, production in the late 1990s was less than half of the early 90s, despite the extremely strong economy.

I mentioned that we recently completed a funding round for the ESG homeless program last week. One of the reasons the demand on these funds was so high was the lack of affordable rental housing. For example, the Howard County Department of Housing in noted their application that the County's rental housing vacancy rate was only .57 percent. That is NOT five-point-seven. That is point-five-seven. That means that there are only 57 vacant rental units for every 10,000 rental units in Howard County.

Some voices say the federal government issuing more Section 8 Vouchers can address the affordable rental housing need. However, you may remember some stories printed in the Washington Post a few months ago about the difficulties voucher holders are having in finding affordable housing. We have been studying the use of Vouchers in Maryland, and hope to finish our report next month. Based on preliminary findings, we have found that the primary reason families can not use their Vouchers is there is simply no place to rent. While Vouchers have much merit, simply issuing more Vouchers will not help us solve our affordable housing crisis if there is no place to use them.

Assuming the creation of a new production program, we believe that State's would be excellent administrators of the program. States have had great success in financing affordable housing through program like HOME, and the Federal Low-Income Housing Tax Credit. Numerous GAO reports regarding the success State's have had operating these programs verifies this. States are much more likely to have (or be able to obtain) matching funds under the various production proposals, since they have access to their own resources. States, with the exception of a few regional governments, are the only political bodies that can build affordable housing anywhere within their borders. This flexibility helps eliminate concentrations of poverty.

We believe that any new production program should primarily serve people at 30% of less of area median income, as that is where the greatest need exists. However, we also recognize that these projects will need to encourage a mix of incomes in order to be financially feasible. This is because extremely low-income households generally will not be able to pay enough rent to pay maintenance and operating costs on their units. Rents from higher income tenants will be needed to meet this shortfall. Financing for these higher income units can come from existing federal programs, as well as State programs, if a new production program is flexible in its design.

It is for this reason that COSCDA believes a new program should be compatible with existing programs including HOME and the Low Income Housing Tax Credit, and eligible uses for the funds should include new construction, substantial rehabilitation, and preservation. We urge Congress to act to establish a new production program this year.

Conclusion:

In closing, the argument for more affordable housing in this country is clear and convincing. The programs and policies required to effectively and efficiently meet the needs are largely in the place. At this point, state and local governments need additional resources to partner with housing developers and community organizations to increase the supply of affordable housing for extremely low-income Americans. I appreciate the opportunity to share our views with you, and I would be happy to answer any questions you may have.

COSCDA

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June 13, 2001

The Honorable Marge Roukema
U.S. House of Representatives
Committee on Financial Services
Sub-committee on Housing and Community Opportunity
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairwoman Roukema:

On behalf of the Council of State Community Development Agencies (COSCDA), thank you for giving me the opportunity to testify before the Sub-committee on Housing and Community Opportunity regarding affordable housing issues. As you know, the lack of affordable housing for America's families is one of our country's greatest pressing needs, and we appreciate your leadership in this important area.

During the hearing, you asked me for more information about Maryland's partnerships with faith-based groups in providing affordable housing. The Maryland Department of Housing and Community Development (DHCD) has provided financing to assist in the development of numerous affordable housing projects undertaken by faith-based groups over the years, using both federal and State funds.

Federal Funds and Faith Based Housing

Under the federal HOME program, faith-based groups have received $4,236,596 in financing to provide 112 units of affordable housing to low-income households. Some of the recipients of HOME funds have included Habitat for Humanity of Cecil County, Interfaith of Western Maryland, Interfaith Community Housing of the Eastern Shore, Annapolis Area Ministries, and the YMCA of Cumberland. Activities faith-based groups have undertaken in Maryland using HOME funds include acquisition and rehabilitation of vacant housing for homeownership opportunities, construction of new rental housing, owner-occupied rehabilitation, and replacement housing. Attachment 1 contains a list of the HOME-financed projects we have undertaken with faith-based organizations in the past five years.

Under the federal Emergency Shelter Grants Program (ESG), DHCD has awarded $382,002 to faith-based groups in the last five years Some of the recipients of ESG funds include Associated Catholic Charities, St. Martin's Ministries, the Seton Center, St. John's Shelter, Holy Family House, Samaritan Ministries, and Angel's Watch. Some of the types of activities they have undertaken using ESG funding include homeless prevention, transitional housing for families, domestic violence shelters, and shelter facilities that assist homeless men, women and families with children. Attachment 2 contains a list of the ESG-financed projects we have undertaken with faith-based organizations in the past five years.

State Funded Programs

DHCD has also worked in partnership with faith-based organizations using funds it receives from the Maryland General Assembly. For example, DHCD provided funding for several assisted living projects developed by Victory Housing, a nonprofit entity associated with the Catholic Archdiocese of Washington, D.C. These developments contain some of the very few affordable, assisted living units in Maryland. Assisted living developments for the population in the lower income bracket require on-going operating subsidies. Faith-based groups, with their continuing contributions, have the greatest ability to support these undertakings. Most recently, DHCD made a loan of $410,000 to Victory Housing for the development of Byron House, a 30-unit assisted living facility in a residential section of Potomac. Thirteen of the units are affordable to low-income individuals.

The Department has also worked with faith based groups to provide housing for persons with developmental disabilities. Through these efforts, DHCD has awarded $1,385,272 to faith-based organizations to provide group homes in the past five years. Episcopal Senior Ministries received $481,625 to provide 16 units of housing for persons with disabilities, and Associated Catholic Charities received $903,647 to provide 25 units of housing for the same purpose.

DHCD has also undertaken homeownership efforts with faith-based groups. One of our most successful efforts in this area has been done through an organization called B.U.I.L.D. (Baltimoreans United In Leadership Development, Inc.), an ecumenical coalition of fifty religious and union organizations dedicated to providing homeownership opportunities for low-income families. In the past five years, B.U.I.L.D has used $9,904,483 in State financing to provide 192 homeownership loans. Two recent efforts completed in the past year include Fisher's Cove which provided 40 homeownership loans totaling $2,291,000, and Sandtown-Winchester Square which provided 103 loans totaling $5,404,745.

A unique and especially noteworthy homeownership effort DHCD has undertaken with faith-based organizations (as well as other non-profits) is our Homeownership Opportunities for Persons with Disabilities Program. This program provides State funded loans to disabled borrowers who otherwise would be unable to purchase homes because of limited credit histories or lack of full time employment. Faith-based organizations that are working with us in this effort include both Interfaith of Western Maryland and St. Ambrose Housing Aid Center. Western

COSCDA

Maryland Interfaith has closed 21 loans totaling $1,475,671, and St. Ambrose has closed 60 loans totaling $4,188,613, which represents just over 50 percent of the total dollar amount of loans closed under this program.

Thank you again for giving me the opportunity to testify before your committee. If you have any comments or questions, please feel free to call me at (410) 514-7001.

Sincerely,

Raymond A. Skinner
President

Attachments

Attachment 1

Maryland Faith-Based HOME Projects - FFY 1996-2000

Project Name	Project Address	TenureType	HOME Funds	HOME Units
Donate-A-House #3	201 Mt. Zion Circle, Centreville, MD 21617	rental	27,761	1
Donate-A-House#4-Wilson Rd.	311&319 Wilson Rd., Grasonville, MD 21638	rental	48,953	2
Dayspring Townhomes II predev	Wayman St., Ridgely, MD 21660	rental	67,000	n/a
Anchor House	1029 Smithville St., Annapolis, MD 21401	rental	46,350	1
IFHC Replacement-C. Davis	4642 Middletown Branch Rd., Vienna 21869	owner rehab	64,990	1
Donate a House #2-Glaeser (Lot 2)	209 Mt .Zion Circle, Centreville, MD 21617	rental	44,224	1
Mulberry House	149-157 S. Mulberry St., Hagerstown 21740	rental	150,000	5
IFHC Replacement - E. Horner	206 Henry St., Cambridge, MD 21613	owner rehab	65,000	1
Cecil Co. Habitat- Morris	34 Second Ave., Earlville, MD 21919	homebuyer	30,000	1
Maples Foundation Sr. Housing	PO Box 672, La Plata, MD 20642	rental	67,000	n/a
IFWM Project Light - Harper	78 Grant Street, Frostburg, MD 21532	homebuyer	6,200	1
IFWM Project Light-Pendergast	108 Oak Street, Cumberland, MD 21502	homebuyer	3,720	1
Baltimore Ave. YMCA	205 Baltimore Avenue, Cumberland MD 21502	rental	1,100,000	41
Interaith Com. Hsg.- Dicey Replace. House	5647 Main Street, Rock Hall, MD 21661	owner rehab	79,608	1
IFWM Project Light-Rawlings	19510 Dawson Cemetery Road, Rawlings, MD 21	homebuyer	7,440	1
IFWM Project Light-Watkins	13210 Barrellville Road, Mt. Savage, MD 21545	homebuyer	9,920	1
IFWM Project Light-Dawson	24612 Stoney Run Road, Westernport, MD 21502	homebuyer	6,200	1
IFWM Project Light-Conner	424 Warwick Avenue, Cumberland, MD 21502	homebuyer	8,680	1
IFWM Project Light-Fair	15214 Ponderosa Lane, Mt. Savage, MD 21545	homebuyer	6,200	1
IFWM Project Light-Shelton	10222 Parkersburg Road, Frostburg, MD 21532	homebuyer	6,200	1
IFWM Project Light-Dignan	10510 Mt. Savage Road, Cumberland, MD 21502	homebuyer	6,200	1
IFWM Project Light-Bishop	201 Walnut Street, Westernport, MD 21562	homebuyer	4,960	1
IFWM Project Light-Thomas	Laurel Run Road, Lonaconing, MD 21539	homebuyer	0	0
IFCH-Parker	4867 Ennels Road, Hurlock, MD 21643	owner rehab	63,196	1
East New Market	40 Academy Street, East New Market, MD 21631	rental	595,980	10
IFWm Project Light-Penn	4 Renroy Drive, LaVale, MD 21502	homebuyer	0	0
IFCH Replacement-M. Polk	213 Brooklyn Avenue, Federalsburg, MD 21632	owner rehab	57,382	1
Interfaith Consort. Greater Cumb. Rental rehab	709-711-713 MD Ave, & 219 Fulton Street	rental	55,000	4
Fairground Village/Haines	107 Grand Ave., Taneytown, MD 21787	homebuyer	21,400	1
Fairground Village/Saffell	107 Carnival Drive, Taneytown, MD 21740	homebuyer	13,150	1
Interfaith Com. Hsg.-Coleman Replace House	5689 Main Street, Rock Hall, MD 21661	owner rehab	90,436	1
Hagerstown Robinwood Sr. Housing	Robinwood Drive & Rosebank Way	rental	1,300,000	21
212 Baltimore Avenue	212 Baltimore Avenue, Cumberland, MD 21502	rental	25,700	n/a
Fairground Village/Schoberg	12 Dunkle Court, Taneytown, MD 21787	homebuyer	20,000	1
Fairground Village/Phillips	11 Dunkle Court, Taneytown, MD 21740	homebuyer	14,250	1
Fairground Village/Schultz	Lot 9 Dunkle Court, Taneytown, MD 21787	homebuyer	11,300	1
Fairground Village/Harden	Lot 4 Dunkle Court, Taneytown, MD 21787	homebuyer	14,500	1
Interfaith Com. Hsg.-Coleman Replace House	4991 Piney Neck Road, Rock Hall, MD 21661	owner rehab	75,696	1
Fairground Village/McDowell	Lot 33 Dunkle Court, Taneytown, MD 21787	homebuyer	4,000	1
Fairground Village/Lamer	Lot 13 Dunkle Court, Taneytown, MD 21787	homebuyer	20,000	1
TOTAL FUNDING			$4,238,596	112

Attachment 2

Emergency Shelter Grants to Faith-Based Organizations

County/City	Agency	1997	1998	1999	2000	Award Received
City of Annapolis	Annapolis Area Ministries				$ 12,600	$ 12,600
Calvert	Catholic Charities	$ 14,000	$ 14,700	$ 14,400	$ 12,240	$ 55,340
Caroline	St. Martin's Ministries	$ 35,000	$ 40,260	$ 39,000	$ 33,420	$ 147,680
Charles	Angel's Watch	$ 12,000	$ 12,570	$ 13,200	$ 14,450	$ 52,220
Harford	Anna's House			$ 5,800	$ 8,098	$ 13,898
Harford	Holy Family House		$ 3,140	$ 4,544	$ 8,193	$ 15,877
St. Mary's County	Angel's Watch		$ 11,390	$ 10,585	$ 6,271	$ 28,246
Somerset	Seton Center	$ 6,000	$ 3,600	$ 6,000	$ 7,590	$ 23,190
Washington	St. John's Shelter	$ 5,000	$ 7,330	$ 2,800	$ 2,875	$ 18,005
Worcetser	Samaritan Ministries		$ 8,380	$ 4,000	$ 2,566	$ 14,946
TOTAL		**$ 72,000**	**$ 101,370**	**$ 100,329**	**$ 108,303**	**$ 382,002**

APPENDIX

June 21, 2001

Statement

Marge Roukema
Chairwoman
Subcommittee on Housing and Community Opportunity
Hearing on Housing Affordability
June 21, 2001

Good morning.

Thank you all for coming this morning. This is the third hearing in a series of several planned by the Subcommittee on the issue of affordable housing. At the Subcommittee's first hearing, held on May 3, 2001, witnesses defined the parameters and complexities of the problem and outlined some potential solutions. At the second hearing, held on May 22, 2001, witnesses testified regarding public/private initiatives that address affordable housing, and on the Community Development Block Grant (CDBG) and HOME Investment Partnerships (HOME) programs.

Today's hearing will focus on the under-utilization of section 8 vouchers, as well as the specific problems faced by the homeless and disabled populations in finding affordable housing.

This country is facing a growing affordable housing crisis for low and moderate-income families and for those with special needs. Through these hearings, I hope to better define the problems faced by many of our families who cannot find affordable housing, and to determine solutions for addressing this pressing crisis.

The section 8 program provides direct federal housing assistance to low income Americans, serving more than 3 million families. The program provides subsidies in two forms: tenant-based assistance (section 8 vouchers) and assistance to owners to develop and maintain section 8 projects (project-based assistance). The section 8 voucher program provides vouchers to families to rent a residence in the private rental market.

In certain communities, voucher under-utilization is a significant problem. Under-utilization of vouchers has been attributed to various causes including the tight rental market, poor performance by PHAs, targeting of a large percentage of vouchers to very low-income individuals, low fair market rents and the rent caps of 40 percent of adjusted monthly income. I look forward to hearing the testimony from our first panel and trust that their observations, experience and suggestions will help us to determine what changes are necessary to make the Section 8 voucher program more effective and efficient.

The witnesses on the second panel will share with us information on the problems faced by the homeless and disabled populations in our country. I know that we are all keenly aware of the growing homeless crisis facing this country. It is astonishing to note that between 2.3 and 3 million people are homeless some part of the year, and that there are between 150,000-200,000 people who are "chronically homeless."

These individuals are not only poor, but also suffer from some sort of chronic health problem such as mental illness, alcoholism, drug abuse or HIV/AIDS. Secretary Martinez has signaled an interest in shifting responsibility for care of the homeless with mental health or substance abuse problems to HHS. I look forward to working with both Secretary Martinez and Secretary Thompson on determining the most appropriate way to deliver the services so desperately needed by these disadvantaged populations.

Finally, I would like to take a moment to recognize the leadership of the Vice Chairman of the Housing Subcommittee, Mark Green. Last year, Congressman Green authored a provision that was passed by Congress that would expand the section 8 home ownership rule to make that program more accessible to persons with disabilities. His provision created a three-year pilot program to allow disabled individuals to use Section 8 assistance toward a down payment and closing costs of purchasing a home, as well as rent payments. Yesterday, the President announced that HUD would be moving forward to implement Congressman Green's provision. We look forward to following this program to see the impact it will have on providing permanent housing for the disabled.

With that I would like to recognize my distinguished Ranking Minority Member, Congressman Frank.

JULIA CARSON
10th District, Indiana

COMMITTEE ON
BANKING AND FINANCIAL
SERVICES
Subcommittee on Housing and
Community Opportunity

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Congresswoman Julia Carson
Opening Statement - Subcommittee on Housing & Community Opportunity
Hearing on Affordable Housing
Thursday, June 21, 2001

Julia Carson
JULIA CARSON

Madame Chairwoman, I would like to thank you for convening this hearing today, and would like to thank all the witnesses for their attendance. I look forward to their statements.

Housing affects our lives in many ways. We buy and sell homes, rent apartments, and invest in residential and commercial properties, and as Chairman Oxley said when this Subcommittee met in April, "the cornerstone of the American dream is homeownership."

I agree with him wholeheartedly, but for many this dream is becoming increasingly illusive. In spite of a decade of economic growth and a still strong, but slowing economy, there is a crisis in affordable housing.

As would be expected, this crisis certainly affects the poorest of the poor, but it is not limited to low-income families. This is a problem that is deepening, and that is affecting more and more of America's working families. It is hurting people from all walks of life, including teachers, police officers, municipal workers and even people who work here in Congress. While this is a worrying trend in itself, it is set to the backdrop of the budget for the Department of Housing and Urban Development for FY 2002.

The budget for HUD revealed some disturbing trends, and while HUD Secretary Martinez and others contend that the budget is a "balanced package that combines new initiatives with sound management", I'm afraid to say I do not agree.

Compared to last year's VA-HUD appropriations bill, the Administration budget proposes $2.15 billion in real cuts in housing and community development programs, and funds incremental Section 8 vouchers for over 53,000 fewer low-income families. The Administration budget also cuts $700 million for repair of public housing, terminates the $309 million Drug Elimination program, and increases operating subsidies by an amount that will not even keep pace with rising utility costs.

The result would be a physical deterioration of housing units for low-income seniors and families, and the loss of police and security officers who conduct anti-crime, anti-drug activities. According to a state-by-state analysis of the proposed budget compiled by my colleague, Mr. LaFalce, my state of Indiana is set to lose over $32 million in funding.

My district, which contains most of Indianapolis, has had severe shortages of housing affordable to renters with incomes below 30 percent of median. In 1996, the most recent year for which data is available, for every 100 renter households with extremely low incomes, there were only 84 units they could afford.

And since many of these units were occupied by higher-income renters, only 44 units were both affordable and available for every 100 extremely-low-income renters. Yet the HUD budget for FY 2002 cuts funding for public housing in Indianapolis by over $1.7 million.

With this in mind, it seems ironic that we are here today to discuss solutions to the affordable housing crisis, while the HUD budget for FY 2002 appears to do nothing but worsen the situation.

However, we do have before us today some key issues that I hope we can at least make some headway on. For example, many affordable housing advocates have stressed the need for public-private partnerships that addresses affordable housing among various income sectors.

As you may be aware, this innovative approach includes using public-private partnerships, which can supplement the limited financial resources of government, to meet housing and urban development targets.

Public-private partnership techniques rely on market-based approaches and instruments. A viable project would be based on successful and innovative structuring techniques that balance investors' objectives with the ability of consumers to pay on a commercial basis.

This balance between supply and demand determines what proportion of their income people are willing to pay for housing, as well as the quality of accommodations they will receive for their money.

As lawmakers we must identify ways to enhance the viability of public-private partnerships while, at the same time, strengthening the capacity of low and middle income groups to pay for housing-related services. It is the proper coordination and implementation of these policies that underpins the successful planning of public-private partnership approaches in the housing and urban sector.

In Indianapolis, thanks to more than a decade of public and private cooperation and nearly $4 billion in investment, downtown is a place that more than 13,000 people call home - and many more would like to.

I recently opened the Davlan Apartments, on Massachusetts Ave. in Indianapolis. This project is a combined development effort of Riley Area Development Corporation, Roberts Park Methodist Church and Monument Management Corporation. It will feature 28 one-bedroom and 22 two-bedroom apartments, 36 of which will be affordable and 14 market rate. In addition, 12,000 square feet of street-level retail space is being developed. These apartments will have a monthly rental range between $307-$850. The project has been a huge success and a great example of how public and private cooperation is vital for affordable housing.

One of the other key issues that has been raised is the use of Section 8 vouchers, and how best to encourage the utilization of these vouchers. While it is important to examine the role of the tenant with regards to Section 8 vouchers, I think it is also vital that the function of the landlord in the process is analyzed.

There has been continued concern on whether landlords are content dealing with Section 8 tenants. Because landlords are uncertain of whether the program will be renewed each year, they see Section 8 tenants as a liability, and as a result many are unwilling to have Section 8 tenants in their property.

We must not only look for ways to increase the utilization of Section 8 vouchers by renters, but also ways to encourage more landlords to accept Section 8 users as their tenants. It is addressing issues such as these that I hope we can make some progress towards finding the solution to the current affordable housing crisis.

The affordability of housing is one of the most pressing issues that faces our communities, our cities, our states and our country. I hope that today's hearing will allow some thoughtful insight into how we can best deal with these problems, so that we can stop talking and get down to business.

Opening Statement of Congressman Mark Green
Housing Subcommittee hearing – June 21, 2001

Thank you Madam Chairwoman –

I thank the Chair for holding a third day in a very important series of hearings on housing affordability. We have had a couple of productive hearings looking at the problem of affordability and exploring some possible solutions.

I am pleased today that we are focusing on the use of section 8 vouchers and on housing for disabled people. This is an area in which I have a particular interest. As a matter of fact, just two days ago, I was at the Pentagon with President Bush where he announced the signing of the Olmstead Executive Order. He also talked about the Disabled Housing Initiative, which I was proud to have authored. This pilot program will help low income persons with disabilities use their section 8 vouchers toward homeownership. Achieving homeownership is a particular problem for the disabled community. While the general population has close to a 70% homeownership rate, the rate of homeownership for among the disabled of working age is less than 5%. To make matters worse, it can cost an additional $20-$40 thousand dollars to customize a home for some disabled individuals. Clearly, this can be a big barrier to these folks. HUD is publishing the regulation on the pilot program this week, and I am hopeful this will help make housing more affordable for many folks who otherwise would not be able to purchase a home.

In the near future I will be introducing legislation to require agencies issuing regulations to conduct a housing impact statement. Specifically, they need to look at whether their regulations will inflate the cost of housing, or homeownership. I am hopeful that this subcommittee will consider this bill, as it has passed similar legislation in the past.

It looks like we have a couple of great panels lined up today, and I think this will be a productive, informative hearing. I look forward to hearing the testimony, and yield back the balance of my time.

Statement of Congresswoman Sue Kelly
House Committee on Financial Services Subcommittee on Housing and Community Opportunity; Third Hearing on Housing Affordability
Thursday, June 21, 2001
2128 Rayburn House Office Building

Chairwoman Roukema and Ranking Member Frank I want to thank you both for agreeing to hold today's hearing on the Affordable Housing crisis that is facing our nation. Our focus on the Section 8 program and the challenges faced by the homeless and the disabled in finding affordable housing is an important one. With veterans being both a large percentage of our homeless and disabled population I cannot understate the importance of this issue.

In my home County the median price of a house is $412,000. That is up 32 percent from $313,000 in the first quarter of 1999. HUD has declared that a fair market rent for a two-bedroom apartment is $1,144.00, that's higher than New York City. As of February 8, there are 13,207 people on the Section 8 waiting list. Yet the county and communities are not able to use all of their Section 8 vouchers because of a combination of a lack of available housing units and the inability of the Section 8 vouchers to cover the fair market rent for the area. I can't help but feel frustrated when I think about that problem. Here we have a program in place with extra vouchers to assist families and here we have a very long list of families who have applied for this assistance, yet they are unable to use what is currently available because they are priced out of the market.

This dilemma poses a real problem for both the working poor and businesses in my area. I have an article here from one of my local papers, *The Journal News*, from May 25. I'm going to ask unanimous consent to have this made part of the record. The headline of this article is quote - Housing Challenges Businesses – end quote. The article goes into detail about the lack of affordable housing in my area deterring companies which are considering relocating. So this issue has far-reaching consequences for the area.

In addition, we will examine the effectiveness of our homeless and our disabled housing. HUD will spend $1.2 billion to assist the homeless this year. I want to make sure these funds are focused on the housing needs and are working to get roofs over the heads of the homeless. Finally, we will hear testimony about the effectiveness of the Supportive Housing for Persons with Disabilities Program. This is good program that serves low-income individuals who are disabled. I hope we can work to strengthen this program to best serve the needs of that population.

One of my foci today is to look at what else Congress might be able to do to strengthen those existing programs that are having positive results in addressing the need for affordable housing. As with most legislation, I believe a balanced approach is necessary. We should continue to work to ensure that effective programs receive all the support they deserve in every way Congress can provide.

I want to thank our distinguished panel of witnesses for taking time out of their busy schedules to discuss these issues with us. I look forward to working with my colleagues on both sides of the aisle to address these issues.

Again, thank you Madam Chairwoman, I yield back the balance of my time.

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CHILDHOOD ON HOLD
In a Tight Spot
Homeless kids struggle to maintain normalcy in motels

by Lauren Terrazzano
Staff Writer; Photos by Alejandra Villa. STAFF PHOTOGRAPHER

A curtain fashioned from a black garbage bag covers the bedroom's only window. The air smells of Newport cigarettes. Boxes of school clothes and toys cover the bottom half of a wall, in a pile of semi-organized chaos.

Six children and their mother live here at the Best Eastern Motel in East Quogue, in a unit slightly smaller than a two-car garage. Two of Mariana Soto's children usually sleep on the floor. Jessica, 14, constantly searches for privacy, and Maria, 13, just wants a quiet place to write in her journal.

Christina, 7, and her brothers Michael, 8, Angel, 10, and Jose, 12, have to escape to the parking lot to play.

Like the dozen or so other families who live here, Soto and her children became homeless through a combination of bad luck and a strong real estate market that has left lower-cost housing in short supply. After their Brentwood home burned in October, they couldn't find a place that would accept Section 8, the federal housing voucher for the poor that had subsidized their rent for several years.

At first, pride kept them from going to a shelter. So, for two weeks, they lived in their black van, asking neighbors if they could use their shower in the morning. They brushed their teeth with toothbrushes and used mouthwash donated by the children's school district.

Then, after seeking help from Suffolk County's Department of Social Services, their odyssey began. First they were sent to a rundown motel in Southampton, and then to the Best Eastern, a faded testament to decades past, to a time when middle-class families piled into a car and headed for the Hamptons.

"This place isn't so bad," says Jessica, sitting on a curb in

"This place isn't so bad," says Jessica, sitting on a curb in the motel's parking lot. It's a big improvement over the first motel, she says. At least she hasn't been attacked here by other kids who just didn't like the way she was looking at them. At least there are no prostitutes performing sex acts in a telephone booth near their room.

"I didn't want my brothers and sisters to see that," she says. "They would have gotten the wrong idea." Young and Homeless The face of homelessness on Long Island shatters the stereotype of a wrinkled bag lady or a street-corner panhandler. It's the face of a child. As the Island's homeless population surges to numbers not seen in nearly a decade, there are about 1,500 homeless children in Nassau and Suffolk counties.

Day in and day out, children like Jessica and her brothers and sisters are the ones most likely to be trapped in motel rooms and shelters, saddled with problems ranging from inadequate nutrition to educational obstacles to a lack of space and privacy.

With emergency shelters full and affordable housing hard to find, social service agencies have turned to motels to house a quarter of Long Island's homeless families, an alternative both advocates and officials agree is the most unstable and least safe option in an overburdened shelter system.

Some of these establishments already are magnets for crime and prostitution, and are far from schools, neighborhoods and friends. Families are typically crowded into one room, without a place to cook. The conditions are particularly hard on the motels' youngest guests.

"Children in motels are chronically underserved," said Patricia Julianelle, an attorney with the National Law Center for Homelessness and Poverty. "They shouldn't be there, period." Over the past four years, Nassau and Suffolk social service departments recorded a 93 percent increase in the number of homeless children. Their stays in emergency housing average about eight months, longer than most advocates and officials think is reasonable. Sixty percent are school age. About 400 currently live in motels.

"I'm worried about the next generation of children and their future," said Suffolk social service commissioner Dan Hickey, citing the 1,100 children in Suffolk alone who are homeless. "Will this be all they'll ever know of childhood?" Government, in many ways, is merely reacting to a situation created by circumstances of the lives of some parents, who either have made bad decisions or have had bad luck. Some have been victims of domestic violence or have had a hard time supporting their families because of a lack of education. Others are drug users, their addictions a powerful diversion from attending to the daily needs of their children.

But many homeless children's parents also are low-

But many homeless children's parents also are low-income working families who usually rent and who never turned to social services for help before. The U.S. Department of Housing and Urban Development estimates that the fair market rent in 2001 for a two-bedroom apartment on Long Island is close to $1,200 a month, meaning that families would need to earn an annual income of $46,000 a year, or more than four times the minimum wage, to meet their rental costs.

Many more homeowners are selling homes they previously rented out. As a result, tenants are evicted into a housing market with few other low-cost options, while affordable housing remains scant because of traditional community resistance to it.

So families either double up with relatives or friends, or turn to social service departments, which place about 60 percent of the families in a network of shelters on Long Island. They range from the largest, H.E.L.P Suffolk in Bellport, which houses about 76 families, to more than two dozen "scattered site" shelters-individual homes in many cases run by nonprofit agencies. But those are in limited supply as well.

When the shelters become full, the counties turn to motels, as they did in the late 1980s and the mid-1990s.

How a family ends up therel differs depending on the county in which they live. Nassau allows a family to choose which one they will use, depending upon proximity to their children's schools or their original community, said social service commissioner Bob Sherman.

Suffolk, which uses up to 11 establishments because it has more than twice the homeless population than Nassau, assigns families to particular motels, and will set up busing for children back to their school districts.

But motels are an extraordinarily expensive alternative. To house families in them has cost Suffolk's social services department more than $4 million since the beginning of 2000. Nassau has spent $1.3 million on motels.

Soto's unit, which includes two small bedrooms and a kitchenette, costs the county $300 a night, or about $9,000 a month, according to officials.

Hickey, the Suffolk commissioner, acknowledges the high costs and impracticalities of housing families in motels. But he said the county's shelter system is stretched beyond its limits.

"We're in a crisis situation," he said. "Obviously, if we could avoid using motels, we would. But we have no alternative at this point." Motel Living Soto, 31, is a short woman with a round face and shoulder-length brown hair often tied back with a bandana. Her husband left a year often tied back with a bandana. Her husband left a year ago and doesn't pay child support. She lives on $415 every two weeks from social services and a federal disability subsidy for Christina, who has epilepsy. Soto also has chronic asthma and pulmonary problems that are aggravated by her chain-smoking.

She often blames herself, wondering how life might have turned out if she hadn't dropped out of school in the eighth grade. Or if she hadn't had so many children at such a young age. "If I had a high school diploma and a good job, I wouldn't be going through this," said Soto.

"But I just look at my children, and they make me so happy," she said. "It hurts me to see them go through this. They have to understand it's not their fault." For children, motel living means dealing with a wide range of issues, including a lack of privacy, poor nutrition and anxiety fueled by a separation from friends and communities.

Several of the motels also have been cited by county health officials for health and safety violations such as inadequate fire alarms and missing fire extinguishers. Of the 11 motels Suffolk County uses, health inspectors uncovered 125 violations in their most recent surveys. In Nassau, health officials found 29 violations, most of them minor, in eight motels where homeless families have stayed.

For the past several months, Soto's children, who use their father's last name, Reyes, and as many as 40 to 50 others have been living in the Best Eastern. It is about a mile from multimillion-dollar homes and down the road from a gourmet market that sells caviar for $99 an ounce.

In this motel along the south side of Montauk Highway, the children have marked the rituals of everyday life: a first day of school, birthday parties, a Christmas spent in a room without a tree.

They've also marked the rituals of motel living. Occasional police activity. Homework done on beds and on floors. Too many Slurpees and too many hot dogs from a nearby 7-Eleven. Wearing their clothes to bed in case their family gets kicked out in the middle of the night.

"I keep their stuff in the van, in case we had to leave fast," Soto said.

'When Are We Going Home?' The Kovalovsky family lived at the Best Eastern this past March and April after being evicted from their Ronkonkoma apartment.

Two of their six children, Sable and Alexis, are named after characters in the 1980s show "Dynasty." But the motel is many lifestyles away from affluence and indulgence.

On their first day at the Best Eastern, a cloudy afternoon

On their first day at the Best Eastern, a cloudy afternoon in late March, Steve and Marianne Kovalovsky couldn't believe they were in this situation.

They both work: He's a service manager at an auto dealer and she works at a P.C. Richard & Son.

Clothes and toys were in boxes in the couple's Jeep. Everything else was in storage, and the children wanted to know what happened to their television, their furniture and the rest of their old lives.

Steve Kovalovsky told them everything would be all right. He promised to get some of their belongings from storage by night's end.

Steven, 4, who has curly eyelashes that frame soft brown eyes, ran back and forth in the unit even though his mother told him to sit still. "When are we going home?" he asked no one in particular.

At its worst, motel living is unsafe. At best, it's unsavory.

The Best Eastern Motel, one of about 25 currently used in Nassau and Suffolk to house the homeless, is arguably one of the better establishments.

Forty- six miles away in Copiague, a motel used by the county has mirrors on the ceiling and a long history of prostitution and drug activity. Another in Babylon has a long list of fire code violations and a manager who has called the police on children when they've played outside.

Even at the Best Eastern, homeless families find many amenities lacking. At times, some rooms have had no heat. Others lacked towels and toilet paper. Some lamps had no shades. And the cinder block walls gave only an illusion of being soundproof.

Family fights, one of the by-products of too many people living in too small a space, echoed through the walls for much of the early evening. "Put that down," a woman's voice screamed. Then came the sound of a little boy crying. Then silence.

One Friday night in May, the police came to the motel with sirens blaring.

The boyfriend of another tenant knocked down the door to the Kovalovskys' unit after his girlfriend's children were involved in a fight with the Kovalovsky children. Christina Reyes, 7, a friend of Alexis Kovalovsky who was visiting, somehow got caught in the scuffle.

The man, who doesn't live at the motel, pulled Christina by her shirt and then by her hair onto the pavement. Her ankles were scraped. He was arrested by Southampton police for endangering the welfare of a child. Both families involved in the scuffle were moved to other shelters because of the fight. Two weeks later, a mother shelters because of the fight. Two weeks later, a mother with 11 children moved into the Kovalovskys' unit.

Still homeless, the Kovalovskys are living in a small house operated by a shelter provider in Bay Shore.

Finding Ways to Adapt Friends like the Kovalovskys come and go for Soto's children, who try to adapt the best they can.

"Wanna play TV tag?" asked Christina, referring to a game in which players shout names of television programs to avoid being tagged. She has more energy than there is space to work off in the confines of the motel, but she doesn't seem to mind her accommodations. At times, she seems blissfully happy.

"I got a whole bunch of friends who live here," she said, skipping off to the parking lot that is her playground.

Because there have been so many children here, the management this spring erected a basketball hoop on the far end of the lot. It is the only recreational diversion, besides an illuminated soda machine that glows at night alongside the manager's office. The children love to push the buttons and fish for coins in the change slot.

But anxiety also is a companion of the children who live here. Christina wakes up sometimes wondering where she is. "My house got burned so I dream about it, and I go to my mom and I start crying," she said.

Much of their lives are spent in a whirl of uncertainty, with questions about whether they will have a roof over their heads.

Part of their fears result from the lawsuit filed by Southampton town, naming the occupants of the motel as defendants. The town is suing the motel owner, saying the Best Eastern isn't zoned to house homeless families and violates the law. Officials had been trying to get a judge to remove the families, but have been unsuccessful.

Soto's children remembered being frightened one March day when a woman in blue bell bottoms knocked at the door and handed the family a 150-page lawsuit from the town. They thought they were being evicted.

They said they often feel that they don't fit into the tony area, and rarely venture to East Quogue's main street. "They give you dirty looks when you go down there," said Jessica.

Jose has resorted to sleeping in his school clothes sometimes. At first he said it's because he doesn't have time in the morning to get ready for school, because the bus comes so early. But he confided in a whisper that it's in case he has to leave in the middle of the night. Maybe they'll be kicked out. Or maybe there will be a fire, like the one that took his house.

"Be prepared," he said.

Poor Nutrition Along with motel living comes the issue of whether the children are getting adequate nutrition.

Although Suffolk has required the motel owners to install microwave ovens and small refrigerators in each room in many of their establishments, cooking healthy meals is difficult for the parents, and can be dangerous in such a small space.

Julianelle, of the National Law Center, said there's "a significant problem with nutrition. Most motels don't have kitchens, so you have a lot of people grabbing fast food. Maybe they have a hot pot in the bathroom. If they have a fridge, it's a small one, so they're not able to keep milk, fruit or vegetables." For many Best Eastern residents without cars, the 7-Eleven next door is their superstore. The owner gives the families leftover bagels sometimes. Some of the families buy bean burritos or frozen cheeseburgers to heat up.

The motel children go there after school, scraping together loose change to buy Slurpees or lollipops attached to plastic rings. On Mother's Day, Christina gave the clerk a dollar and brought back a small teddy bear and plastic flower for her mother.

Inside their rooms, other occupants use microwave ovens or illegal hot plates or hot pots. Or they eat out, which can be expensive.

"It's hard because I like to make my kids nice meals. The money you spend eating out each day, you can get food for a week," said a woman who shares a room with five children, who asked not to be identified because she said she is hiding from an abusive husband. "I order Chinese food every day. I bought lunch for them and it cost me $18." Sometimes, they receive outside help. The motel's owner, Steve Tallides, who also owns a restaurant, brings residents food occasionally on Sundays.

On a recent Sunday night, thanks to the generosity of a local architect who stops by from time to time to help the family, Soto made pork chops. "I try to give them a good meal at least once a week, try to cook something nice," she said.

Living in a Small Space While families strive for normalcy, day-to-day hardships become magnified by their situation.

In late April, a 5-year old boy who lives in the motel suffered first and second-degree burns on his wrist and his leg. His mother said he pulled a cup of hot water on himself from the room's microwave, which sits on a dresser near his bed. Child Protective Services is

[redacted]

investigating the incident.

He was airlifted to the burn unit at University Hospital and Medical Center at Stony Brook, treated and returned home after midnight to sleep with his four brothers and sisters in two double beds.

The next day, with a burn the size of a golf ball on his wrist and a bandaged leg, he was in his room with the shades drawn. His mother, who works full time as a hotel maid, could not pick up his painkiller prescription for two days because she doesn't have a car. He was trying to rest, but "The Simpsons" was on television and the room was rumbling with activity by his four siblings. The boy's two brothers assembled a puzzle on the floor, but the pieces kept getting lost under the bed.

"I feel like I'm living in a closet," his 9-year-old sister complained.

Living in such small quarters also makes it hard to deal with the demands of school. In addition to the trouble of getting there, where to do homework is a constant challenge.

There is no desk or quiet place to study most of the time, and the pressures of keeping up in school are often daunting.

On a Sunday night, Soto's son, Angel, put the finishing touches on a project on deciduous forests. He melded two pieces of construction paper, wondering if it will be good enough to hand in. Maria, 9, wrote in an orange composition book. The floor is their study hall.

Soto said the district wants to hold Christina back next year because she isn't keeping up with her classmates. And Jessica is failing three classes, her latest report card punctuated with comments like "excessive absences." She said she missed two weeks of school after the fire, and another week and a half after moving into the motel and waiting for bus transportation to get set up.

Even the task of getting Soto's children prepared for school requires military precision on the part of their mother on the night before.

One by one, Soto marched them into a small blue bathroom to take a shower or a bath. Then it was time for their snack: a glass of milk and a chocolate-covered doughnut.

Squeaky clean in pale pink pajamas, Christina was ready for bed. She questioned where she will sleep tonight-with her sister Maria, or in a sleeping bag.

The boys settled in on the living-room floor, forming a jigsaw puzzle of pillows and blankets. The long school bus ride back to Brentwood was only nine hours away.

bus ride back to Brentwood was only nine hours away.

Tough on Teens As hard as homelessness can be on young children, it's particularly hard for teenagers who have no privacy and are isolated from longtime friends.

There is no place to be alone in a motel, no place to talk on the phone with a friend. The motel telephones only accept incoming calls.

"I used to have my own bedroom, my own bathroom, my own hang-out room," Jessica said.

"In a way, I wonder why God did this to me. We always lived in a house," she said, braiding Christina's hair. "I get a bad attitude sometimes, because there's no place to be alone." Jessica refused her mother's request for her to take a shower the night before school. She didn't want her long, wavy brown hair to be flat. Instead, she preferred to get ready for school in the morning, showering at 4:30 a.m.

while her brothers and sisters were just getting up.

The night before, Jessica laid out the products she would need on a table by her bed: Suave hair mousse, lotion, White Rain hair spray and Lady Speed Stick. Pulling clothes from boxes and from a small closet, she tried on three pairs of pants and three shirts until deciding on a pair of capri pants and a denim shirt.

She flashed back to her first day of classes this year after becoming homeless. She asked the bus driver to drop her a few feet from the front door of the school. "At first, I was embarrassed. I didn't want anyone to see me get off the minibus," she said. Everyone knows that the homeless kids ride on the minibus.

She dreams sometimes that her father will come back and take her away from here: "When you're living someplace you don't want to live, you don't care where you go." Mostly, she misses her friends in Brentwood, seeing them only in school because she lives too far away now for them to come visit. "We used to do homework together, but now I do it by myself," she said.

She often thinks about dropping out of school, but doesn't because she knows how much it would hurt her mother.

"If it wasn't for her, I would. But she wants me to keep going in school so I can be somebody," said Jessica.

She paused for a moment, casting a serious look at her surroundings: "She doesn't want me to end up like this someday." Newsday Photos/Alejandra Villa 1) Christina Reyes, one of 6 children sharing a room with their mother at a motel in East Quoque, waits for a school bus (A01 NS).

2) The Reyes children, from left, Angel, Michael and

2) The Reyes children, from left, Angel, Michael and Christina, get ready to go to sleep on couches or on the floor at the Best Eastern Motel in East Quogue.

3) Christina Reyes munches on a hotdog. Her mother, Mariana Soto, sometimes can't cook nutritional meals for her children. They occasionally eat from the local 7-Eleven.

4) Mariana Soto spends time joking with her kids before getting them ready for bed. The kids need the rest since they wake up as early as 5:30 a.m. to prepare for the long ride to school.

5) Mariana Soto is consoled by a friend in a moment of frustration over her situation. Although she feels deeply depressed, Mariana tries to stay strong for her children.

6) After realizing that they're not being moved after all, Christina Reyes, 7, sits in her mother's van upset because she missed a school trip while she and her family waited at the motel for someone from the Department of Social Services to come and pick them up.

7) Mariana Soto helps her son, Michael Reyes, with his shoes while Angel Reyes tries to get all the sleep he can before the two-hour bus ride to school in Brentwood.

8) The motel's homeless children have converted the parking lot and surrounding areas into a playground. Michael Reyes hides in furniture that was removed while the motel rooms were being painted.

9) Christina Reyes, 7, gets her hair combed by her eldest sister, Jessica, 14, who sometimes feels she has to be a second mom to her younger siblings.

10) The children's clothes have been carefully placed by their mom as Michael, on the couch, Angel and Jose Reyes get a few extra minutes of sleep in the morning.

The Journal News
Friday, May 25, 2001

Business

Housing challenges businesses

Soaring real estate may deter some from relocating to Westchester

Abigail Klingbeil
The Journal News

When Atlas Air was deciding whether to move its company headquarters from Golden, Colo., to Harrison, the affordability of local housing was one of many factors it considered.

"When we looked at moving, we took into consideration the whole package — cost of living for our employees, the availability of good rental property, transportation issues and things like that," said company spokeswoman Vicki Foster. "This is a great area. We believe that the services available were beneficial to both the company and the employees."

Atlas Air completed its move last June. It is one of several companies that have chosen Westchester County as their new home in recent years despite escalating housing prices and a low supply.

Betsy Roche, vice president of destination services at Morris Plains, N.J.-based Weichert Relocation, said Westchester County housing prices deter some companies from considering relocation there.

The median price of a one-family home in Westchester County was $412,500 in the first quarter of 2001, up 32 percent from $313,000 in the first quarter of 1999. In Putnam, the first quarter median sale price was $223,500, up from $200,000 in 1999. And in Rockland, the median sale price was $284,500 in the first quarter, up from $225,000 two years ago.

Local inventory has dropped in recent years. In the first quarter, Westchester County had 2,036 homes for sale, compared with 2,787 two years ago. In Putnam, there were 522 homes for sale, compared with 758 in 1999. Rockland had 722 houses on the market, down from 872 in 1999.

These numbers can add up to a challenge for businesses.

"On the one hand, your first reaction to Westchester County is it's too expensive and there's not a lot of inventory," Roche said. "I do think there are companies that would discount it because of that."

Weichert Relocation moved 15,000 people last year. It helps corporations, including some in Westchester County, throughout the moving process.

"The silver lining about moving into Westchester County, as I see it, is it's a good investment. Houses retain and appreciate in value," she said.

In addition, housing is typically not the most important factor when a company is considering a new base, Roche said. Available work force is more important, she said.

"Certainly the availability of a skilled work force has to be at the top of the list," said Don Smith, executive vice president of Danbury, Conn.-based Cen-

Please see TIGHT HOUSING, 2D

THE HOUSING SQUEEZE
A SPECIAL REPORT

Sunday: A bubble ready to burst?
Monday: In search of a fair price
Tuesday: Remodelers still basking in economy's glow
Wednesday: It's expensive at the top
Yesterday: Looking for an affordable home
Today: A challenge for businesses
Tomorrow: The road well traveled
Sunday: Facing realities

Earlier articles in this series can be found on our Web site at www.thejournalnews.com/squeeze

Housing market challenges businesses

TIGHT HOUSING, from 1D

dant Mobility, which assisted 128,000 people last year in corporate relocations. The company also helps with home sales, mortgage services, relocation policy counseling and a variety of related services.

"There are ways to get people from lower cost areas to higher cost areas," Smith said. One popular method is for corporations to subsidize the mortgages of their relocating employees. That way, the employees essentially have more purchasing power and are able to buy a bigger house or more land. The mortgage subsidy is controlled by employers, who can end it if the employee quits.

Corporations often move to local counties from nearby Manhattan or Connecticut, so employees may not have to move. There are areas outside the county with substantially lower housing prices. Some companies relocate only upper management, who can afford more expensive houses.

Swiss Reinsurance Company's Americas division, which moved from Manhattan to Armonk two years ago, moves about 10 to 15 people a year. The company pays for the move and house-hunting trips. It also assists with closing costs.

"The majority of the relocations are high-level personnel, so housing costs don't tend to be significant considerations," said company spokesman Michael McNamara.

Rye Brook-based Kraft Foods International typically relocates people to this area for two- to three-year assignments. Those employees usually rent homes.

"We've definitely seen a crunch because our people can't find homes to rent," said Liz Carley, Kraft Food International's senior expatriate analyst. "The main feedback that we get back is either there's just nothing to rent or they need a larger budget in order to rent a home."

Kraft Foods International has increased its employee housing allowance to keep in line with the market, Carley said.

Employees who move to this area from outside the region are not always able to afford the same type of housing they left behind.

Mary Ann Michaels left her $109,000, 1,400-square-foot, two-bedroom house in Arizona to accept the position of executive director at the retirement community Westchester Meadows of Valhalla.

"I knew from my interview process, I knew from the cost of living versus where I was moving from that I had a challenge on hand," Michaels said. "I was not able to afford the same house I

Rohanna Mertens for The Journal News
Mary Ann Michaels moved to White Plains from Arizona to take her current job as executive director of Westchester Meadows.

into an apartment in downtown White Pains.

The apartment is a short walk to the train, a park, a gym and shopping. Michaels said the benefits of moving here and the new position far outweigh the challenge of finding housing.

"I didn't consider not taking the position," Michaels said. "It's a very nice, affluent area. It's culturally rich."

Two of the three families a local moving company is helping to relocate from Cary, N.C., to Westchester County have placed their possessions in storage and are living in temporary residences while they search for housing.

"They were kind of surprised at housing prices up here and what they can get for their money," said Pete Ruggles, vice president of Clancy-Cullen Moving & Storage Company Inc., which has offices in Patterson and the Bronx.

"You need to have a realistic expectation of what you're getting into it," Ruggles said.

Employees who are faced with relocation may want to ask for a cost-of-living salary adjustment. If your annual salary was $100,000 in Cary, N.C., you would need to make $146,003 in Westchester County to maintain your standard of living, according to the salary calculator on the Web site www.homefair.com.

"If these people come up here and end up not being able to find housing, then you have an unhappy employee, somebody who wants to move back," Ruggles said.

Joseph Girven, chairman of Putnam County Industrial Development Agency, said that as far as he

counties said the housing market is a challenge to business growth.

"It's definitely having an impact," said Jo Baer, chairwoman of Rockland County's Workforce Investment Act Board, which oversees federal job training money for the county. Baer also owns Baer & McIntosh Real Estate in South Nyack.

For companies like Wyeth-Ayerst Laboratories, Rockland County's largest private employer, moving a group of employees to the county from somewhere housing prices are lower is a real challenge, Baer said. Both pricing and availability are hurdles, she said.

"You just sort of have to be creative and rethink the envelope, and then I think the companies can be successful," she said.

Sal Carrera, Westchester County's director of economic development and real estate, said the current administration knows there is not enough affordable housing. "We can't continue to expand our employer base without being able to house employees."

For the past two years, the county has asked developers to include affordable housing in their developments in order to qualify for financial assistance from the county, Carrera said.

"We do not want someone to say to us, 'We can't move to Westchester County because we can't get our employees to live there,'" Carrera said.

TESTIMONY OF BARBARA SARD
Director of Housing Policy, Center on Budget and Policy Priorities
House Financial Services Subcommittee on Housing and Community Opportunity
June 21, 2001

I appreciate the invitation to testify today. I am Barbara Sard, director of housing policy for the Center on Budget and Policy Priorities. The Center is a nonprofit policy institute in Washington that specializes both in fiscal policy and in programs and policies affecting low- and moderate-income families. My testimony today focuses on how to make the Section 8 voucher program more effective.

The nation's number one housing problem is the lack of affordable housing for extremely low-income households, particularly families with children. (Extremely low-income households have incomes at or below 30 percent of the area median income.) Housing vouchers are the form of housing assistance best suited to ensure housing affordability for extremely low-income families while maintaining the flexibility to meet changing needs. Vouchers work better than other forms of housing assistance to help families move from neighborhoods of concentrated poverty to areas where adults and children have improved employment, earnings, education and health outcomes. But vouchers can only produce these positive results if families can use them to obtain housing in neighborhoods that afford greater opportunity.

The vast majority of families issued vouchers succeed in using them. The most recent national study found that 87 percent of families issued vouchers were able to use them.[1] While reports from various housing authorities and advocacy groups indicate that vouchers have become more difficult to use as rental markets have tightened in recent years, a March 2000 survey of large PHAs found that on average 81 percent of families issued vouchers by these agencies used them, and these PHAs used 93 percent of their Section 8 budget authority.[2] Many well-managed PHAs use all their vouchers by reissuing them until enough families succeed.

Publicly available data from March 2001 indicate that approximately 88 percent of

[1] Stephen D. Kennedy and Meryl Finkel, *Section 8 Rental Voucher and Rental Certificate Utilization Study: Final Report.* Washington, DC: Department of Housing and Urban Development, Office of Policy Development and Research (1994). HUD has contracted for a new study on voucher utilization, but results are not yet available.

[2] Subcommittee on VA, HUD, and Independent Agencies of the Senate Committee on Appropriations, "Empty Promises—Subcommittee Staff Report on HUD's Failing Grade on the Utilization of Section 8 Vouchers," (September, 2000).

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vouchers were in use that month. (These data are posted on HUD's web site and are based on housing agencies' reports to HUD.) Some of the unutilized vouchers are reserved for future uses such as the relocation of tenants from public housing that will be demolished. But a substantial portion of the unutilized vouchers reflect families' inability to lease housing with vouchers they have received. Indeed, probably far more than 12 percent of families with vouchers are unable to use them. Similar to airlines' practice of overbooking flights, housing agencies that predict that some families will not succeed in renting units overissue vouchers to achieve full utilization of the authorized number of vouchers. Despite the achievement of full utilization of vouchers by such effective management, the inability of a substantial number of families that receive vouchers to use them to rent housing remains a problem. These families' disappointments may result in undermining political support for the voucher program, and the need to overissue vouchers strains agencies' administrative resources.

The failure at any given point in time to utilize approximately 200,000 of the vouchers authorized by Congress is most unfortunate in the face of continuing severe needs for housing assistance. (HUD has contracted with PHAs to administer approximately 1.8 million vouchers.) Solving the problem of underutilization of vouchers may require measures to:

- help families search more efficiently for available units;
- bring more owners into the program;
- increase the amount of subsidy that a voucher provides; and
- increase the number of rental units of adequate quality that can be rented with vouchers.

Measures directed at each of these objectives are not necessary in all geographic areas. Many areas, for example, have enough decent-quality units for rent at moderate prices. Vouchers may still be underutilized in such areas if too few of the owners of these units accept vouchers, in which case the solution is to bring more owners into the program and help families search more efficiently for the units that are available. In areas with available but overly expensive housing, an increase in voucher payments is necessary. In areas where the limited number of vacancies in rental housing of decent quality poses a serious barrier to voucher use, additional supply-side measures are needed to rehabilitate existing units or produce new housing.

Housing agencies that administer the voucher program already have some of the tools necessary to undertake the types of measures necessary to improve voucher utilization. For example, they can use their administrative fees or partner with other agencies to initiate outreach programs to landlords or to provide services and benefits to help families obtain housing. In addition, housing agencies may increase the amount of subsidy provided by a voucher to 110 percent of Fair Market Rent and may request HUD approval of a further increase if justified by available data.[3] They also may "project-base" up to 20 percent of their vouchers — that is, direct

[3] HUD determines the Fair Market Rent for each metropolitan area and non-metropolitan county annually, based on Census data and inflation adjustments. For a limited number of larger metropolitan areas, HUD conducts

the funds to particular buildings rather than tenants — as well as use vouchers for homeownership.

Yet many agencies that are not able to use all their vouchers have not initiated such programs or taken advantage of the flexibility currently offered by the voucher program rules. Recent data indicate that approximately 70 percent of the PHAs that administer voucher programs set their voucher payment standard at 100 percent or less of the FMR.[4] Less than a quarter of the PHAs that acknowledge that overconcentration of poor and minority households is a problem in their voucher program undertake special efforts to attract owners in non-concentrated areas to participate in the voucher program or to provide counseling or other assistance to voucher holders so they can obtain units in such areas.[5]

Why don't more PHAs do more to help families locate units with their vouchers or to ensure that vouchers pay enough to bring sufficient units within the reach of voucher holders? Some do not fully understand the flexibility afforded by recent changes in program rules and are not aware of steps they could take to improve voucher use. Some are accustomed simply to complying with program rules rather than making their own decisions about how to achieve program goals. I agree with Secretary Martinez's statement that a central cause of the current underutilization of vouchers is inadequate administration of the program by some PHAs. More effective management by these agencies is central to improved program performance. Both HUD and Congress could take a number of steps to improve program management, as I will explain below.

Yet for a substantial number of PHAs, underutilization of vouchers cannot fairly be blamed on management practices. These PHAs are doing what is possible within their funding and market constraints. For the well-managed PHAs that nonetheless have inadequate program outcomes, additional policy changes are needed. These policy changes also are outlined below.

While the policy changes noted below are likely to improve the administration of the voucher program somewhat, achieving excellent and efficient administration of the Section 8 program requires a fundamentally different delivery system at the local level. Approximately 2,600 PHAs administer the voucher program; more than two-thirds of them have fewer than 250 vouchers. The proliferation of small agencies greatly multiplies the obstacles to effective HUD oversight or support. With an average of more than 50 administering agencies per state — Texas has more than 400! — the number of administrators who need to learn complex program rules

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rent surveys between the years of the decennial census. The FMR generally is equivalent to the rent for the bottom 40 percent of non-luxury units available for rent in the prior two years. In January 2001, HUD increased the FMR in 39 metropolitan areas to cover half of the rental units (50th percentile).

[4] Office of Policy Development and Research, U.S. Dept. of Housing and Urban Development, *The Uses of Discretionary Authority in the Tenant-Based Section 8 Housing Program*, January, 2001, 46 - 56.

[5] *Ibid.* at 26 - 32.

and policy interactions is multiplied, economies of scale are not obtained, many rules are not followed, policies are not understood, barriers to participation by eligible families are increased, and scarce funds are spent on duplicative and sometimes ineffective program administration. Program reforms should be designed to reduce the number of administering agencies, promote regional operation of the voucher program throughout metropolitan areas, and improve agency performance, in addition to whatever specific objective they may seek to achieve.

a. Changes HUD Could Make to Improve the Voucher Program

As discussed above, improved administration of the voucher program at the local level could increase owner participation, enhance families' ability to obtain housing, and improve planning and coordination with other agencies. *HUD could improve local program administration through targeted training and technical assistance and through aggressive enforcement of current remedies for poor program enforcement, including reassigning administration of vouchers from under-performing to better-performing agencies.* These important proposals are explained briefly below.

To provide targeted training and technical assistance, HUD should regularly monitor each PHA's utilization of voucher funds and the percentage of families searching for housing that are able to use their vouchers. (Beginning June 1, 2001, PHAs will have to report this "success" data to HUD through the regular tenant characteristics reporting system.) HUD may have to develop new internal procedures to carry out such monitoring in a timely manner; scores from SEMAP, HUD's existing management assessment tool for Section 8 programs, are not available until 120 days after the end of a PHA's fiscal year. HUD should target those PHAs that are having difficulty utilizing Section 8 funds and do not appear to be aware of current policy options or the range of "best practices" in use by other agencies. HUD may need additional funds for this purpose.

Over the course of 2001, each PHA that administers a Section 8 voucher program will receive an initial SEMAP score, which will show HUD which PHAs have not performed adequately under the SEMAP performance indicators. In addition, during 2001, PHAs that utilized less than 90 percent of their voucher funds and leased less than 90 percent of their authorized number of vouchers in fiscal year 2000 will be subject to the sanction provisions of the new Section 8 renewal rule. (This rule permits HUD to reduce permanently the allocation of vouchers to PHAs that fail their initial test and do not increase their rate of utilization of voucher funds to 95 percent by the following year.) HUD should enforce the remedial provisions of SEMAP and the renewal rule aggressively, and should seek new administrators for any agencies that do not make adequate improvements within the corrective action period.

HUD also should use competitive criteria in assigning the administration of vouchers. Where possible, vouchers of low-performing agencies should be consolidated with existing voucher programs of top-performing neighboring, statewide, or regional PHAs that would serve the initial agency's area. In a memorandum submitted in January 2000 in response to the request of the Senate Subcommittee on VA-HUD Appropriations, HUD proposed to use competitive criteria to reassign the administration of the voucher program away from agencies that have "troubled" status under SEMAP and to consolidate the programs of such agencies that have fewer than 250 vouchers. HUD has not indicated whether it will act on this plan once SEMAP scores are available for all agencies, which should occur by the beginning of 2002. Congress should encourage HUD to proceed with this plan.[6]

In addition to these general measures, HUD could take a number of particular steps that would help PHAs improve voucher utilization.

To increase funds available to PHAs to provide services and benefits to help families obtain housing with vouchers, HUD should authorize PHAs to use unutilized voucher funding for this purpose, with certain protections. (On behalf of the Center on Budget and Policy Priorities and the National Low Income Housing Coalition, I submitted a specific proposal to HUD in March 2001 to enable certain PHAs to use otherwise unutilized voucher funds to help families use their vouchers to obtain housing.) This change would enable PHAs that have not been able to use all their vouchers to redirect funds to help families search more effectively for available housing, but it will not benefit PHAs that use all their voucher funds but still have low voucher success rates. In these latter cases, additional administrative funds are needed, and HUD should provide these agencies with supplemental administrative fees. HUD has authority to provide supplemental fees under current law but may need additional funds for this purpose.

In addition, HUD should issue a Notice of Funding Availability for the $10 million appropriated in FY 1999 for the Regional Opportunity Counseling Program, which promotes regional strategies for helping Section 8 families choose neighborhoods that offer better housing, education, and employment opportunities. (HUD has not yet made these funds available.) PHAs seeking this funding should be required to participate in a rigorous evaluation of the effectiveness of their services and benefits in increasing voucher success and deconcentration. It is important to take advantage of this appropriation to improve voucher utilization *and* to learn what types of measures work best under different circumstances.

HUD could take a number of steps within the existing statutory framework to enable PHAs facing escalating rent and utility costs to increase voucher payments sufficiently for voucher holders to be competitive in the local market and in neighborhoods outside of areas of concentrated poverty. HUD should:

- Streamline its procedures for reviewing and approving requests from PHAs for payment standards above the discretionary range (90 - 110 percent of the FMR),

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[6] HUD has the statutory authority to contract with a public or private nonprofit entity, including a PHA that is not otherwise authorized by state or local law to serve the area in question, to administer the voucher program when a PHA in an area "is not performing effectively." Section 3(b)(6)(B)(iii) of the U.S. Housing Act of 1937. Consequently, no further statutory change is required for HUD to implement its proposal.

including establishing a deadline of 90 days for action by its regional offices and delegating more decision-making authority to the regional level.

- Revise its rules to permit approval of payment standards above the discretionary range without PHA submission of rent data when this is necessary for improved program performance. This option should be available when too many participating families are paying too much for rent and utilities and when too few families succeed in using their vouchers despite reasonable PHA efforts to improve success rates.[7]

- Permit PHAs to increase the payment standard above the discretionary range without HUD approval for vouchers used to lease units financed with Low-Income Housing Tax Credits or HOME funds in developments located outside of poor neighborhoods, up to the maximum reasonable rent allowed for such units. (PHAs are not now permitted to set development-specific payment standards, except for vouchers that are "project-based" in LIHTC-funded units outside of poor neighborhoods.) Also, HUD should permit PHAs to increase the payment standard above the discretionary range without HUD approval for vouchers for persons with disabilities when necessary as a reasonable accommodation.

- Improve the accuracy of Fair Market Rents by performing more annual local rent surveys and by revising the methodology used to set FMRs in light of rapidly rising utility costs, current biases of phone surveys, and lack of adequate data concerning unit quality. (See note 3 for an explanation of how HUD sets FMRs. Congress should ensure that annual appropriations are sufficient for this purpose.)

- Retain the amount of Section 8 reserves needed for PHAs with rising costs to assist the authorized number of families. I will return to this issue later in my testimony. (For a detailed explanation of why agencies may need to draw on their reserves, see my testimony before the Senate Banking Subcommittee on Housing and Transportation, April 25, 2001. I would be happy to provide a copy of this testimony for the record.[8])

HUD could help increase owner participation in the voucher program with measures

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[7] HUD's rules generally require agencies seeking approval of a payment standard above 110 percent of FMR to submit rent survey data for the area for which the exception requested, or to demonstrate a pattern of higher rents for certain neighborhoods or towns within a metropolitan area based on the most recent Census. Recognizing that real difficulties in using vouchers can not always be demonstrated through these methods and that many agencies find them excessively costly and burdensome, HUD issued a new policy in October 2000 that allows certain PHAs with voucher success rates below 75 percent to base their payment standard on an FMR at the 50th percentile for their area. This success rate payment standard, however, cannot exceed 110 percent of the 50th percentile FMR.

[8] The written testimony is available at http://www.senate.gov/~banking/01_04hrg/042501/sard.htm.

aimed at federally-financed and other privately-owned housing. HUD should:

- Direct each HUD regional office to post on the web a list of multi-family rental properties in its jurisdiction that are financed by Low-Income Housing Tax Credit (LIHTC) and Home Investment Partnerships Program (HOME) funds, and make PHAs and groups assisting Section 8 voucher holders aware of its availability. These properties have a duty under federal law not to discriminate against Section 8 voucher holders. HUD, in conjunction with IRS, should develop guidance on the meaning of this duty in the HOME and LIHTC statutes. In addition, HUD regional offices should coordinate with state tax credit allocating agencies to ensure LIHTC developments are aware of their duty not to discriminate.

- Revise its requirements for consolidated plans. (These plans, which state and local governments seeking HUD block grant funds must periodically submit to HUD, outline a community's housing needs and strategies to meet those needs.) HUD should require that consolidated plans identify barriers to voucher use and propose remedial strategies, including how Community Development Block Grant and HOME funds (as well as other resources) could be used to overcome barriers to voucher use and to rehabilitate or produce additional units in which vouchers can be used.

To make more private-market units available to voucher holders, HUD should revise its regulations to help reduce the delays that Section 8 program rules can cause in renting units. Such changes should permit PHAs to make Section 8 payments for certain units for the period after the owner has agreed to rent the unit to the family and the PHA has approved the rent amount, but prior to final inspection and approval by the PHA. This policy could apply to units that have minor defects that are being fixed or lead hazards that are being removed. In tight markets where many families are willing to rent a unit despite minor defects, the lost rent and time that are inherent in the section 8 inspection process are a significant disincentive to participation in the Section 8 program.

b. Changes Congress Could Make to Improve Voucher Utilization

In addition to encouraging or requiring HUD to make the changes suggested above, there are several statutory changes and appropriations measures Congress could enact to improve voucher utilization.

Congress could promote the improvement of local voucher program administration by requesting a study from the General Accounting Office on what it should and does cost to administer the program and by authorizing the Secretary to use performance-based factors in determining agencies' administrative fees. Astonishingly, there has never been a study of what it should cost to administer an effective housing voucher program under different market and geographical conditions. Congress should request such a study from the GAO.

Currently, the fees that PHAs charge HUD to administer the Section 8 program are determined by a formula governed by the number of vouchers an agency administers and the rental and labor costs in an area.[9] In 1994, when HUD last studied Section 8 administrative fees, it reported to Congress that "fair market rent levels have no apparent relationship to the cost of administering the certificate and voucher programs."[10] Yet the basic administrative fee continues to be based on historic rental costs.

The current fee system rewards PHAs that maximize the leasing of units at the lowest possible administrative cost. PHAs earn a fee for each month a voucher is used to rent a unit and may use any fees they do not spend on the voucher program for other housing program purposes. While rewarding the leasing of units is sensible, reliance on this factor alone creates a disincentive for PHAs to help families rent units in less poverty-concentrated neighborhoods. It also may discourage PHAs from serving families and individuals that may have more difficulty obtaining housing. (Eligibility for the "hard-to-house" supplemental fee of $75 is too narrow to outweigh this disincentive, as the supplemental fee is available only when disabled individuals or families with three or more children lease units. It does not apply to other applicants who may face greater barriers in obtaining housing, such as those who are homeless, have a limited prior rental history, lack transportation to look at new units, or are members of minority groups.)

Another shortcoming of the current fee structure is that by paying larger fees for the first 600 vouchers, it rewards smaller, potentially less-efficient programs. The fact that agencies with small voucher programs cannot benefit from the economies of scale enjoyed by larger agencies does not necessarily justify paying the former more per voucher. Some PHAs administer a small number of vouchers because of the limited number of eligible families in what may be a geographically large area. Often, however, a PHA has few vouchers because it serves a small, relatively well-off jurisdiction within a populous metropolitan area or because it has not applied for or been awarded new vouchers when they were available. Instead of varying solely with voucher program size, the fee structure should reward performance across a wider range of goals while taking account of cost differences that agencies can do little to alter, such as travel time to inspect units in sparsely-populated rural areas. If fees did not differ based on program size, more agencies might be encouraged to consolidate or form a consortium for administrative purposes. (Congress authorized such consortia in the voucher program in the Quality Housing and Work Responsibility Act of 1998, or QHWRA.)

Congress also should ensure that the criteria used to award new voucher funds contain

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[9] Section 8 administrative fees are governed by subsection (o)(q), 42 U.S.C. § 1437f(q), by annual appropriations acts, and by HUD regulations and implementing instructions. HUD explains the interaction of these provisions in its most recent notice of Annual Factor for Determining Section 8 Administrative Fees, 66 Fed. Reg. 31,280 (June 11, 2001).

[10] U.S. Department of Housing and Urban Development, *Section 8 Administrative Fees: A Report to Congress*, June 1994.

incentives to improve local program administration. Current law requires HUD to use competitive criteria to decide which agencies within a state (or smaller allocation area) receive additional "fair share" voucher funds (Section 213(d) of the U.S. Housing Act, 42 U.S.C. § 1439). The specific selection criteria, however, are left up to HUD. Congress could amend the "fair share" statute to require HUD to use criteria that (a) encourage program consolidation, metropolitan area-wide administration, and development of local partnerships to help families obtain housing; and (b) reward Section 8 administering agencies that are high performers on SEMAP and have a proven ability to promote the program goals of deconcentrating poverty and promoting residents' self-sufficiency. Before Congress specifies such criteria permanently in the statute, it may wish to direct HUD to conduct a demonstration of the results of different competitive criteria; a share of new vouchers for FY 2002 could be dedicated to such a demonstration.

As noted above, some PHAs need additional training and technical assistance to improve voucher utilization and otherwise improve program performance. Congress should ensure that HUD has sufficient funds for this purpose. *Congress should appropriate funds for voucher program technical assistance within the Housing Certificate Fund,* rather than within the public housing capital fund as has been the previous practice (and which the Administration's current budget proposal has continued). In that way, such funds would have to be used to improve the administration of local voucher programs rather than being subject to redirection to public housing program purposes.

To increase funds available to PHAs to provide services and benefits to help families obtain housing with vouchers, Congress should make additional funds available to PHAs that use all of their voucher program funds but have unacceptably low success rates or an over-concentration of voucher families. In addition, if HUD fails to permit PHAs that are unable to use all of their voucher program funds to use a portion of these funds for services and benefits to help families obtain housing, as recommended above, Congress should authorize PHAs to take this step. (A provision similar to this recommendation was included as Section 206 of the House-passed FY 2001 VA-HUD appropriations bill, but was not enacted into law.)[11] It also may be necessary for Congress to clarify that PHAs may use voucher program funds or administrative fees to help with security deposits, moving expenses, or holding fees (to compensate an owner for the time it takes the PHA to approve the unit for rental), if PHAs determine that such expenditures will promote voucher program goals. Apparently some HUD staff believe that such uses of funds are not permitted by current law.

To make voucher payments more adequate, Congress should amend the Section 8 statute to permit PHAs to set the voucher payment standard up to 120 percent of FMR without HUD

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[11] See Barbara Sard, *New Administration Proposal Would Make Significant Improvements in the Section 8 Program But Congress Should Approve Use of Funds for Services to Help Families Obtain Housing*, Center on Budget and Policy Priorities, September 21, 2000, available on the internet at http://www.cbpp.org/9-21-00hous.htm.

approval. PHAs now are permitted to set the voucher payment standard between 90 and 110 percent of the applicable HUD-determined Fair Market Rent. To set the payment standard above 110 percent of FMR, a PHA must obtain HUD approval. While HUD has recently improved this approval process, the revised policies do not cover all situations in which a higher payment standard is needed. In addition, the burden on PHAs still may be onerous and the delays are often substantial. (As recommended above, HUD should streamline its current procedures, and could be directed to do so.)

If the top of the discretionary range were increased to 120 percent of FMR, voucher utilization could be improved substantially. Only PHAs already at the maximum payment standard allowed without HUD approval — 110 percent of FMR — would be likely to take advantage of this new authority. (When HUD surveyed PHAs in the first half of 2000, about 20 percent set their voucher payment standard at 110 percent of FMR and did not have HUD approval to exceed this level.) It is important to note that 120 percent of the 40th percentile FMR is significantly higher than 110 percent of an FMR set at the 50th percentile. For example, in the Washington DC metropolitan area, 120 percent of the 40th percentile FMR for a two-bedroom unit is \$1036, while 110 percent of the 50th percentile FMR is \$998. Consequently, PHAs that still must use FMRs set at the 40th percentile — the majority — receive more flexibility in setting their voucher payments if the maximum range is increased to 120 percent than they would if the FMR were raised to the 50th percentile across the board. This change also would benefit these high-cost areas already at the 50th percentile.[12]

Congress should ensure that Section 8 program reserves remain adequate to enable PHAs that need to increase voucher payments to achieve adequate utilization and deconcentration to do so without reducing the number of families they serve. The Administration's budget proposes to reduce PHAs' reserves for the Section 8 program from two months to one month of annual budget authority in FY 2002. This proposed reduction in Section 8 reserves may require PHAs with significant cost increases to reduce the number of families they serve. A substantial proportion of PHAs may face increased costs in 2002 for a number of reasons. For example, PHAs may increase their voucher payments to keep pace with an increase in the HUD-determined Fair Market Rent or with rising local rents and utility costs. Small agencies are vulnerable if the cost of assisting a few families increases due to larger family size or moves to higher-cost areas. The completion of the merger of the certificate and voucher programs late this year may increase average subsidy costs.

If sufficient funds are not available to meet these cost increases, PHAs will not be able to provide vouchers to the total number of families Congress has agreed to assist. In addition, if the reduction in program reserves deters PHAs from increasing voucher payments when rents and utility costs increase, fewer families may be able to obtain housing with their vouchers and more voucher funds may remain unutilized. To avoid reducing the number of families receiving

[12] Beginning in January, 2001, HUD increased the FMR to the 50th percentile for three of the nine FMR areas in New Jersey.

voucher assistance, it would be preferable, if resources permit, to retain the current two months' reserve for each agency. At a minimum, Congress should provide sufficient funds for HUD to establish a headquarters reserve. Funds from the headquarters reserve would be available to those agencies — probably less than half of all PHAs — that need more than one month's reserve to provide voucher assistance to the number of families they are authorized to serve. It is difficult to estimate what amount of funds is needed for such a headquarters reserve without current data from HUD on reserve use. $200 million may be adequate.

To increase voucher acceptance by private owners, Congress should clarify that recipients of funds under HUD's Fair Housing Initiatives Program may use these funds to test for Section 8 discrimination where an owner's refusal to rent to a voucher holder may violate federal or state/local law or may be a pretext for discrimination prohibited by the Fair Housing Act. In addition, to enable PHAs to make payments to owners for the period between an initial agreement by an owner to rent to a family with a voucher and the final approval of a unit after necessary repairs have been made, as recommended above, it may be necessary for Congress to clarify that such payments are permitted under the inspection provisions of the voucher statute, or to modify subparagraph (8) of the voucher statute.

Voucher utilization also could be increased if more housing units were available in areas where the supply of rental housing with the needed bedroom sizes has been inadequate. Any new or expanded federal initiative to fund the production of such new rental housing should ensure that owners are required to accept vouchers and that this obligation is easily enforceable.

Some groups have urged Congress to remove or raise the cap on the share of family income that families may pay when they rent new units under the voucher program. Paragraph (3) of the voucher statute states that new participants in the program and families that move to new units may not pay more than 40 percent of their adjusted income in rent. Since all program participants must pay at least 30 percent of their adjusted income for rent, this provision prevents a family from renting a unit if the cost of rent and the PHA's utility allowance exceeds the voucher payment standard by more than 10 percent of the family's adjusted income.

While a minor change in this provision (such as changing the cap to 40 percent of gross rather than adjusted income) may be appropriate, the provision's goal — ensuring that the adoption of a voucher model for the entire tenant-based program did not lead to excessive rent burdens for families — should be retained. HUD data indicated that a majority of families under the voucher component of the program (in contrast to the certificate program) were paying more than 30 percent of their income for rent and utilities; many were paying more than half of their income. To avoid excessive cost burdens in the new merged voucher program, Congress adopted two provisions as part of the 1998 merger legislation: the 40 percent cap and the requirement that HUD monitor participants' rent burdens and direct PHAs to increase their voucher payment standards when a significant percentage of families were paying more than 30 percent of their income. Any change in the 40 percent cap should be consistent with Congress' overarching concern that most families should pay no more than 30 percent of their income, the current federal housing affordability standard.

Some have pointed to the targeting requirements of the voucher program as a reason that some PHAs are having difficulty using all of their vouchers. (At least 75 percent of new families receiving voucher assistance each year from each PHA must have income at or below 30 percent of the area median income.) It is true that if a PHA has set the voucher payment standard so low that few units are available that rent at or below the payment standard it will be somewhat easier for families with more income to use their vouchers. If the cost of rent and utilities is above the payment standard, families must pay the extra cost. Families with higher incomes can pay a larger amount over the payment standard without exceeding the 40 percent of income cap discussed above. The attached tables illustrate how PHA discretion over the voucher payment standard combined with the 40 percent of income cap affect the ability of families with incomes at different levels to obtain housing in the Trenton (NJ) Primary Metropolitan Statistical Area, the median FMR area in New Jersey. These examples illustrate that rather than redirecting scarce housing resources away from families in the greatest need, PHAs can make more housing units available to extremely low-income families with vouchers by increasing the voucher payment standard. A modest change in the 40 percent of income cap from a measure of adjusted income to a measure of gross income also would help achieve this goal.

For the minority of PHAs that already set the voucher payment standard at the maximum level permitted without further HUD approval and still encounter barriers to using all their vouchers, the policy changes described above to facilitate increases in the payment standard and otherwise to make more units available to families with vouchers are needed. Weakening the targeting requirements, however, is the wrong solution to the problem. Over three-fourths (77 percent) of the families with "worst case" housing problems in 1999 had extremely low incomes. (HUD defines renters as having "worst case" housing needs if they are unsubsidized renter households who have incomes at or below 50 percent of the area median income and pay more than half of their income for rent and utilities or live in severely substandard rental housing.) The incidence of severe housing needs among extremely low-income families and individuals is much greater than among those with higher incomes. In 1999, 68 percent of unassisted extremely low-income renters had worst case problems. By contrast, only 22 percent of unassisted renters with incomes between 31 and 50 percent of area median income had worst case problems in 1999.[13]

The voucher program is the sole federal housing program that remains primarily targeted on families at the income level likely to have the greatest housing needs. There is no sound reason for Congress to change this policy.

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[13] U.S. Department of Housing and Urban Development, *A Report on Worst Case Housing Needs in 1999: New Opportunity Amid Continuing Challenges*, January 2001.

Section 8 Vouchers: Effect of Payment Standard, 40 Percent Cap and Family Income of $13,000 on Unit Availability*

Family A -- Annual gross income: $13,000 ($1083/month). One adult and two minor children. Expenses of $100/month for child care. Monthly adjusted income = $903.

Payment Standard = 100% of FMR ($862)

Rent + Utility Allowance	$900	$1000	$1100
Allowed to Rent?	YES	NO	NO
Family share	$308	$408	$508
% of Adjusted Income	34%	45%	56%
Allowed to Rent If Cap = 40% of Gross Income?	N/A	YES	NO
% of Gross Income	N/A	38%	47%

Payment Standard =110% of FMR ($948)

Rent + Utility Allowance	$900	$1000	$1100
Allowed to Rent?	YES	YES	NO
Family share	$270	$322	$422
% of Adjusted Income	30%	36%	47%
Allowed to Rent If Cap = 40% of Gross Income?	N/A	N/A	YES
% of Gross Income	N/A	N/A	39%

Payment Standard = 120% of FMR ($1034)

Rent + Utility Allowance	$900	$1000	$1100
Allowed to Rent?	YES	YES	YES
Family share	$270	$270	$336
% of Adjusted Income	30%	30%	37%
Allowed to Rent If Cap = 40% of Gross Income?	N/A	N/A	N/A
% of Gross Income	N/A	N/A	N/A

*Example based on Trenton (NJ) Primary Metropolitan Statistical Area in 2001. 30 percent of area median income (AMI) for 3-person family is $19,200. Trenton has the median Fair Market Rent ($862 for a two-bedroom unit) and the fourth highest income limits of the nine NJ MSAs.

Section 8 Vouchers: Effect of Payment Standard, 40 Percent Cap and Family Income of $26,000 on Unit Availability

Family B -- Annual gross income: $26,000 ($2167/month).* Same family size and deductions as family A. Monthly adjusted income = $1987.

Payment Standard = 100% of FMR ($862)

Rent + Utility Allowance	$900	$1000	$1100
Allowed to Rent?	YES	YES	NO
Family share	$634	$734	$834
% of Adjusted Income	32%	37%	42%
Allowed to Rent If Cap = 40% of Gross Income?	N/A	N/A	YES
% of Gross Income	N/A	N/A	38%

Payment Standard =110% of FMR ($948)

Rent + Utility Allowance	$900	$1000	$1100
Allowed to Rent?	YES	YES	YES
Family share	$596	$648	$748
% of Adjusted Income	30%	33%	38%
Allowed to Rent If Cap = 40% of Gross Income?	N/A	N/A	N/A
% of Gross Income	N/A	N/A	N/A

Payment Standard = 120% of FMR ($1034)

Rent + Utility Allowance	$900	$1000	$1100
Allowed to Rent?	YES	YES	YES
Family share	$596	$596	$662
% of Adjusted Income	30%	30%	33%
Allowed to Rent If Cap = 40% of Gross Income?	N/A	N/A	N/A
% of Gross Income	N/A	N/A	N/A

*In the Trenton (NJ) Primary Metropolitan Statistical Area in 2001, 50 percent of the HUD-adjusted AMI for a 3-person family is $32,000. Family B's income is approximately 40 percent of the Trenton MSA's AMI.

Section 8 Vouchers: Effect of Payment Standard, 40 Percent Cap and Family Income of $13,000 on Unit Availability*

Family A -- Annual gross income: $13,000 ($1083/month). One adult and two minor children. Expenses of $100/month for child care. Monthly adjusted income = $903.

Payment Standard = 100% of FMR ($862)

Rent + Utility Allowance	**$900**	**$1000**	**$1100**
Allowed to Rent?	YES	NO	NO
Family share	$308	$408	$508
% of Adjusted Income	34%	45%	56%
Allowed to Rent If Cap = 40% of Gross Income?	N/A	YES	NO
% of Gross Income	N/A	38%	47%

Payment Standard =110% of FMR ($948)

Rent + Utility Allowance	**$900**	**$1000**	**$1100**
Allowed to Rent?	YES	YES	NO
Family share	$270	$322	$422
% of Adjusted Income	30%	36%	47%
Allowed to Rent If Cap = 40% of Gross Income?	N/A	N/A	YES
% of Gross Income	N/A	N/A	39%

Payment Standard = 120% of FMR ($1034)

Rent + Utility Allowance	**$900**	**$1000**	**$1100**
Allowed to Rent?	YES	YES	YES
Family share	$270	$270	$336
% of Adjusted Income	30%	30%	37%
Allowed to Rent If Cap = 40% of Gross Income?	N/A	N/A	N/A
% of Gross Income	N/A	N/A	N/A

*Example based on Trenton (NJ) Primary Metropolitan Statistical Area in 2001. 30 percent of area median income (AMI) for 3-person family is $19,200. Trenton has the median Fair Market Rent ($862 for a two-bedroom unit) and the fourth highest income limits of the nine NJ MSAs.

Section 8 Vouchers: Effect of Payment Standard, 40 Percent Cap and Family Income of $26,000 on Unit Availability

Family B -- Annual gross income: $26,000 ($2167/month).* Same family size and deductions as family A. Monthly adjusted income = $1987.

Payment Standard = 100% of FMR ($862)

Rent + Utility Allowance	$900	$1000	$1100
Allowed to Rent?	YES	YES	NO
Family share	$634	$734	$834
% of Adjusted Income	32%	37%	42%
Allowed to Rent If Cap = 40% of Gross Income?	N/A	N/A	YES
% of Gross Income	N/A	N/A	38%

Payment Standard =110% of FMR ($948)

Rent + Utility Allowance	$900	$1000	$1100
Allowed to Rent?	YES	YES	YES
Family share	$596	$648	$748
% of Adjusted Income	30%	33%	38%
Allowed to Rent If Cap = 40% of Gross Income?	N/A	N/A	N/A
% of Gross Income	N/A	N/A	N/A

Payment Standard = 120% of FMR ($1034)

Rent + Utility Allowance	$900	$1000	$1100
Allowed to Rent?	YES	YES	YES
Family share	$596	$596	$662
% of Adjusted Income	30%	30%	33%
Allowed to Rent If Cap = 40% of Gross Income?	N/A	N/A	N/A
% of Gross Income	N/A	N/A	N/A

*In the Trenton (NJ) Primary Metropolitan Statistical Area in 2001, 50 percent of the HUD-adjusted AMI for a 3-person family is $32,000. Family B's income is approximately 40 percent of the Trenton MSA's AMI.

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TESTIMONY

OF

STEVE RENAHAN
NAHRO'S VICE PRESIDENT FOR HOUSING

BEFORE

THE HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

THURSDAY, JUNE 21, 2001

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web site: www.nahro.org

GOOD MORNING, MY NAME IS STEVE RENAHAN. I AM THE SECTION 8 DIRECTOR FOR THE HOUSING AUTHORITY OF THE CITY OF LOS ANGELES, A PROGRAM CONSISTING OF MORE THAN 40,000 VOUCHERS AND CERTIFICATES. I AM TESTIFYING TODAY IN MY CAPACITY AS VICE PRESIDENT FOR HOUSING FOR THE NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS (NAHRO). NAHRO IS THE OLDEST AND LARGEST MEMBERSHIP ORGANIZATION IN THE UNITED STATES DEVOTED TO AFFORDABLE HOUSING AND COMMUNITY DEVELOPMENT. NAHRO REPRESENTS MORE THAN 5,600 INDIVIDUALS, AND APPROXIMATELY 2,500 LOCAL HOUSING AGENCIES. NAHRO MEMBER AGENCIES OWN OR MANAGE MORE THAN 1,308,000 UNITS IN PUBLIC HOUSING, REPRESENTING APPROXIMATELY 95 PERCENT OF ALL PUBLIC HOUSING IN THE UNITED STATES. IN ADDITION, NAHRO MEMBERSHIP ADMINISTERS MORE THAN 1.7 MILLION OR 93 PERCENT OF SECTION 8 VOUCHERS AND CERTIFICATES.

I WANT TO THANK YOU FOR THIS OPPORTUNITY TO OFFER OUR REMARKS AT THIS HEARING ON THIS IMPORTANT TOPIC. HOUSING AFFORDABILITY, IN GENERAL, AND SECTION 8, IN PARTICULAR, ARE CRITICAL BECAUSE OF THE MANY LIVES THAT ARE DIRECTLY IMPACTED BY HOUSING PROGRAMS SERVING LOW- AND MODERATE-INCOME FAMILIES. SECTION 8 IS ONE OF MANY TOOLS LOCAL HOUSING AGENCIES USE TO ENSURE THAT THE NATION'S LOW-INCOME AND EXTREMELY LOW-INCOME HOUSEHOLDS HAVE DECENT, SAFE AND SANITARY HOUSING. IN SPITE OF THE RHETORIC FROM THIS ADMINISTRATION AND OTHERS - THROUGH HARD WORK AND AN INCREDIBLE AMOUNT OF DEDICATION TO MEETING THE SHELTER NEEDS OF FAMILIES - LOCAL HOUSING AGENCIES ARE SUCCESSFULLY FINDING HOMES FOR FAMILIES WITH VOUCHERS.

NAHRO SHARES CONGRESSIONAL CONCERNS THAT NOT ALL OF THE SECTION 8 VOUCHERS ARE BEING UTILIZED. THROUGH ITS NATIONAL, REGIONAL AND STATE CONFERENCES, NAHRO IS WORKING WITH LOCAL HOUSING AGENCIES BY:

1. EDUCATING THEM ON EXAMPLES OF LOCAL PRACTICES DESIGNED TO IMPROVE UTILIZATION OF VOUCHERS;
2. BETTER INFORMING AGENCIES AND THEIR STAFF ON THE RULES AND REGULATIONS GOVERNING THE PROGRAM;
3. RECOGNIZING VOUCHER HOLDERS WHO HAVE SUCCESSFULLY USED THEIR HOUSING ASSISTANCE AS THE FOUNDATION FOR THEIR PROGRESSION TO SELF-SUFFICIENCY; AND,
4. RECOGNIZING LOCAL AGENCIES FOR THEIR INNOVATIVE APPROACHES TO ADMINISTERING THE VOUCHER PROGRAM.

WHILE WE MUST FIND A WAY TO ENSURE THAT THE PERCENTAGE OF UNDERUTILIZED VOUCHERS - CURRENTLY AT 8 PERCENT, DECREASES,

CONGRESS MUST NOT LOSE SIGHT OF THE FACT THAT LOCAL AGENCIES HAVE BEEN SUCCESSFUL IN UTILIZING 92 PERCENT OF EXISTING VOUCHERS. TO PUT THAT INTO PERSPECTIVE, IF OUR SCHOOL SYSTEMS WERE EDUCATING STUDENTS WITH A GRADE POINT AVERAGE EQUAL TO THE SUCCESSFUL UTILIZATION OF SECTION 8, THERE WOULD BE NO NEED FOR EDUCATION REFORM LEGISLATION. IT IS IMPORTANT TO REMEMBER THAT THE SECTION 8 PROGRAM IS A MARKET-DRIVEN PROGRAM. AS RENTS INCREASE, THE COSTS TO THE PROGRAM INCREASE AND HOUSING OPPORTUNITIES FOR POOR FAMILIES DECREASE. I WILL ADDRESS SOME OF THE MORE IMPORTANT ISSUES IMPACTING THE INABILITY FOR THOSE VOUCHERS TO BE USED IN MANY COMMUNITIES.

HOWEVER, IT IS IMPORTANT TO NOTE THAT THERE IS MUCH TO CELEBRATE IN THIS PROGRAM. THIS FACT TENDS TO GET LOST IN ALL THE RHETORIC. VOUCHERS ARE BEING UTILIZED, FAMILIES ARE FINDING STABLE HOME ENVIRONMENTS, AND, WHERE POOR MANAGEMENT IS PREVALENT, THE QUALITY HOUSING AND WORK RESPONSIBILITY ACT OF 1998 (QHWRA) GAVE THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) INCREASED POWERS TO ADDRESS MISMANAGEMENT. NAHRO STRONGLY SUPPORTS HUD EXERCISING THAT AUTHORITY WHEN APPROPRIATE.

WE MUST ALSO RECOGNIZE THAT OUR ECONOMIC BOOM HAS NOT BEEN A BLESSING FOR MANY LOW-INCOME FAMILIES. WHILE THIS BOOM HAS BROUGHT PROSPERITY AND OPPORTUNITY TO MANY, IT IS ALSO DRIVING UP RENTS IN MANY COMMUNITIES, ACCELERATING THE SHORTAGE OF AFFORDABLE RENTAL UNITS FOR LOW-INCOME FAMILIES. HUD REPORTS THAT 4.9 MILLION HOUSEHOLDS ENDURE WORST-CASE HOUSING NEEDS, AMONG THEM 3.6 MILLION CHILDREN, 1.4 MILLION ELDERLY, AND SOME 1.3 MILLION DISABLED ADULTS. HOUSEHOLD WITH WORST-CASE HOUSING NEEDS ARE DEFINED AS LOW-INCOME RENTERS WHO PAY MORE THAN 50 PERCENT OF THEIR INCOME TOWARD RENT AND UTILITIES TO LIVE IN SUBSTANDARD HOUSING. IN ADDITION, WAITING LISTS FOR HOUSING ASSISTANCE ARE LONGER THAN EVER BEFORE.

MADAME CHAIR, AFFORDABILITY IS THE MOST PREVALENT "WORST-CASE" NEED. FOUR OUT OF FIVE HOUSEHOLDS WITH WORST-CASE HOUSING NEEDS LIVE IN HOMES THAT ARE PHYSICALLY INADEQUATE AND OVERCROWDED. THOSE FAMILIES, DESPITE THE CONDITION, PAY MORE THAN HALF OF THEIR MONTHLY INCOME FOR RENT. THE SECTION 8 HOUSING CHOICE VOUCHER PROGRAM CLEARLY IS ONE TOOL IN THE AFFORDABLE HOUSING ARSENAL THAT CAN HELP MEET THE HOUSING NEEDS OF LOW- AND EXTREMELY LOW-INCOME HOUSEHOLDS.

THE SHORTAGE OF AFFORDABLE HOUSING UNITS AVAILABLE TO LOW-INCOME FAMILIES IS NOW A NATIONAL PHENOMENON THAT ESPECIALLY

AFFECTS FAMILIES WITH INCOMES BELOW 50 PERCENT AREA MEDIAN INCOME (AMI). REDUCTION IN THE NUMBER OF AFFORDABLE UNITS ACCELERATED SIGNIFICANTLY BETWEEN 1997 AND 1999. FROM 1997 TO 1999, THERE WAS A FALL OF 13 PERCENT IN THE NUMBER OF UNITS WITH RENTS AFFORDABLE TO INCOMES AT 30 PERCENT OF AMI. BY 1999, THERE WERE 940,000 FEWER UNITS WITH RENTS AFFORDABLE TO HOUSEHOLDS WITH INCOMES BELOW 30 PERCENT OF AMI THAN THERE HAD BEEN IN 1991. PAST RESEARCH HAS SHOWN THAT MOST DROPS IN THESE MOST-AFFORDABLE UNITS RESULT FROM RENT INCREASES RATHER THAN DEMOLITION OR OTHER PHYSICAL CHANGE TO A HOUSING UNIT. THE NUMBER OF UNITS AFFORDABLE TO HOUSEHOLDS WITH INCOMES BETWEEN 31 AND 50 PERCENT OF AMI ALSO DECLINED SHARPLY BETWEEN 1997 AND 1999, FALLING BY 400,000, OR 4 PERCENT. TAKEN TOGETHER, BETWEEN 1997 AND 1999, THE NUMBER OF UNITS WITH RENTS AFFORDABLE TO HOUSEHOLDS WITH INCOMES BELOW 50 PERCENT OF AMI DROPPED BY 1.1 MILLION, A LOSS OF 7 PERCENT.[1]

MADAME CHAIR, THE ISSUES AND QUESTIONS YOUR SUBCOMMITTEE HAS ASKED ME TO DIRECT MY REMARKS TO TELLS ME THAT THIS COMMITTEE UNDERSTANDS THE ISSUES AND ARE WILLING TO DO SOMETHING ABOUT IT. INDEED, ALL THE ISSUES ADVERSELY IMPACT A PUBLIC HOUSING AUTHORITY'S ABILITY TO MAKE FULL USE OF ITS VOUCHERS. YOU HAVE ASKED ME TO CONFINE MY REMARKS TO: BARRIERS PUBLIC HOUSING AUTHORITIES FACE IN MAKING FULL USE OF VOUCHERS; IMPACT OF FAIR MARKET RENTS ON FULL VOUCHER USE; THE IMPACT OF THE TARGETING REQUIREMENT ON FULL VOUCHER USE; THE 40 PERCENT CAP ON FULL VOUCHER USE; AND SOME FURTHER RECOMMENDATIONS.

BARRIERS THAT IMPEDE VOUCHER UTILIZATION

FAIR MARKET RENTS

NAHRO HAS LONG HELD THAT AN INCREASE IN THE FAIR MARKET RENT (FMR) TO THE 50TH PERCENTILE IN ALL AREAS OF THE COUNTRY IS THE PRIMARY, ALBEIT NOT THE ONLY, MEANS TO HELPING FAMILIES FACED WITH ASTRONOMICAL RENTS. INCREASED FMR MEANS INCREASED SECTION 8 VOUCHER UTILIZATION. INCREASING THE FMR TO THE 50TH PERCENTILE WILL ENSURE THAT FAMILIES WITH VOUCHERS HAVE ACCESS TO AT LEAST HALF OF ALL STANDARD QUALITY RENTAL UNITS IN A COMMUNITY. FMRS ARE ESTIMATES OF RENT PLUS THE COST OF UTILITIES. THEY ARE MARKET-WIDE ESTIMATES OF RENT THAT PROVIDE OPPORTUNITIES FOR FAMILIES TO RENT STANDARD-QUALITY HOUSING THROUGHOUT THE GEOGRAPHIC AREA'S COMPETITIVE MARKET. THE LEVEL AT WHICH FMRS ARE SET IS EXPRESSED AS A PERCENTILE POINT WITHIN THE RENT DISTRIBUTION OF STANDARD QUALITY RENTAL HOUSING UNITS IN THE FMR AREA. FMRS ARE SET AT THE 40TH

PERCENTILE – THE DOLLAR AMOUNT BELOW WHICH 40 PERCENT OF STANDARD QUALITY RENTAL HOUSING UNITS RENT. THE 40 PERCENTILE IS DRAWN FROM THE DISTRIBUTION OF RENTS OF ALL UNITS THAT ARE OCCUPIED BY RENT MOVERS.[2]

A PUBLIC HOUSING AUTHORITY SETS THE VALUE OF A VOUCHER AS A PERCENTAGE OF THE HUD-ESTABLISHED FMR FOR THE PHA'S JURISDICTION. THAT VALUE, OR PAYMENT STANDARD IS ESTABLISHED AT ANY LEVEL BETWEEN 90 PERCENT AND 110 PERCENT OF THE PUBLISHED FMR, WHICH IN TURN IS BASED ON AN FMR SET AT EITHER THE 40TH OR 50TH PERCENTILE. NO HUD APPROVAL IS REQUIRED TO SET PAYMENT STANDARD BETWEEN THE 90 AND 110 PERCENT RANGE. FOR EXAMPLE, IN THE WASHINGTON, DC METROPOLITAN AREA, THE CURRENT PAYMENT STANDARD FOR TWO-BEDROOM UNITS IS SET AT 100 PERCENT OF THE PUBLISHED FMR, WHICH, BASED ON THE 50TH PERCENTILE FMR, IS $907. SET AT 110 PERCENT, INCREASES THE PAYMENT STANDARD TO $1088. IN CONTRAST, THE PAYMENT STANDARD FOR TWO-BEDROOM UNITS SET AT 100 PERCENT OF THE FMR BASED ON THE 40TH PERCENTILE FMR IS $863, AND AT 110 PERCENT, INCREASES TO $949. THUS, YIELDING A DIFFERENCE IN VALUE OF $139 FOR A PAYMENT STANDARD SET AT 110 PERCENT AT BOTH THE 40TH AND 50TH PERCENTILE.

HUD HAS RECOGNIZED THE EFFECT THAT RAISING THE FMR HAS ON SECTION 8 VOUCHER UTILIZATION AND HAS INCREASED THEM TO THE 50TH PERCENTILE, BUT FOR ONLY 39 METROPOLITAN STATISTICAL AREAS. THIS IS A MOVE IN THE RIGHT DIRECTION, BUT IT DID NOT GO FAR ENOUGH. IN ALL OF THE 39 METROPOLITAN AREAS THESE INCREASES ARE SIGNIFICANT. IN SOME OF THESE 39 AREAS, SETTING A PAYMENT STANDARD ABOVE 110 PERCENT IS REQUIRED FOR FAMILIES TO ACCESS AND AFFORD UNITS. HUD PUBLISHED REPORT ON INCREASING THE FMR FROM THE 40TH TO THE 50TH PERCENTILE. THIS REPORT SHOWS THAT AN ADDITIONAL 1.2 MILLION AFFORDABLE RENTAL UNITS WILL BE MADE AVAILABLE TO VOUCHER HOLDERS IN THOSE 39 COMMUNITIES. THIS, MADAME CHAIR, SHOULD RESULT IN APPROXIMATELY A 25 PERCENT INCREASE IN THE NUMBER OF RENTAL UNITS IN AN AREA THAT ARE AVAILABLE TO VOUCHER HOLDERS IN AN AREA. THE AMOUNT OF THE INCREASE WOULD VARY BASED ON THE DISTRIBUTION OF RENTS IN AN AREA AND IS LIKELY TO RANGE FROM ABOUT $30 TO ABOUT $70 PER MONTH, ACCORDING TO HUD DATA. NAHRO, THEREFORE, CALLS FOR RAISING THE FMR TO THE 50TH PERCENTILE IN ALL AREAS IN ORDER TO INCREASE SECTION 8 VOUCHER UTILIZATION.

PRELIMINARY REPORTS GATHERED BY NAHRO SHOW INCREASED VOUCHER UTILIZATION IN AREAS THAT BENEFITED FROM THE FMR INCREASES. FOR EXAMPLE, PHAS IN BOSTON AREA THAT RECEIVED HUD'S APPROVAL TO GO TO THE 50TH PERCENTILE REPORT SOME UPWARD

MOVEMENT IN UTILITY, WHILE DU PAGE COUNTY REPORTS A 5 PERCENT INCREASE IN UTILIZATION. MIAMI/DADE AND SACRAMENTO REPORT THAT THEY HAVE SEEN SOME CHANGE, WITH SACRAMENTO SEEKING HUD'S APPROVAL TO INCREASE PAYMENT STANDARDS TO 120 PERCENT. WHILE INCREASING THE FMR WILL COST THE FEDERAL GOVERNMENT BETWEEN $200 MILLION AND $300 MILLION, THE REALITY IS THAT THE INCREASE WILL GUARANTEE THAT MORE VOUCHER HOLDERS WILL BE SUCCESSFUL IN THEIR SEARCH FOR HOUSING.

NAHRO IS ALSO CONCERNED THAT THE HUD-PUBLISHED FMRS DO NOT REFLECT PRESENT, PREVAILING, MARKET CONDITIONS. **FROM AN IMPLEMENTATION STANDPOINT, HUD'S FAIR MARKET RENTS (FMR) ARE NOT HISTORICALLY PUBLISHED AND/OR IMPLEMENTED UNTIL APPROXIMATELY TWO YEARS AFTER THE DATA WAS COLLECTED.** GRANTED, AN INFLATION FACTOR IS APPLIED TO THE DATA TO ACCOUNT FOR THE TIME LAG. HOWEVER, AS HUD'S "1999 REPORT TO CONGRESS ON WORST CASE HOUSING NEEDS" SHOWED, RENTS ROSE FASTER THAN INFLATION, CREATING BASIC PRESSURES FOR ABOVE-AVERAGE RENT INCREASES AT THE BOTTOM END OF THE RENTAL STOCK. INCREASES IN HOME PRICES HAVE OUTPACED OVERALL INFLATION FOR SIX YEARS. TOTALING 11.1 PERCENT BETWEEN 1994 AND 1999, THE CURRENT RISE IN REAL HOME PRICES RIVALS THE 11.9 PERCENT RUN-UP BETWEEN 1985 AND 1989. THEREFORE, EVEN BEING ABLE TO EXCEED THE FMR UP TO 110 PERCENT OF AN FMR THAT IS WELL BELOW THE LOCAL RENTAL HOUSING MARKETS, COMPROMISES FULL SECTION 8 UTILIZATION AND PUTS FURTHER STRAIN ON AN ALREADY TENUOUS SYSTEM.

PHAS WOULD HAVE BETTER PERCENTAGES OF VOUCHER UTILIZATION THROUGH AN INCREASE OF THE FMR. IN RESPONSE TO A NAHRO SURVEY ON UTILIZATION, RESPONDENTS, CONSISTING OF BOTH URBAN AND NON-URBAN PHAS - HAVE IDENTIFIED LACK OF AFFORDABLE HOUSING AND AN FMR BASED ON THE 40TH PERCENTILE AS CAUSES FOR LIMITING HOUSING CHOICES.

HUD'S CURRENT FMR STRUCTURE- ONE ALLOWS SOME 39 SMSAS TO GO UP TO THE 50TH-CREATED A TWO-TIER SYSTEM. IT CREATED THE APPEARANCE OF HELPING URBAN HOUSING AUTHORITIES, WHILE IGNORING NON-URBAN PHAS. THE NOTICE PUBLISHED ON SEPTEMBER 12, 2000 ENGINEERED TWO DISTINCT GROUPS OF FAMILIES SEPARATED FROM EACH OTHER BY RESTRICTIONS PLACED UPON MOBILITY AND STANDARD OF HOUSING UNITS. A SECTION 8 FAMILY LIVING IN A 50TH PERCENTILE JURISDICTION WOULD ENJOY GREATER MOBILITY AND BETTER-PRICED HOUSING STOCKS BECAUSE OF AN INCREASED HOUSING POOL IN THAT JURISDICTION, WHILE A FAMILY IN A 40TH PERCENTILE JURISDICTION WOULD NOT HAVE SUCH CHOICES. HUD HAS NOT RECOGNIZED THAT THE ECONOMIC BOOM DRIVING UP RENTS EXTENDS BEYOND METROPOLITAN

AREAS. COMMUNITIES OUTSIDE OF HUD'S DESIGNATED METRO AREAS ALSO HAVE SEEN THEIR REAL ESTATE MARKETS ESCALATE AND THE RENTS RISE DRAMATICALLY. IT IS THEREFORE, IMPERATIVE THAT MEASURES BE TAKEN TO INCREASE THE FMRS TO THE 50^{TH} IN NON-METRO AREAS TO ADDRESS RISING RENTS IN THOSE AREAS.

40 PERCENT CAP

NAHRO BELIEVES THAT THE REMOVAL OR SOFTENING OF THE 40 PERCENT CAP WOULD GO A LONG WAY IN HELPING VOUCHER UTILIZATION. IN 1998, STATUTORY CHANGES LIMITED THE FAMILY'S RENT CONTRIBUTION ON ANY NEWLY EXECUTED SECTION 8 CONTRACT (REGARDLESS OF WHETHER THE FAMILY WAS NEW TO THE SECTION 8 PROGRAM OR JUST MOVING TO A DIFFERENT SECTION 8 UNIT) TO 40 PERCENT OF THE FAMILY'S ADJUSTED INCOME. THERE ARE NO EXCEPTIONS TO THIS LIMIT. WE BELIEVE THAT PARTICIPANTS IN THE PROGRAM SHOULD HAVE THE CHOICE AND FLEXIBILITY TO PAY MORE THAN 40 PERCENT OF THEIR INCOME TO SECURE AN APARTMENT. MANY NAHRO MEMBERS HAVE RAISED CONCERNS THAT PARTICIPANTS MUST TURN DOWN UNITS BECAUSE THEY ARE PREVENTED FROM PAYING MORE THAN 40 PERCENT OF THEIR INCOME FOR AN APARTMENT EVEN THOUGH PARTICIPANTS AGREE TO PAY A HIGHER RENT. WE AGREE WITH THE CONCERN THAT FAMILIES SHOULD NOT PAY ANY EXCESSIVE AMOUNT OF THEIR INCOME ON RENT. HOWEVER, IF A FAMILY IS WILLING TO EXCEED THE 40 PERCENT CAP IN ORDER TO COMPETE WITH OTHER PROSPECTIVE TENANTS WHO HAVE NO SUCH RESTRICTION, THEY SHOULD BE GIVEN THAT CHOICE AND FLEXIBILITY. ONE SOLUTION MAY BE TO ALLOW HOUSING AUTHORITIES TO BASE THE 40 PERCENT ON GROSS INCOME VERSUS ADJUSTED INCOME. NAHRO'S OVER-RIDING CONCERN IS TO HELP LOW-INCOME FAMILIES FIND HOUSING. IF THEY ARE PAYING 42 TO 45 PERCENT OF THEIR INCOME ON RENTS AS A RESULT OF THIS CHANGE, IN MANY CASES IT IS STILL LOWER THAN THEY ARE PAYING IN THE PRIVATE MARKET.

THE 40 PERCENT CAP CAN ALSO BE COUNTERPRODUCTIVE TO DECONCENTRATION EFFORTS. FOR EXAMPLE, EXTREME LOW-INCOME (ELI) FAMILIES MUST FIND UNITS RENTING WITHIN THE PHAS PAYMENT STANDARDS AND WHERE THEIR RENT CONTRIBUTION DOES NOT EXCEED THE 40 PERCENT LIMIT. THESE PROGRAM REQUIREMENTS ARE LIKELY TO HAVE THE LONG-TERM EFFECT OF SEVERELY CONCENTRATING SECTION 8 FAMILIES IN LESS DESIRABLE TRACTS. ADDITIONALLY, MOBILITY EFFORTS ARE LIMITED BECAUSE FAMILIES ARE CONFINED TO A SMALLER UNIVERSE OF APARTMENTS TO RENT.

FLEXIBLE USE OF HOUSING ASSISTANCE PAYMENTS (HAPS)

NAHRO SUPPORTS THE POSITION THAT HOUSING AGENCIES SHOULD HAVE GREATER FLEXIBILITY TO USE THE HOUSING ASSISTANCE PAYMENTS (HAP) FOR PURPOSES THAT WILL ASSIST FAMILIES N SECURING HOUSING. THE HAP MAY ONLY BE USED TO COVER THE COSTS OF THE RENT. BY PROVIDING MORE FLEXIBILITY TO HOUSING AGENCIES, IT INCREASES THE ABILITY TO PLACE FAMILIES INTO UNITS. THE FLEXIBLE USE COULD INCLUDE, BUT NOT BE LIMITED TO, ASSISTING FAMILIES WITH SECURITY DEPOSITS, ADDRESSING CREDIT PROBLEMS, PROVIDING FOR MOVING EXPENSES, ETC. THE GREATER THE FLEXIBILITY AVAILABLE TO HOUSING AGENCIES, THE GREATER THE CHANCES OF PROVIDING HOUSING OPPORTUNITIES FOR LOW AND EXTREMELY LOW-INCOME FAMILIES.

INCOME TARGETING

LADIES AND GENTLEMEN, ANOTHER REQUIREMENT BORNE BY HOUSING AUTHORITIES THAT DIRECTLY INCREASES COST AND AFFECTS UTILIZATION IS INCOME TARGETING. IT IS A MOST TROUBLING PROGRAMMATIC GOAL THAT A HOUSING AUTHORITY HAS TO MEET. UNDER QHWRA'S TARGETING REQUIREMENT, A HOUSING AUTHORITY MUST SERVE A GREATER PORTION OF VERY POOR FAMILIES, I.E. 75 PERCENT OF THE FAMILIES ISSUED VOUCHERS MUST HAVE INCOMES AT OR BELOW 30 PERCENT OF AMI. WHILE WELL-INTENDED, THERE ARE TWO CONSEQUENCES TO THIS PROVISION. FIRST, THE COST OF THE PROGRAM INCREASES. SIMPLY PUT THE POORER THE FAMILY BEING SERVED THE GREATER THE ASSISTANCE NEEDED TO MEET THAT FAMILY'S NEED. AS A RESULT, IN ORDER TO SERVE THE SAME NUMBER OF FAMILIES, HOUSING AUTHORITIES MUST USE RESERVE FUNDS TO COVER THE COSTS OF VOUCHERS.

SECOND, THE NATIONAL TARGETING REQUIREMENT DOES NOT REFLECT LOCAL NEEDS. FOR EXAMPLE, IN SIOUX FALLS, SOUTH DAKOTA, HALF OF THE FAMILIES IN NEED OF VOUCHERS EARN BETWEEN 31 AND 50 PERCENT OF MEDIAN-INCOME. IN LOS ANGELES, WE FIND A SIMILAR NEED FOR FAMILIES BETWEEN 31 AND 50 PERCENT OF MEDIAN-INCOME ON OUR WAITING LISTS. THIS MEANS IN SOME COMMUNITIES YOU CAN HAVE UP TO 25 PERCENT OF AN AGENCY'S VOUCHERS THAT ARE UNAVAILABLE TO FAMILIES IN NEED. HOUSING AUTHORITIES MUST GO THROUGH ARDUOUS TASKS TO FIND APPLICANTS AT OR BELOW 30 PERCENT, EVEN THOUGH THERE ARE AVAILABLE APPLICANTS AT INCOMES ABOVE 30 PERCENT AMI WITH LEGITIMATE HOUSING NEEDS. HUD WILL ALLOW HOUSING AUTHORITIES' TO ADMIT A LOWER PERCENTAGE OF EXTREMELY LOW-INCOME FAMILIES, BUT HUD'S REQUIREMENTS FOR AN APPROVAL TO

WAIVE THIS REQUIREMENT IS OFTEN LENGTHY, AND FURTHER DELAY HOUSING AUTHORITIES' ABILITY TO PUT FAMILIES UNDER LEASE.

PROPOSAL TO REDUCE SECTION 8 RESERVES

MADAME CHAIRMAN, THE COST TO OPERATE THE SECTION 8 PROGRAM HAS INCREASED IN LIGHT OF INCREASES IN RENT, HIGHER HAP PAYMENTS BY HOUSING AUTHORITIES, AND MOST RECENTLY, THE ESCALATING COSTS OF UTILITIES. IN SPITE OF THESE COSTS, THE ADMINISTRATION HAS PROPOSED TO CUT IN HALF THE SECTION 8 ANNUAL CONTRIBUTIONS CONTRACT (ACC) RESERVES. THE PURPOSE OF THESE RESERVES IS TO SUPPORT A PUBLIC HOUSING AUTHORITY'S (PHA) BASE NUMBER OF UNITS (BASELINE) AND TO PROVIDE REASONABLE ASSURANCES TO PHAS THAT THERE WILL BE ADEQUATE FUNDING TO SUPPORT FAMILIES. IT WAS THE ADMINISTRATION'S CONTENTION IN 1999, "THAT THE TWO-MONTH RESERVE IS NECESSARY, AND REDUCING IT TO FOUR WEEKS WOULD REPRESENT A SERIOUS THREAT TO HOUSING THE BASELINE FAMILIES. THERE HAS BEEN NO DATA SINCE TO DISPUTE THIS CONTENTION.

NAHRO, THEREFORE, STRONGLY OPPOSES ANY CUTS TO THE SECTION 8 RESERVES. THE ANNUAL CONTRIBUTIONS CONTRACT (ACC) RESERVE (FORMERLY PROJECT RESERVES) IS AN ACCOUNT IN WHICH A PHA'S UNUSED ANNUAL BUDGET AUTHORITY (ABA) IS MAINTAINED. IN THE PAST, UNUSED AMOUNTS OF THE ABA REMAINED IN THE ACC RESERVE UNTIL IT WAS NEEDED BY THE PHA TO COVER PROGRAM COSTS IN EXCESS OF THE ABA. IT IS HUD'S POLICY TO RECAPTURE A PORTION OF THE ABA THAT IS NOT USED. HUD NOW RETAINS IN THE PHA'S ACC RESERVE ONLY ENOUGH FUNDS TO COVER TWO MONTHS' WORTH OF PROGRAM EXPENSES. A RECENT BUDGET PROPOSAL IS CONSIDERING A ONE-MONTH RESERVE.

THE PRIMARY PURPOSE OF THE ACC RESERVE, AS STATED EARLIER, IS TO SUPPORT A PHA'S BASELINE OR RESERVED UNITS, AND, UNITS ABOVE THE BASELINE NUMBER, ALBEIT ON A TEMPORARY BASIS. DURING THE NEGOTIATED RULEMAKING PROCESS, HUD DEVELOPED A RENEWAL FUNDING METHODOLOGY DESIGNED TO PROVIDE ADEQUATE FUNDING FOR THE NUMBER OF UNITS RESERVED FOR EACH PHA. HUD ANTICIPATED THAT, ON ONE HAND, SOME PHAS MIGHT NOT RECEIVE ADEQUATE BUDGET AUTHORITY (BA) TO SUPPORT ADJUSTED BASELINE UNITS. ON THE OTHER HAND, OTHER PHAS MAY EXPERIENCE INCREASES IN THE COST PER UNIT THAT EXCEED PER UNIT COST PREDICTED BY THE REVISED RENEWAL ALLOCATION METHODOLOGY. CONSEQUENTLY, HUD EXPECTED THAT PHAS WOULD NOT HAVE SUFFICIENT FUNDS TO SUPPORT THE ADJUSTED BASELINE. IN ORDER TO PROVIDE REASONABLE ASSURANCE THAT THERE WILL BE ADEQUATE FUNDING TO SUPPORT FAMILIES, HUD BELIEVED THAT PHAS SHOULD HAVE ACCESS TO THEIR

ACC RESERVES. IT WAS HUD'S CONTENTION THEN, "THAT THE 2 MONTH RESERVE IS NECESSARY, AND REDUCING IT TO 4 WEEKS WOULD REPRESENT A SERIOUS THREAT TO HOUSING THE BASELINE FAMILIES."

THE ADMINISTRATION'S BUDGET PROPOSAL TO REDUCE ACC RESERVES TO ONE MONTH IS SHORTSIGHTED, WITHOUT MERIT, AND FAILS TO CONSIDER INCREASED COSTS TO OPERATE THE PROGRAM. IT HAS PRESENTED A PROPOSAL THAT PURPORTS TO SAVE DOLLARS AS A PRIORITY OVER HELPING FAMILIES AT A TIME OF SURPLUS, AND, WHEN NEARLY 4.9 MILLION AMERICAN FAMILIES LIVE IN WORST CASE HOUSING SITUATIONS. A REDUCED ACC RESERVE IS ALMOST SUBVERSIVE AND COUNTERPRODUCTIVE TO A PHA'S MISSION IN ADDRESSING THE CONCERNS OF HUD AND CONGRESS. HUD HAS ENCOURAGED PHAS TO "MAXIMIZE LEASING" TO HELP MORE FAMILIES. ALSO, CONGRESSIONAL MANDATES SUCH AS DECONCENTRATION AND INCOME TARGETING HAS REQUIRED PHAS TO IMPLEMENT MEASURES TO MEET EVER-INCREASING PROGRAM GOALS. THESE CONCERNS THAT PHAS MUST ADDRESS COME WITH A COST TO THE PHA FOR WHICH THEY RECEIVE NO FUNDING. IT IS IMPRACTICAL TO ASK PHAS TO PLAN FOR THESE UNANTICIPATED COSTS IF THEY HAVE NO CONTROL OVER THEM.

HERE IS WHAT THIS PROPOSAL WILL DO IN THE LONG RUN. IT WILL REDUCE THE NUMBER OF FAMILIES SERVED AS HOUSING AGENCIES MAKE DECISIONS OF MAXIMIZING EXISTING DOLLARS. THE UTILIZATION RATE OF SOME PHAS WILL EITHER REMAIN THE SAME OR FALL SINCE SOME DEPEND ON THEIR RESERVES TO IMPROVE LEASING. IT WILL RESULT IN GREATER CONCENTRATION OF FAMILIES IN HIGH POVERTY AREAS BECAUSE PHAS WILL HAVE FEWER RESOURCES TO PAY THE COST OF LIVING IN LOW POVERTY AREAS. THIS PROPOSAL WILL GIVE HOUSING PRACTITIONERS LITTLE HOPE THAT THEY WILL BE SUCCESSFUL IN ADMINISTERING THE PROGRAM, BECAUSE IT TAKES AWAY THE "REASONABLE ASSURANCE THAT THERE WILL BE ADEQUATE FUNDING TO SUPPORT FAMILIES." IN SHORT, IT WILL "KNOCK THE WIND" OUT OF THEM. IT IS IRRESPONSIBLE TO ASK PHAS TO DO MORE WITH NO ADDITIONAL FUNDING, WHILE AT THE SAME TIME, CUTTING OFF, IN SOME CASES, THEIR ONLY REMAINING FINANCIAL MEANS TO GET THE JOB DONE.

REASONS WHY A PHA MAY DRAW ON ITS RESERVE

THERE ARE SEVERAL REASONS WHY A LHA MAY CONSIDER OR REQUEST DRAWING ON ITS ACC RESERVES. THE FOLLOWING ARE ONLY SOME OF THEM. MOST OF THESE REQUESTS STEM FROM INCREASED COSTS TO MEET INCREASED PROGRAM GOALS. THIS POINT WAS MADE CLEAR AT THE NEGOTIATED RULEMAKING PROCESS, WHEN OMB OBSERVED THAT PROGRAM "COSTS HAVE NEEDED TO GROW TO MEET PROGRAM GOALS." IN ADDITION, HUD OBSERVED THAT RESERVES ALSO PROVIDE

"ASSURANCES" THAT PHAS ARE ABLE TO MEET INCREASED PROGRAM COSTS WITHOUT REDUCING, AND IN SOME CASES, TERMINATING RENTAL ASSISTANCE.

INCREASED PROGRAM COST TO MEET INCREASED PROGRAM GOALS

IN THE LAST YEAR, PHAS HAVE SEEN THE AVERAGE ANNUAL COST OF A UNIT INCREASE FROM $5722 IN FY 2001 TO $5853 IN FY 2002, ACCORDING TO OMB FIGURES. THEY HAVE ALSO SEEN INCREASES IN UTILITY COSTS, INCREASES IN HAP BECAUSE OF LOWER-INCOMES, AND, INCREASES IN FAIR MARKET RENTS TO GIVE FAMILIES ACCESS TO MORE HOUSING UNITS, ESPECIALLY IN LOW-POVERTY AREAS. IN ADDITION, PHAS HAVE AND CONTINUE TO FACE, OTHER COSTS ASSOCIATED WITH PROGRAM GOALS LIKE DECONCENTRATION AND PORTABILITY, FOR WHICH THEY RECEIVE NO FUNDING RELIEF. THEREFORE, A PHA FACED WITH INCREASED PROGRAM COSTS MAY NEEDS TO DIP INTO ITS RESERVE TO MEET BOTH PREDICTED AND UNANTICIPATED PROGRAM EXPENSES.

DECONCENTRATION

HUD REGULATIONS REQUIRE PHAS TO ENGAGE IN ACTIVITY THAT EXPANDS HOUSING OPPORTUNITIES FOR ITS SECTION 8 FAMILIES. TO MEET THIS REQUIREMENT, IT MAY BE NECESSARY FOR PHAS TO INCREASE THEIR PAYMENT STANDARDS TO 110 OR 120 PERCENT (OR GREATER) OF THE FMR TO ACHIEVE THIS PROGRAM GOAL. THE INCREASED FMR WOULD ALLOW FAMILIES TO MOVE TO AREAS ONCE LABELED AS TOO EXPENSIVE FOR SECTION 8 FAMILIES, RESULTING IN GREATER COST TO THE PHA, AND CONSEQUENTLY, REDUCING FUNDING THAT COULD HELP OTHER FAMILIES. A PHA, NOT KNOWING HOW MANY FAMILIES MAY RELOCATE TO THESE HIGH COST AREAS, MAY HAVE TO DRAW ON ITS RESERVES, IF MANY FAMILIES MOVED.

PORTABILITY

UNDER THE SECTION 8 PROGRAM, A FAMILY HAS THE RIGHT TO MOVE ANYWHERE IN THE U.S OR TERRITORIES WHERE THERE IS A SECTION 8 PROGRAM TO ADMINISTER THE VOUCHER. A PHA HAS NO CONTROL TO WHERE A FAMILY MAY MOVE, AND THE NEW PHA (RECEIVING) IS UNDER NO OBLIGATION TO ABSORB THAT FAMILY'S VOUCHER BUT MAY CHOOSE TO BILL THE INITIAL PHA FOR AIDING THE FAMILY IN ITS NEW LOCATION. WHERE A FAMILY RELOCATES, THE MOVE MAY BE VERY COSTLY TO THE INITIAL PHA. FOR EXAMPLE, THE FAMILY MOVED FROM AN INEXPENSIVE RURAL AREA TO A MORE EXPENSIVE SUBURBAN AREA, OR CHOSE TO MOVE TO A STATE WHERE RENTS ARE VERY HIGH, THE INITIAL PHA MUST PAY THE HIGHER HAP COST OF THE RECEIVING PHA IF THE LATTER CHOOSES TO ADMINISTER THE VOUCHER. THESE HIGHER COSTS, OVER

WHICH THE INITIAL PHA HAS NO CONTROL, COULD FORCE THE PHA TO DIP INTO ITS RESERVES TO MAKE THE HIGHER PAYMENTS.

FAMILY SELF SUFFICIENCY PROGRAM

THIS PROGRAM IS DESIGNED TO PROMOTE EMPLOYMENT AND INCREASE SAVINGS AMONG FAMILIES RECEIVING SECTION 8 VOUCHERS. THE PHA CREDITS AN ESCROW ACCOUNT, BASED ON INCREASES IN EARNED INCOME OF THE FAMILY, TO THE FAMILY'S ACCOUNT FROM ITS BUDGET AUTHORITY DURING THE TERM OF THE FSS CONTRACT. HUD REGULATIONS REQUIRE A PHA TO MAKE PORTIONS OF THE ESCROW ACCOUNT AVAILABLE TO THE FAMILY TO ENABLE THE FAMILY TO COMPLETE INTERIM GOALS SUCH AS EDUCATION. IN SOME SECTION 8 PROGRAMS, SOME FAMILIES HAVE SUBSTANTIAL AMOUNTS IN THEIR ACCOUNTS THAT IF A NUMBER OF FAMILIES REQUEST A CERTAIN PORTION TO PAY SCHOOL TUITION, OR TO BY A CAR, THIS COULD BE VERY COSTLY TO THE PHA. ACCORDING TO ONE HOUSING DIRECTOR, "THIS MAY NOT BE A BIG THING FOR LARGE PHAS, BUT FOR SMALL PHAS, THESE AMOUNTS ARE SIGNIFICANT AND ADD UP QUICK". TO PAY THESE UNANTICIPATED REQUESTS/COSTS, A PHA MAY HAVE TO DIP INTO ITS RESERVES.

OPT-OUTS

PHAS ARE RESPONDING TO OPT-OUTS AT AN ESCALATING RATE AND ON SHORT NOTICES. PHAS, FIND THEMSELVES HAVING TO ISSUE AND LEASE-UP LARGE NUMBER OF FAMILIES IN PROPERTIES WHERE AN OWNER DECIDES TO PREPAY HIS LOAN. IN MOST OF THESE CASES, THE FUNDING TO LEASE THESE UNITS IS DELAY BY HUD, AND SINCE PAYMENTS, ACCORDING TO HUD'S REGULATION, MUST BE MADE WITHIN 60 DAYS OF LEASE EXECUTION, PHAS FIND THEMSELVES DRAWING ON THEIR RESERVES TO GET THESE FAMILIES INTO UNITS. WITHOUT THE ABILITY TO DRAW ON RESERVES, SOME FAMILIES WOULD NOT RECEIVE HELP IN A TIMELY MANNER.

"OVERLAPPING"

THE OVERLAP REQUIREMENT HAS INCREASED PROGRAM COSTS, AND IS ESPECIALLY FELT AMONG SMALL AGENCIES. THE REQUIREMENT ALLOWS A PHA TO MAKE FULL HOUSING ASSISTANCE PAYMENTS (HAP) ON BEHALF OF A FAMILY WHO MOVES OUT OF AND INTO A NEW UNIT DURING THE SAME MONTH. FOR EXAMPLE, A FAMILY MOVES OUT OF A UNIT ON THE FIFTEENTH DAY OF THE MONTH AND MOVES INTO A NEW UNIT ON THE SIXTEENTH DAY OF THE SAME MONTH. THE PHA IS REQUIRED TO PAY THE OWNER OF THE OLD UNIT THE PORTION OF THE HAP TO COVER THE TIME THE FAMILY IS NOT LIVING THERE (FROM 16^{TH}

DAY TO END OF MONTH). CONCURRENTLY, THE PHA MUST PAY THE NEW OWNER A HAP TO COVER THE SAME PERIOD (FROM 16^{TH} TO END OF MONTH) FOR WHEN THE FAMILY MOVED INTO THE NEW UNIT. THESE ADDITIONAL COSTS COULD HAVE AN IMPACT ON A PHA'S RESERVES.

UTILITY COSTS

IN THE LAST TWO YEARS PHAS HAVE SEEN THE COST OF UTILITIES INCREASED ASTRONOMICALLY, PARTICULARLY FOR HEATING OIL AND NATURAL GAS. IN CASES WHERE FAMILIES HEAT THEIR HOMES WITH EITHER OIL OR NATURAL GAS, THE PHA WOULD HAVE TO INCREASE ITS UTILITY ALLOWANCES TO FAMILIES, AND IN CASES WHERE THE LANDLORD IS PAYING THESE UTILITIES, THE PHA MAY HAVE TO GRANT RENT INCREASES TO OFFSET THE HIGHER COSTS LANDLORDS ARE PAYING. THESE PRICE INCREASES PUT ADDED PRESSURE ON PHAS TO DRAW ON THEIR RESERVES.

MADAME CHAIR, THE TWO-MONTH RESERVE IS AN ASSURANCE TO PHAS THAT THERE WILL BE RESOURCES TO ADDRESS BOTH PREDICTABLE AND UNANTICIPATED PROGRAM COSTS TO MEET PROGRAM GOALS. PHAS ARE NOT IRRESPONSIBLE IN THEIR USE OF ACC RESERVES, BECAUSE HUD HAS WISELY PUT INTO PLACE, A SYSTEM TO MONITOR ITS USE. THAT A PHA DRAWS ON ITS RESERVE TO PAY FOR INCREASED COSTS BECAUSE OF MARKET CONDITIONS LIKE INCREASED UTILITY COSTS, AND, HIGHER RENTS IN A TIGHT MARKET, IS A PRUDENT MANAGEMENT DECISION THAT THE LAW SUPPORTS. IT IS UNACCEPTABLE TO ASK PHAS TO FORFEIT THEIR MISSION OF HELPING LOW- AND MODERATE-INCOME FAMILIES IN THEIR COMMUNITIES, AND, IT IS UNSETTLING TO ASK THEM TO MAKE DECISIONS TO SAVE DOLLARS AS A PRIORITY OVER HELPING FAMILIES. IN ESSENCE, THIS IS THE POSITION THAT THE ADMINISTRATION'S PROPOSAL TO REDUCE ACC RESERVES TO ONE MONTH WILL PLACE PHAS.

FAIR HOUSING ISSUES

IT IS NO SECRET THAT HOUSING DISCRIMINATION IS PREVALENT AND AFFECTS LOW-INCOME FAMILIES' ACCESS TO AFFORDABLE HOUSING AND, CONSEQUENTLY, IMPEDES THE USE OF VOUCHERS. TOO OFTEN SECTION 8 FAMILIES ARE LABELED AND TREATED WITH LESS DIGNITY, ESPECIALLY WHEN THEY MOVE TO NEIGHBORHOODS WHERE THE FAMILY IS NOT OF THE PREDOMINANT RACE. MISCONCEPTIONS ABOUT PROPERTY VALUE AND CRIME, FUEL OPPOSITION TO RENTING TO THESE VOUCHER HOLDERS, EVEN THOUGH STUDIES SHOW THE PRESENCE OF SECTION 8 FAMILIES HAVE NO BEARING ON PROPERTY VALUE. AND YET, OTHER STUDIES SHOW THAT SECTION 8 FAMILIES ARE NO MORE LIKELY TO CAUSE CRIMINAL ACT THAN THE NON-SECTION 8 FAMILY. THESE

MISCONCEPTIONS, FEARS, AND MISUNDERSTANDINGS ADVERSELY IMPACT VOUCHER USE.

INCREASED BURDENSOME REGULATIONS

NAHRO IS CONCERNED ABOUT THE MASSIVE, RAPID, AND CONTINUING REGULATORY REQUIREMENTS WITH WHICH LOCAL AGENCIES MUST COMPLY IN ORDER TO KEEP ABREAST WITH PROGRAM DEVELOPMENT. THEREFORE, NAHRO WOULD LIKE TO SEE HUD TAKE STEPS TO STREAMLINE THE SECTION 8 PROGRAM TO MAKE IT EASIER TO MANAGE AT THE LOCAL LEVEL, AND, TO RELIEVE ADMINISTRATORS' OF THE MANY BURDENSOME TASKS SO THAT THEY CAN FOCUS ON PROVIDING HOUSING TO THOSE IN NEEDS.

NAHRO OFFERS THAT THE FOLLOWING REQUIREMENTS SHOULD BE CONSIDERED FOR DISCONTINUATION BECAUSE THEIR ABSENCE WOULD HELP WITH BETTER MANAGEMENT AND EXPEDITIOUS SERVICE DELIVERY AT THE LOCAL LEVEL. THE LIST IS BY NO MEANS EXHAUSTIVE.

1. DISCONTINUE THE REQUIREMENT THAT A UNIT MUST PASS ALL HQS VIOLATIONS PRIOR TO A LANDLORD RECEIVING HOUSING ASSISTANCE PAYMENTS (HAP). WE BELIEVE THAT A HOUSING AUTHORITY SHOULD HAVE DISCRETION TO COMMENCE HAP PAYMENTS PENDING A 30-DAY REPAIR REQUIREMENT, IN SITUATIONS WHERE THE VIOLATIONS ARE MINOR AND NOT OF A LIFE-THREATENING NATURE. PHAS ALREADY ENJOY THIS OPTION IN CASES OF ANNUAL RE-EXAMINATION BUT NOT FOR INITIAL LEASE UP. THIS DISCRETION WILL SIGNIFICANTLY PUT FAMILIES IN UNITS FASTER AND NOT DELAY RENTS TO LANDLORDS.

2. RELAX REGULATORY HQS REQUIREMENTS WITH REGARDS TO CONTRACT ANNIVERSARY DATE. PRESENT REQUIREMENTS ORDER HQS ANNUAL INSPECTIONS TO BE CONDUCTED ON A UNIT BASED ON THE CONTRACT ANNIVERSARY DATE. NAHRO BELIEVES THAT PHAS' SHOULD BE ALLOWED TO CONDUCT INSPECTIONS BASED UPON GEOGRAPHICAL LOCATION SINCE THE LATER WOULD FACILITATE GREATER EFFICIENCY AND PLANNING BY THE PHA'S INSPECTION DIVISION.

3. DISCONTINUE THE 100 PERCENT RENT ABATEMENT REQUIREMENT IN CASES WHERE MINOR REPAIRS ARE NEEDED. CURRENT POLICY INSTRUCTS PHAS TO COMMENCE "STOP PAYMENT" OF RENT FOR INCOMPLETE REPAIRS ON THE 31ST DAY AFTER A NOTICE OF INSPECTION FAILURE IS RECEIVED. WE BELIEVE THAT PHAS SHOULD HAVE THE DISCRETION TO ABATE PARTIAL PAYMENT SINCE THE HOUSE IS LIVABLE BUT FOR A MINOR HQS DEFICIENCY. THIS IS A

POLICY THAT IS CAUSING UNDUE HARDSHIP ON FAMILIES AS ANGRY LANDLORDS PROCEED WITH EVICTIONS FOR NON-PAYMENT OF RENT.

4. PROGRAM REQUIREMENTS FOR LANDLORDS MUST BE STREAMLINED FURTHER TO ENSURE THAT THEY PARTICIPATE IN THE PROGRAM. LANDLORDS CONTINUALLY RAISE CONCERNS ABOPUT HIGH PAPER WORK REQUIREMENTS. ADDITIONALLY, CONCERNS ABOUT LIABILITY RESULTING FROM THE LEAD-BASED PAINT RULE HAS FRIGHTENED LANDLORDS AS WELL.

THESE ARE ONLY FOUR REQUIREMENTS WE WOULD LIKE TO SEE DISCONTINUED TO HELP PHAS DO A BETTER JOB, LOCALLY. NAHRO BELIEVES THAT A STREAMLINED PROGRAM RELIEVES STAFF OF UNNECESSARY RESPONSILITIES AND GIVES THEM THE FLEXIBILITY AND TIME TO FOCUS ON MEETING THE HOUSING NEEDS OF THEIR COMMUNITIES.

THANK YOU FOR THE OPPORTUNITY TO OFFER THESE COMMENTS. NAHRO LOOKS FORWARD TO WORKING WITH THE COMMITTEE AND ITS STAFF TO ADDRESS THESE AND OTHER ISSUES WITHIN THE SECTION 8 PROGRAM.

National Leased Housing Association
serving America's rental housing needs
NLHA

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Testimony of the National Leased Housing Association

Presented by Roy Ziegler, Trenton, NJ
Housing Affordability Hearing – June 21, 2001
Committee on Financial Services
Subcommittee on Housing & Community Opportunity

The National Leased Housing Association (NLHA) is pleased to submit our views relating to housing affordability issues impacting the Section 8 programs. For the past thirty years, NLHA has represented the interests of housing agencies, developers, lenders, housing managers, and others involved in providing federally assisted rental housing. Our members are primarily involved in the Section 8 housing programs – both project-based and tenant-based. NLHA's members provide housing assistance for nearly three million families.

We appreciate the opportunity to present our views on the Section 8 programs and look forward to working with the subcommittee on improving the housing opportunities for low and moderate income Americans.

Section 8 Vouchers

A critical component of any national housing policy is the Section 8 voucher program. Under the voucher program, tenants receive a portable subsidy to allow them to afford to rent an apartment or single family home that is decent, safe and sanitary. Over 1.5 million families currently benefit from participation in this program.

Over the years, the Section 8 tenant-based programs have been improved dramatically by consolidating regulations, removing certain barriers to landlord participation and adding flexibility to enable the voucher program to increase a family's chance of achieving self-sufficiency and/or to provide homeownership opportunities. NLHA's members appreciate the interest this subcommittee has shown in sustaining and improving the voucher program over the years. However, more needs to be done to maximize this important housing tool. We urge Congress to maintain funding for these families and to continue to increase the number of vouchers available each year, but we also request a number of program improvements.

Scope of the Voucher Utilization Problem

We agree with congressional criticism that vouchers have been underutilized in a number of communities and that reforms need to be made to ensure that all vouchers are leased-up. After all, the voucher is just a wasted piece of paper if the family cannot find a unit to rent. However, we believe the scope of the problem is often misunderstood. In FY2001, the congressional appropriators recaptured $1.8 billion in Section 8 funds. Many believe that these funds were entirely recaptured voucher authority. Not so. Of the $1.8 billion recaptured, half of the funding was Housing Assistance Payment (HAP) monies remaining in project-based Section 8 contracts that were not renewed. In other words, the owner opted out of the program when the Section 8 contract expired and the remaining funds in the contract were recaptured. The remaining $981 million included voucher funds, but many of them had been obligated for special purposes including litigation, conversion and to house special populations. Such vouchers are special to a PHA's voucher program and for various legitimate reasons can not be leased-up within one year. We estimate that underutilization of regular vouchers represents less than $500 million in recaptured amounts and not the $1.8 billion that has been reported. Arguably, this is still unacceptable, but not as dire as has been portrayed.

Recognizing Rising Rents

The rents permitted under the voucher program have not kept pace with the rising rental markets in many parts of the country. As a result, there is a dearth of available apartments resulting in vouchers being turned back to our agencies at a much higher rate than normal. In fact, many agencies issue more vouchers than they have available due to anticipated turn backs. For example, a PHA with 10 available vouchers may need to allocate 25 vouchers before the 10 vouchers are successfully leased up. In other words, an agency can have a 95 percent utilization rate, but only a 75 percent success rate. Not only is this frustrating to the families waiting for assistance, it significantly increases the workload of the issuing agency.

HUD has already taken one important step by allowing the increase in Fair Market Rents in some areas to be raised to the 50th percentile. We request that Congress urge HUD to expand this increase to all markets. The Fair Market Rents (FMRs) being set at the 50th percentile means that 49 percent of units rent above that amount and 49 percent rent below it – in other words, the 50th percentile FMR is the average rent for the area. Since most of the FMRs are currently set at the 40th percentile, HUD is actually saying that a "fair" market rent is **below** the average rent for the area.

Congress can also take steps to improve the ability for families to successfully use their vouchers by amending the statutory provisions relating to the "payment standard." The payment standard sets the subsidy amount under the program and families pay the difference between that standard and 30 percent of their income. If the rent for the unit exceeds the payment standard, the family also pays the difference between the payment standard and the apartment rent - up to 40 percent of median income (for new voucher participants). Generally, PHAs set the payment standard at the FMR, but current law allows PHAs the flexibility to set the payment standard for the voucher program between 90 and 110 percent of the Fair Market Rent (FMR). HUD field offices can approve exception payment standards up to 120 percent of FMR. This enables the PHA to adjust the payment standard to more accurately reflect the rental market in the area. However, with increasing rents in many communities, it would be more helpful if the PHAs had the authority to raise the payment standard to 120 percent of FMR without HUD approval.

Flexibility in Tenant Payment Cap

A second issue that plays a large role in preventing lease-up relates to the 40 percent cap. Currently, families that are receiving voucher assistance for the first time or are currently in the program, but wish to move to a new unit are not permitted to pay more than 40 percent of adjusted income for rent. NLHA supports a cap as a general rule, but believes flexibility is key to address extenuating circumstances. An example of such a circumstance is an elderly woman renting an apartment with her spouse, the spouse dies. The reduction in income qualifies the woman for a voucher, but as she would be paying 42 percent of income for rent, the law requires her to move to a cheaper unit. This is a difficult concept to explain to someone that has lived in their apartment for many years, is afraid to move and to boot, would be paying 60 percent of her income without the voucher.

We urge that Congress provide PHAs with the authority to waive the 40 percent cap to address such situations.

Covering the Costs of Running a Program

Agencies that administer the Section 8 program are paid a fee for each unit leased-up. However, over the years, the fee has been reduced while the costs of administering the program have continued to rise. The current fee is often inadequate for smaller agencies, or in tight rental markets and doesn't reflect the costs of providing significant search assistance to families, especially larger families or families with special needs that require more intensive assistance. We urge Congress to provide sufficient funding to expand the categories of households that qualify for a "hard-to-house" fee and to increase the current "hard-to-house" fee from $50 to $75 for disabled persons and households with three or more minor children.

Further, many of the administrative costs for tenant briefings, counseling and inspections are incurred prior to lease-up, but agencies do not receive an administrative fee until a lease is executed. This process can take four to six months. In the past, agencies were paid a preliminary fee for every voucher holder. Congress reduced funding for such fees and only provides them for incremental vouchers. This is caused a huge gap in our funding needs.

HUD can also facilitate the voucher utilization efforts of housing agencies by authorizing us to use a portion of unused Section 8 budget authority for services and payments to help families obtain housing. The ability to offer applicants security deposit loans or grants, housing search services, landlord outreach and incentive programs, expanded mobility programs, transportation, tenant education and tenant/landlord mediation, case management for the elderly and disabled applicants/tenants, would dramatically raise voucher utilization rates.

Project-Based Vouchers

The most obvious barrier to lease-up is the lack of available units. In a tight rental market, there is no incentive for landlords to rent to Section 8 voucher holders. A number of PHAs have been creative in finding ways to convince landlords to participate in the program, but when there is a tight supply, options are limited. Steps need to be taken in such areas to increase the supply of affordable units. Congress made a giant step forward in October by recognizing the flexibility of project-based vouchers and has made a number of statutory changes to the program to make it more user-friendly. A set of recommendations NLHA prepared for HUD is attached that outlines both legislative and regulatory changes that would ensure the successful use of project-based vouchers.

Enhanced Vouchers

The loss of project-based Section 8 units remains a concern for many communities. Congress has taken steps to preserve this inventory which have mitigated the number of opt-outs, but the project-based Section 8 inventory has shrunk by over 150,000 units. Fortunately, Congress has provided vouchers at sufficient rents to prevent the displacement of the families living in the apartments at the time of opt-out or prepayment. However, the lease-up of the enhanced vouchers can be burdensome and time consuming to housing agencies. The statutory requirement that every unit be inspected before an enhanced voucher is provided has resulted in significant delays, especially in larger projects. Unlike in the regular voucher program, many of the properties have been inspected the Real Estate Assessment Center (REAC) prior to the expiration of the project-based contracts or the prepayment of the mortgage. It is redundant for the PHA to be required to re-inspect the units. We recommend that the law be amended to waive the inspection requirement if the property in question received a REAC score greater than 60 within the previous 12 months.

Section 8 Moderate Rehabilitation

A number of PHAs and state housing agencies administer project-based Section 8 under the Moderate Rehabilitation program. This program provided over 100,000 units of housing, over half of which has been lost as owners opt-out of the program. The law governing Section 8 renewals currently provides disparate treatment of moderate rehabilitation contracts resulting in many owners leaving the program. NLHA has proposed that Congress eliminate the exception provision in current law as it relates to mod rehab projects to level the playing field and preserve the remaining 50,000 units.

NLHA is committed to maximizing housing opportunities for low and moderate-income families and stands ready to assist the subcommittee in its work. Thank you for the opportunity to present testimony.

National Leased Housing Association
serving America's rental housing needs
NLHA

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NLHA Comments on Project-Based Voucher Program

The National Leased Housing Association (NLHA) is comprised of both public and private sector housing organizations and agencies engaged in the provision of affordable rental housing. We have significant experience with the Section 8 programs and are quite interested in the recent legislative initiative to improve the use of project-based vouchers. We agree that use of the program has been limited due to burdensome regulatory requirements and statutory limitations. The program changes outlined in the January 16, 2001 Notice represent a good faith effort but fall short in a number of respects. The following comments include recommendations for both statutory and regulatory relief critical to the success of the program.

Regulatory Changes

We applaud HUD for its effort to revise the project-based program regulations to facilitate the successful use of the program and offer the following recommendations:

PHA Flexibility and Streamlining Regs: The current regulations impose numerous unnecessary and burdensome administrative requirements on PHAs that choose to utilize their statutory authority to project-base vouchers. Such rules involve extensive "day to day" HUD involvement and numerous HUD approvals which are unwarranted and unnecessary. These cumbersome requirements are the main reason that there has been such minimal use of the program since its inception over 10 years ago. HUD must not micromanage this program if it is to finally become productive. PHAs should be able to outline plans for using project-based vouchers, including application requirements and selection criteria as part of or as an addendum to the PHA plan. The specific content of the written selection policy, the form of program advertisement, etc., should not be prescribed by HUD. HUD should set general parameters and let PHAs develop and implement the program based upon those parameters.

In keeping with NLHA's belief that PHAs should be delegated the maximum authority to implement a project-based voucher program, the requirements for competition should be established by the PHA. If HUD insists on mandating particular competition requirements, relief should be granted when the project is owned or identified by PHA as a proposed site for project-based assistance, has already received tax credits, bond financing, HOPE VI or for the preservation of existing low income housing. An open-ended process should be permitted.

To accomplish maximum program flexibility, NLHA recommends that HUD eliminate Section 983.51 through 953.57 (Subpart B) of the current regulations and all or portions of 983.10 (relocation) and 983.11 (other federal requirements) should be eliminated if not required by law. In summary, both the old and new regs must be totally rewritten and HUD must delegate responsibility for program implementation to the PHAs.

Section 983.6 (Subpart A) Site and Neighborhood Standards: New construction and rehab projects should not be subject to the site and neighborhood standards in the current regulations. To do so inhibits a PHA's ability to use project-based vouchers to facilitate revitalization efforts (e.g. HOPE VI redevelopment). At a minimum, if project-based vouchers are being used in conjunction with HOPE VI, the site and neighborhood standards should be consistent. Further, HUD should not need to approve each housing site. The PHA is qualified to make a proper site selection. Seeking HUD approval delays the confirmation of a financing commitment.

Section 983.7 (Subpart A): Eligible and ineligible properties and HA owned units: This section of the regulations needs substantial revision. Logic does not support the numerous categories of projects that HUD deems ineligible. For example, why would HUD prohibit the use of project-based vouchers in a project that is already under construction or rehab? The PHA would need to review construction/rehab standards and activities, but there is no real reason to disqualify such projects at the outset.

In addition, there should be no prohibition on the use of project-based vouchers in Section 236, Section 221(d)(3), FmHA 515, Section 23 etc. Project-based vouchers may be an important preservation tool for such properties.

Section 983. 8 (Subpart A)Rehab Standard/Definition of Existing Housing: The $1000 per unit rehab standard is inadequate. The minimum rehab standard should be increased to $10,000 per unit calculated as follows: total rehab costs, contractors overhead and profit and other project associated "hard" costs divided by the number of units in the project. This calculation should include all units in the project, both assisted and unassisted. HUD should also consider adjusting the $10,000 rehab standard by an inflation factor in subsequent years.

Any property that does not meet the $10,000 per unit standard should meet the definition of existing housing even if minor work is required. Such small repairs will be subject to HQS prior to Section 8 approval.

Tax Credit Units: The January 16 notice appears to say that for tax credit rents outside of qualified census tracts, the rent for a project-based voucher unit may not exceed the tax credit rent, even if the tax credit rent is less than the maximum voucher payment standard. We believe that the statute provides that the tax credit rent may be an exception to a rent set at the maximum voucher payment standard, therefore a PHA may set the rent at the *higher* of the maximum voucher payment standard or the rent charged in tax credit units without rental assistance (for tax credit developments outside of qualified census tracts). For HUD to interpret the statute otherwise would mean that the rent for a unit with project based voucher assistance in a tax credit building in a poor neighborhood could be higher than the rent permitted in a tax credit development in a better-off neighborhood. Certainly HUD does not intend for this result. The regulations should be modified accordingly.

Deconcentration: The January 16 notice implements Section 232 of the statute that relates to the goals of deconcentrating poverty and expanding housing opportunities by requiring that all new project-based assistance agreements be for units in census tracts with poverty rates of less than 20 percent. We believe HUD should take a broader and more flexible position on this requirement by allowing PHAs to address this requirement in their program for PBA as part of their PHA plan. The poverty census tract 20 percent requirement is arbitrary, imprecise and narrows the legislative intent. For example, the following types of projects could be prevented in the poverty census tracts: mixed income HOPE VI projects with 25 percent PBA, projects in revitalizing census tracts, 25 percent PBA and 75 percent market rate projects. By definition, these mixed income developments are "deconcentrating" poverty on a micro basis. Elderly projects in poverty census tracts should be permitted since they have a nominal impact on deconcentrating poverty and a positive impact on expanding housing opportunities. In summary, the PHA plan should address this issue which is subject to HUD review – an arbitrary HUD standard is unnecessary.

Lease-Up Rate: Properties that are using project-based vouchers as part of a new construction or rehab effort will need to lease-up vouchers as soon as practicable after completion of the work. HUD's current policies which penalize PHAs for low lease-up rates should be amended to recognize the need for PHAs to hold vouchers in preparation for this purpose without penalty.

HUD Handbook 9420.3: HUD should immediately rescind the project-based certificate handbook to avoid unnecessary confusion.

Legislative Changes

Many of the concerns with the project-based voucher program will need amendments to the current statute. Paragraph (13) of section 8(o) of the United States Housing Act of 1937 (42 U.S.C. 1437f(o)(13) is amended as follows:

Limitation on Project-based voucher units: Subparagraph (D) which limits project-basing to twenty-five percent (25%) of the units in any building except for single family properties and properties for the elderly, persons with disabilities or families receiving supportive services should be repealed. At a minimum, "project" should be substituted for "building."

Term of Assistance: Current HUD policy permits Section 8 contracts to be renewed under the project-based program for up to 20 years (subject to annual appropriations). The project-based voucher program should be no different. Subparagraph (F) (which would become subparagraph (E)) should be amended to increase the initial housing assistance payments contract term from 10 years to 20 years, subject to five year renewals similar to State HFA uninsured Section 8 contracts.

FHA Financing: We recognize that current law permits HUD to assume the renewal of a Section 8 contract when underwriting an FHA mortgage. However, our experience has been that HUD is reluctant to make such an assumption. This reluctance prompted Congress, when amending Section 202 legislation last year, to provide that for purposes of underwriting a loan insured under the National Housing Act, the Secretary may assume that any section 8 rental assistance contract relating to a project will be renewed for the term of such loan. NLHA believes the same provision should be added as a new subparagraph (F) to the project-based voucher provisions

Maximum Rents: Subsidy determination in the project-based voucher program should be consistent with the "voucher" program. The law (we think mistakenly) sets rents at 110 percent of the FMRs and limits recipients rent to thirty percent of income. Subparagraph (H) should be amended to provide that the maximum rents for each unit assisted should not exceed 110% of the applicable payment standard, or such other level as determined reasonable by the PHA.

Waiting List and Income Targeting: Subparagraph (J) should be amended in the first sentence to provide that selection of families should be the responsibility of the owner and shall be from a waiting list maintained by the Owner in accordance with applicable HUD requirements. Subparagraph (J) should be further amended in the second sentence to provide that projects will *not* be subject to the provision of section 16(b) (Seventy-five percent (75%) of the annual admissions at 30 percent of median income) applicable to tenant-based assistance. This provision in fact does "concentrate poverty", contrary to another provision of the statute. Or, in the alternative, that such projects shall be subject to the targeting requirements applicable to public housing as provided in section 16(a)(2)(A) of the Act, i.e., not less than forty percent (40%) of the units in the project must be made available to families whose incomes at the time of commencement of occupancy do not exceed thirty percent (30%) of area median income, as determined by the Secretary with adjustments for smaller and larger families.

Davis-Bacon: A new subparagraph (L) should be added that provides that section 12(a) of the Act (concerning Davis-Bacon Act requirements) should not be applicable to tax credit and tax exempt bond financed projects since Davis-Bacon currently does not apply to these federally mandated programs. Imposition of Davis-Bacon requirements on these programs may adversely affect financial feasibility of such projects and may cause developers to reject project-based vouchers. Subparagraph L should provide that Davis-Bacon is inapplicable to existing housing and that existing housing is defined to be housing that will need less than $10,000 per unit in repairs. The Act should not apply to projects when PBA is limited to 25 percent of the units – the project-based vouchers should not force Davis-Bacon on the ¾ of the project that is unassisted. The current exemption for section 8 is only for 8 or fewer units (Section 12(a) of U.S. Housing Act of 1937) is not warranted or justified for the PBA program.

Portability: Introducing the concept of portability into a project-based program raises concerns that tenants may move into a project only to move out of the project a year later (in effect jumping the waiting list). This is unfair to tenants who are higher up on the waiting list. This provision should be eliminated. At a minimum, the regs should allow for pre-screening of tenants interested in being on the project-based waiting list.

Testimony of Michael Johnston,

Director of Leasing and Occupancy for the Cambridge Housing Authority, Cambridge, Massachusetts

On Behalf of

The Council of Large Public Housing Authorities Before the House Committee on Financial Services Subcommittee on Housing and Community Opportunity

June 21, 2001

Thank you very much for the opportunity to be here today to share with you our views on the Section 8 program and its great potential to continue serving the needs of low income Americans.

My name is Michael Johnston and I am here today representing the Council of Large Public Housing Authorities, as director of the Cambridge Housing Authority Office of Leasing and Occupancy. I joined the Cambridge Housing Authority in 1991 and oversee the day to day operations of the Authority's leased housing programs, as well as the tenant selection process for the Authority's public housing units. As an administrator and practitioner, I know the Section 8 program in a very detailed, operational way. As an attorney and member of the Massachusetts Bar, I also am familiar with the regulatory and policy end of the program. Prior to joining the CHA, I was CEO of a private property management/real estate development company specializing in residential renovations/conversions and modular construction, so I am familiar with the private sector perspective, as well.

Background

The Cambridge Housing Authority ("CHA") administers almost 2,500 Section 8 vouchers in a city of 100,000, an additional 300 subsidies are administered from the Commonwealth of Massachusetts voucher program. CHA also owns and operates 2057 units of Federally-assisted public housing and 750 units of state-assisted public housing. The City of Cambridge has always been racially and economically diverse, and both public housing and Section 8 units are dispersed throughout the City. Cambridge has seen an unprecedented escalation in the real estate market since the end of the last vestiges of rent control over five years ago. The end of rent control coupled with a boom in our economy has left us with an incredibly low apartment vacancy rate of 2%.

We understand that there has been much discussion in Washington and elsewhere regarding utilization of the Section 8 program. HUD's primary response to concerns has been that low utilization rates are the result of poor housing authority management. This response does not begin to adequately describe the real issues. While some agencies may have some management problems, I am here today to testify that high costs in local real estate market, low HUD Fair Market Rents, and a host of other complicated dynamics are really at play.

The Cambridge Housing Authority has been one of the highest performing housing authorities in the nation for many years, achieving a 100 out of a possible 100 on its last three management assessments. We have also received a score of 100 out of 100 on during recent testing for HUD's new Section 8 assessment system, SEMAP. CHA is one of a handful of public housing authorities that is permitted to use its Section 8 funding, along with its public housing money flexibility to provide tenant-based vouchers, but also produce subsidized units to increase the available supply under the Moving to Work Demonstration Program (MTW). Even with this added flexibility, which has been key to our success MTW allows the CHA and other participating authorities to suspend portions of the 1937 Housing Act, as amended, we still have not been able to achieve full utilization. As part of our efforts to assist residents in using their Section 8 voucher we perform the following services:

- Initial Rent Levels - Staff always conduct a rent reasonableness analysis; however, CHA utilizes flexibility to exceed 120% in very limited instances. Flexibility in use of higher rents is key to successful leasing in Cambridge.

- Rent Increases - As with initial rent determinations, rent increases are always based on a rent reasonableness determination. However, CHA aggressively works to maintain good landlords in the program. Using flexibility granted by HUD, CHA has adopted more flexible rent increase policies (including percentage increases greater than the AAF and flexible anniversary dates) to accomplish this objective.

- Tenant Payment - In order to avoid displacement of families and maintain units on the program, CHA has, reluctantly, allowed higher numbers of tenants to exceed 40% TTP. Using HUD-granted flexibility, CHA has allowed greater than 40% TTP at initial lease up on some occassions.

- Security Deposits and Damage Payments - CHA will under certain conditions pay owners up to one month's rent for damages beyond wear and tear and up to one month's rent should the tenant vacate without notice or owing rent. These approaches were previously allowed under the Section 8 regulations. CHA has found that it can be an important part of an overall landlord marketing strategy.

- Owner Intervention - CHA has hired a staff person to market the program to owners and to negotiate renewals and rent increases. Every owner who indicates that he/she intends to terminate participation in the program is contacted to: 1) determine the reason for termination, and 2) to identify ways to keep the unit in the program.

- Owner Survey - CHA conducted a survey of all current owner participants to assess satisfaction with the program and identify ways that program administration could be improved.

- Landlord Marketing - CHA has an ongoing marketing strategy to promote awareness of the program and its benefits. This includes an aggressive communications strategy targeting brokers, rental agents, institutional landlords and members of landlord associations. A newsletter is produced; presentations are made at meetings, etc.

- Housing Search - CHA has contracted with a local non-profit to provide housing search assistance to primarily disabled voucher holders. Combined with the landlord marketing efforts, this has helped improve the success rates of CHA participants.

- Participant Survey - CHA conducted surveys of both successful and unsuccessful program participants to try to better understand factors influencing a successful housing search. Results of the survey underscore: 1) our participants overwhelmingly want to stay in Cambridge; 2) the lack of affordable units in Cambridge is the number one problem for participants; 3) the most successful housing searches result from "word of mouth"" referrals; 4) contacting owners based on newspaper advertising is the most frustrating and least productive mode of housing search.

- Project Based Program - The number one problem in Cambridge is the lack of affordable housing units, a problem that is increasing every year. While they have limited impact in expensive rental markets, project based vouchers can serve as a tool to increase supply. CHA is creatively using HUD granted flexibility to link project based vouchers to development projects under Moving to Work. MTW allows CHA to bypass the 25% rule, which is a critical factor impacting success.

Still, according to HUD, we are able to achieve a utilization rate of only 88%, below the 95% that HUD says is sufficient. Clearly, this illustrates that the problems are more complicated than just management.

Sometimes we forget that, although the Section 8 program is administered by housing authorities, it relies heavily on the voluntary participation of private landlords. The program is structured so that it only works to the extent that a local real estate market has a sufficient supply of housing meeting the needs of the voucher holders that rents for an amount not to exceed 40% and now, 50% of the Fair Market Rent for the area. It also assumes that private landlords who own such properties are willing to participate in a highly regulated program that serves very low-income residents. If those conditions do not exist in a local market, like Cambridge, housing low-income families becomes even more difficult. We expect that the supply of housing available to Section 8 voucher-holders to decrease even more this fall as HUD implements requirements to ensure that private owners participating in the Section 8 remove lead-paint from their units.

In many communities like Cambridge, where housing available for Section 8 voucher holders has all but evaporated, HUD and Congress's heavily reliance on the Section 8 program as its primary means of providing more affordable housing assistance to low income families seems misplaced. The program was never intended to be the primary means of Federal housing assistance, but rather another equally important tool that communities could use along with a fully funded public housing program, project-based Section 8, FHA insured programs, low income housing tax credits and others to provide housing opportunities for low income residents in a way that makes sense locally.

Despite what HUD says, I consider CHA's leased housing program to be a great success, particularly given market conditions in our area. To put this in perspective, it may be helpful to provide the Committee with some context. Currently, the two bedroom FMR in the Boston SMSA is $979, including utilities ; CHA, has received HUD permission to go to 120% of FMR, or $1,175. The actual average rent for a two bedroom apartment in the City of Cambridge is $1,868, utilities excluded. This success rate also includes incremental new lease-ups over the last year of 108 units.

Current discussions in relation to the program's success include a number of proposals that the CHA considers potential threats to cost effective and efficient administration. Virtually all of the proposals that are being discussed by non-industry groups appear to overlay additional regulations or tinker with existing regulations. An overhaul of the program is in order to address the real impediments to utilization. The fundamental premise of any new proposals should include the following: 1) rent levels need to be directly pegged to actual local market conditions; 2) HUD regulations need to be reduced in number and complexity; 3) program administration and paperwork needs to be simplified and administrative funding sufficient; and, 4) localities should have the flexibility to create local leasing programs that provide quality, affordable housing without requiring adherence to a national protocol for every administrative action. These four points are fundamental to the program's success.

Increased Rent Levels

Over the past year, the CHA has invested considerable resources in landlord outreach and retention, and in surveying landlords and program participants to identify challenges to utilization in our community. The results of the survey were clear, both from landlords and from program participants: the overwhelming challenge to utilization was lack of an adequate Fair Market Rent ("FMR").

CHA views the current FMR determination system as the primary problem with the current Section 8 system. Alternatives to the current system should be considered including, but not limited to: 1) modifying the methodology to include more thorough and updated samples; and 2) increasing the funds available for local rent surveys.

The methodology is cleared flawed based on the experience of the Boston metropolitan region. Even at the 50th percentile, even at 120% of the 50th percentile, the rent structure is simply too low to attract new units to the program, and is too low to ensure the continued participation of current landlords. Newly published FMRs do not utilize updated Census data, basing rents on data that is far out of date.

A major stated goal of the Section 8 program is to reduce concentrations of poverty and encourage mobility. However, the FMR structure in a market such as Boston may ultimately create new pockets of poverty by forcing people to move away from Cambridge, Boston, Brookline, etc. and to those cities where rents are marginally more affordable. There is already anecdotal evidence that this is happening in smaller cities outside of Boston. Any regionalization of program administration would exacerbate that, if Massachusetts' experience can be generalized

Deregulation

The history of the Section 8 program has been one of progressively higher levels of regulation applied to public housing authorities. The program regulations are too stringent and too proscriptive. Public housing authorities need more flexibility to adjust program to meet local market conditions. The regulations essentially do not allow for the wide variances that occur among local housing markets. They also make the program incredibly confusing and difficult to navigate for program participants and landlords

Program Administration

More regulation means more regulatory compliance requirements for housing authorities to meet. The Section 8 program currently requires public housing authorities to follow various processes, fill-out reams of paperwork, and do endless reporting, none of which is geared to toward improving a voucher holder's ability to find housing. Fufilling these requirements takes scarce resources away from housing. While more and more is expected in the way of housing counseling, lease enforcement, no more resources are available. Again, this situation makes it extremely difficult for even the best performing agencies to use the program effectively.

Local Control with Maximum Flexibility

In CHA's case, MTW has allowed us to locally determine program rules for our local leased housing program. The ability to respond to local needs and local market conditions in a way the CHA staff, program participants and Board of Commissioners feel appropriate has been fundamental to the preservation and expansion of the program's utilization in Cambridge. Again, I cannot stress enough the two most important elements of our success: local determination and administration of program rules, and the ability to bring maximum flexibility to our housing programs.

The Dangerous Myth of Regional Administration

CHA has seen some discussion of regionalization of Section 8 Administration. Proposals to create regional Section 8 administering agencies assume that such agencies will somehow do a better job of promoting mobility and increasing utilization. This is a hypothesis that is not based on data or sound research. The experience of Massachusetts in creating regional agencies to administer the state leasing program in the 1970s should serve as a cautionary warning.

It has been our experience, on the local level, that the regional agencies provide less access for program participants, who often call CHA after unsuccessful attempts to wend their way through the bureaucracy of a large organization. Further, the regional administrators are less effective in targeting local market needs, and intimate knowledge of appropriate local rent levels. Regional administration would threaten local housing authorities' ability to do relocation for modernization, target underutilized neighborhoods. In my extensive work as an actual administrator of the program, the abstract and academic notion that there could be economies of scale to a larger program, or that it could potentially provide better direct service to families participating in the program is in direct conflict with my real life experience.

Again, if there are management problems at some agencies, we agree that HUD should make every effort to work with those housing authorities to improve the use of subsidy. However, HUD's data systems are still insufficient to accurately determine whether low utilization rates are due to mismanagement, market conditions, or other factors going on in the local community. There is no evidence of which we are aware that indicates changing the entity that manages the Section 8 program will improve any of the conditions that really cause low utilization. The alternative administration proposal seeks to fix a problem, without accurately determining the causes or even if there is a problem at all.

Conclusion

In sum, Section 8 is designed to be a locally driven program, therefore solutions to concerns about underutilization must be made locally. Instead of proposing more top-down Federal policies that may work in some communities and not others, Congress and HUD should consider proposals that diminish regulatory requirements and give housing authorities the flexibility to craft a program that makes sense in their community. Changing the administering entity to a regional or non-profit group will not address the underlying reasons why Section 8 is hard to utilize, but may, in fact, create new problems. Instead, efforts should be focused on providing the resources necessary to meet market demands, particularly the need to increase FMR.

Voucher Policy from the Perspective of a Taxpayer Who Wants to Help Low-Income Households

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Testimony before the House Committee on Financial Services
Subcommittee on Housing and Community Opportunity
June 21, 2001

Madam Chairwoman and members of the Housing and Community Opportunity Subcommittee, I welcome this opportunity to talk with you about housing voucher policy and the role of vouchers in assisting low-income households. I speak from the perspective of a taxpayer who wants to help these households. I have no other financial interests in the matters under consideration at this hearing. My views are influenced not only by this perspective but also by my knowledge of the systematic evidence about the effects of the full range of low-income housing programs. I have been involved in housing policy analysis since the late 1960s. Since then, I have done many empirical studies of the effects of low-income housing programs, and I have read carefully a very large number of other studies. During the Nixon Administration, I was an analyst on the Housing Policy Review Task Force that led to the Section 8 Certificate Program. As a visiting scholar at HUD during the Carter Administration, I worked on an evaluation of this program and reviewed the final reports from the Experimental Housing Allowance Program. More recently, I have written a lengthy survey of what is known about the effects of low-income housing programs for a National Bureau of Economic Research volume on means-tested transfer programs, and I did a substantial amount of work as a consultant to the GAO on their study comparing the cost-effectiveness of tenant-based vouchers and major construction programs such as the Low Income Housing Tax Credit and HOPE VI.

Should Program Features Be Changed to Increase Voucher Usage Rates?

In your invitation to testify, you asked me to address five specific questions related to the ability of public housing authorities to use Section 8 Vouchers.

- What barriers exist in the law, or HUD's implementation of the law, that affect the ability of public housing authorities to make full use of section 8 vouchers?
- How does the policy of determining Fair Market Rents affect the ability of public housing authorities to make full use of section 8 vouchers?
- How does the policy requiring 75% of vouchers to be targeted to individuals with incomes of 30% or below of the local area median affect the ability of public housing authorities to make full use of section 8 vouchers?

- How does the policy limiting a tenant to paying 40% of income for rent affect the ability of public housing authorities to make full use of section 8 vouchers?
- What suggestions do you have to improve the operation of the section 8 program, and specifically to increase utilization of section 8 vouchers?

In discussing these questions, it is important to distinguish between an authority's so-called success rate and its ability to use Section 8 Vouchers. An authority's success rate is the percentage of the households authorized to search for a unit who occupy a unit meeting the program's standards within the housing authority's time limit. Any program rule that reduces the choices available to eligible households will reduce the program's success rate to some extent. Similarly, rules that require authorities to give priority to particular types of households are likely to affect success rates because success rates differ for different types of households.

An authority's success rate bears no necessary relationship to the fraction of the authority's vouchers in use at any point in time. No matter what an authority's success rate, the authority can fully use the vouchers allocated to it by authorizing more households to search for units than the number of vouchers available. For example, if an authority has a success rate of 50 percent, authorizing twice as many households to search as the number of vouchers available will result in full utilization of the vouchers on average. If each housing authority adjusted its issuance of vouchers to its success rate in this manner, some authorities would exceed their budget and others would fall short in a given year. However, the national average success rate would be very close to 100 percent.

For many years, public housing authorities have over-issued vouchers and thereby achieved high usage rates despite low success rates. In recent years, they have had a reserve fund for this purpose, and current regulations call for penalties on authorities with usage rates below 95 percent. My understanding is that the national average usage rate is high (about 92 percent) but some housing authorities are well below the average.

If the perceived problem underlying the questions posed is that housing authorities are not using as much money on vouchers each year as Congress intends, the simplest solution is to increase the number of vouchers authorized. With the given usage rate, this will increase the number of vouchers used. Alternatively, the size of the reserve fund could be increased. This would induce housing authorities to authorize more eligible households to search for units and thereby increase the voucher usage rate. If the variance in usage rates across authorities is perceived as a problem, you might want to consider varying the size of the reserve fund with factors (other than poor program administration) that affect the usage rate.

Changing the policies for determining Fair Market Rents, requiring 75% of vouchers to be targeted to households with extremely low incomes, and limiting tenants to paying no more than 40% of their income on rent will not affect voucher usage rates if housing authorities respond appropriately to these changes. They will, however, affect the program's success rate and hence administrative costs. They will also affect other important aspects of program performance.

Increase Fair Market Rents?

It is only natural for housing authorities to argue for higher Fair Market Rents, especially in their area. With a given number of vouchers allocated to a housing authority, higher Fair Market Rents in a locality allow the housing authorities in that area to provide larger subsidies to their clients at little cost to local taxpayers. Furthermore, higher Fair Market Rents also increase the success rates in the area and hence reduce the work necessary to use a given number of vouchers (Kennedy and Finkel, 1994, pp. 53-60). So assertions that higher Fair Market Rents are necessary to operate the voucher program should be taken with a grain of salt.

The available evidence indicates that Fair Market Rents are considerably higher than necessary to rent units meeting the program's standards. One study examined data from the 1975 American Housing Survey on about 31,000 unsubsidized apartments with 0,1,2,3, and 4+ bedrooms in 13 metropolitan areas (Olsen and Reeder, 1983). In 64 of the 65 cases, the Fair Market Rent exceeded the estimated rent necessary to occupy a unit meeting the program's standards. The excess ranged from 20% to 118%. The median difference over all combinations of metropolitan area and apartment size was 61%. There were noticeable differences in the extent of the excess across metropolitan areas. However, the excess was substantial in all areas. A more recent study used data from the 1989 American Housing Survey on about 10,000 unsubsidized apartments with 1,2, and 3 bedrooms in eleven metropolitan areas (Olsen and Crews, 1996). The results were remarkably similar to those of the earlier study. In all 33 cases, Fair Market Rent exceeded the estimated rent of units just meeting the program's standards. The smallest excess was 22%; the median was 60%. To determine the trend in the gap, the authors applied the same methodology to the six metropolitan areas that were surveyed in 1985, 1989 and 1993. The percentage gap increased enormously over this period. The median of the percentage excess of Fair Market Rent over minimum rent necessary to occupy a unit meeting the program's standards was 33% in 1985, 60% in 1989, and 81% in 1993. Given the many upward exceptions in Fair Market Rents that have been granted in more recent years, there is every reason to expect that the current gap is very large.

Increasing Fair Market Rents would enable current recipients of Section 8 Vouchers to live in better housing and neighborhoods than would be possible with current Fair Market Rents. However, with a fixed program budget, this change would have an extremely unfortunate consequence. It would increase the subsidy per household and hence reduce the number of households served. Since seventy percent of households below the poverty line are not offered housing assistance (Olsen, 2001, pp. 18-19) and more than a million of our poorest households live in seriously inadequate housing, homeless shelters or on the streets, we should not be considering changes in the Section 8 Voucher Program that reduce the number of recipients. Indeed, we should move in the opposite direction, namely decrease Fair Market Rents and use the money saved to serve the poorest unassisted families. If more money becomes available for housing assistance, it should be used to provide additional vouchers rather than larger subsidies to current recipients.

Discontinue Targeting for Extremely Low-Income Households?

In 1998, Congress required housing authorities to target 75% of vouchers to households with extremely low incomes. Four-person households with incomes no greater than 30% of the local median are considered to have extremely low incomes. Income limits for smaller and larger families are obtained by applying nationally uniform percentages to these four-person limits. These income limits are very similar to the official poverty line. This legislation continued a trend in voucher programs begun during the Reagan Administration to focus the limited resources available on the poorest of the poor.

The targeting requirement does not apply to housing authorities whose waiting lists are open and who do not have any extremely low-income households on it. So it does not reduce voucher usage rates for these authorities. Furthermore, existing research suggests that this requirement should increase the program's success rate because success rates in the voucher program are greatest among the poorest households (Kennedy and Finkel, 1994, pp. 53-60). Finally, housing authorities that experience a lower success on account of this targeting requirement can issue more vouchers to maintain the same usage rate. Therefore, there is no reason to weaken the targeting requirement on account of its effect on voucher usage rates. It was a desirable change in policy when it was enacted, and it is still desirable for the same reason. Limited housing assistance resources should be focused on the poorest of the poor.

Eliminate Upper Limit on Tenant Contribution to Rent?

The new Housing Choice Voucher Program places an upper limit on the fraction of adjusted income that a recipient can spend on housing. Effectively, this places an upper limit on the rent of the apartment that the recipient can occupy. This upper limit is greater than the Fair Market Rent (or the Program Standard if that is less) by ten percent of the recipient's adjusted income. Since this provision of the law reduces the choices available to eligible households, it will decrease the success rate to some extent. The existing empirical evidence provides no basis for estimating the magnitude of this effect. However, whatever its magnitude, its effect on the voucher usage rate can be offset by altering the number of vouchers issued. The real issue is whether we should limit the housing consumption of recipients of housing assistance. Why should we deny recipients the opportunity to occupy better housing if it does not involve a greater cost to taxpayers? If there is a good answer to this question, the provision should be retained.

Do We Need a New Production Program?

The most important evidence concerning housing vouchers relates to their role in the system of housing subsidies. Many argue that we should use a mix of vouchers and production programs to deliver housing subsidies to low-income households. Currently, there are calls for a new HUD production program. The systematic evidence on the cost of providing equally desirable housing under different programs lends no support to this view or proposal.

Five major studies have estimated both the cost per unit and the mean market rent of units provided by housing certificates and vouchers and important production programs, namely Public Housing, Section 236, and Section 8 New Construction.[1] These studies are based on data from a wide variety of housing markets and for projects built in many different years. Three were multi-million dollar studies conducted for HUD by respected research firms during the Nixon, Ford, Carter, and Reagan administrations. They are unanimous in finding that housing certificates and vouchers provide equally desirable housing at a much lower total cost than any project-based assistance that has been studied, even though all of these studies are biased in favor of project-based assistance to some extent by the omission of certain indirect costs.

The studies with the most detailed information about the characteristics of the housing provided by the programs found the largest excess costs for the production programs. One study estimated the excessive cost of public housing compared to housing vouchers for providing equally desirable housing to be 64% and 91% in the two cities studied and the excessive cost of Section 236 to be 35% and 75% in these two cities (Mayo and others, 1980). Another study estimated the excessive cost of Section 8 New Construction compared to tenant-based Section 8 Certificates to be 37% even when *all* of the indirect costs of the Section 8 New Construction program are ignored (Wallace and others, 1981). These indirect subsidies include GNMA Tandem Plan interest subsidies for FHA insured projects and the forgone tax revenue due to the tax-exempt status of interest on the bonds used to finance SHFA projects.

Two main objections have been raised to exclusive reliance on tenant-based assistance. Specifically, it has been argued that tenant-based assistance will not work in markets with the lowest vacancy rates and new construction programs have an advantage compared with tenant-based assistance that offsets their cost-ineffectiveness, namely they promote neighborhood revitalization to a much greater extent.

Taken literally, the first argument is clearly incorrect in that Section 8 Certificates and Vouchers have been used continuously in all housing markets for more than two decades. Obviously, it is difficult to keep all vouchers in use at all times due to the inevitable lags between the time that the housing authority receives new vouchers (or old vouchers from households leaving the program) and the time that new recipients find housing that suits them and meets the program's standards. It is also true that some households who are offered vouchers do not find such housing within their housing authority's time limits. However, other eligible households use these vouchers. The overwhelming majority of certificates and vouchers are in use at each point in time. Local housing authorities rarely, if ever, return certificates and vouchers to HUD.

The real issue is not whether tenant-based vouchers can be used in all market conditions but whether it would be better to use new construction or substantial rehabilitation programs in tight markets. In this regard, two questions seem especially important. Will construction programs get eligible households into satisfactory housing faster than tenant-based vouchers in some market conditions? Are construction programs more cost-effective than tenant-based vouchers under some circumstances? Although

[1] The studies are Mayo and others (1980), Olsen and Barton (1983), Schnare and others (1982), U.S. Department of Housing and Urban Development (1974), and Wallace and others (1981). Olsen (2000) provides a description and critical appraisal of the data and methods used in these studies as well as a summary of their results.

careful studies of these two questions have not been done, we can be very confident about the answer to the first question.

Based on existing evidence, there can be little doubt that tenant-based vouchers get households into satisfactory housing much faster than any construction program even in the areas where the highest fraction of vouchers are returned unused. Two major studies of success rates under the tenant-based Section 8 Program have been completed over the past fifteen years (Leger and Kennedy, 1990; Kennedy and Finkel, 1994). These studies collected data on more than 50 local housing authorities selected at random. The lowest success rate observed was 33 percent for New York City in the mid-1980s.[2] If a housing authority with this success rate issued only the vouchers available at each point in time and allowed recipients up to three months to find a unit meeting the program's standards, about 80 percent of new vouchers would be in use within a year. If they followed the current practice of authorizing more households to search for units than the number of vouchers available, almost all of the vouchers would be in use in much less than a year.

Based on data on a large stratified random sample of 800 projects built between 1975 and 1979, Schnare, Pedone, Moss, and Heintz (1982) found the mean time from application for project approval to completion of the project ranged from 23 months for Section 236 to 53 months for conventional public housing. Mean times ranged from 26 to 31 months for the variants of the Section 8 New Construction and Substantial Rehabilitation Program. Occupancy of the completed units required additional time. Although the authors did not report results separately for different markets, it seems reasonable to believe that these times were greater in the tightest housing markets because the demand for unsubsidized construction would be greatest in these locations. So if Congress were to simultaneously authorize an equal number of tenant-based vouchers and units under any construction program, it is clear that all of the vouchers would be in use long before the first newly built unit was occupied, no matter what the condition of the local housing market at the time that the money is appropriated.

The second major objection to the exclusive reliance on tenant-based assistance is that new construction promotes neighborhood revitalization to a much greater extent than tenant-based assistance. The evidence from the Experimental Housing Allowance Program is that even an entitlement housing voucher program will have modest effects on neighborhoods and the small literature on the Section 8 Voucher Program confirms these findings for a similar non-entitlement program (Lowry, 1993, pp. 205-217; Galster, Tatian, Smith, 1999B). These programs result in the upgrading of many existing dwellings, but this is concentrated on their interiors. It is plausible to believe that a new subsidized project built at low-density in a neighborhood with the worst housing and poorest households would make that neighborhood a more attractive place to live for some years after its construction. The issue is not, however, whether some construction projects lead to neighborhood upgrading. The issues are who benefits from this upgrading, the extent to which upgrading of one neighborhood leads to the deterioration

[2] The success rate in New York City in the mid-1980s was much lower than the second lowest (47 percent in Boston in the mid-1980s) and much lower than in New York City in 1993 (65 percent). An earlier study based on data from the late 1970s found lower success rates. However, at that time housing authorities were still figuring out how to administer this new program. So these success rates are of no relevance for predicting the effects of expanding the program today.

of other neighborhoods, and the magnitude of neighborhood upgrading across all projects under a program over the life of these projects.

The primary beneficiaries of neighborhood upgrading will be the owners of nearby properties. Since the overwhelming majority of the poorest households are renters, it is plausible to believe that most of the housing surrounding housing projects located in the poorest neighborhoods is rental. Therefore, if a newly built subsidized project makes the neighborhood a more attractive place to live, the owners of this rental housing will charge higher rents and the value of their property will be greater. Since the occupants of this rental housing could have lived in a nicer neighborhood prior to the project by paying a higher rent, they are hurt by its construction. The poor will benefit from the neighborhood upgrading only to the extent that they own the property surrounding the project.

With the passage of time, the initial residents will leave the neighborhood in response to the project and others who value a better neighborhood more highly will replace them. In short, housing programs involving new construction may primarily shift the location of the worst neighborhoods. The aforementioned possibilities have not even been recognized in discussions of housing policy, let alone studied.

What has been studied is the extent to which projects under various housing programs affect neighborhood property values. The existing studies find small positive effects on average for some programs and small negative effects for others (Lee, Culhane, and Wachter, 1999; Galster, Tatian, and Smith, 1999B). No study finds substantial positive effects on average for any program.

We do not need production programs to increase the supply of units meeting minimum housing standards. The Experimental Housing Allowance Program demonstrated without any doubt that the supply can be increased rapidly by upgrading the existing stock of housing even in tight markets (HUD, 1980, pp.43-54). This happened without any rehabilitation grants to suppliers. It happened entirely in response to tenant-based assistance that required households to live in units meeting the program's standards in order to receive the subsidy. Housing vouchers enable us to move eligible households into adequate housing faster than any construction program could hope to achieve under any market conditions. The neighborhood revitalization effects of construction programs are typically small and the benefits accrue primarily to owners of nearby rental housing rather than low-income renters in the area. The available evidence is unanimous in finding that housing certificates and vouchers provide equally desirable housing at a much lower total cost than any project-based assistance that has been studied. The consequence of using these costly methods of delivering housing subsidies has been that several million of the poorest households who could have been provided with adequate housing at an affordable rent with the money appropriated for housing assistance have continued to live in deplorable housing. We should learn from our past mistakes and not heed the call for a new HUD production program.

I appreciate the willingness of members of the Committee to listen to the views of an ordinary taxpayer whose only interest in the matters under consideration is to see that tax revenues are used effectively and efficiently to help low-income households.

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June 28, 2001

The Honorable Marge Roukema
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Dear Congresswoman Roukema:

I welcome this opportunity to provide the Subcommittee on Housing and Community Opportunity with additional information concerning the matters discussed at the hearing on Thursday, June 21. Since the members of your subcommittee and its staff are extremely busy, I'll summarize the information in this letter and enclose photocopies of the relevant parts of the reports cited. If more information is desired, please don't hesitate to ask for it.

You asked me to provide more detailed information about the extent to which the supply of units meeting minimum housing standards increased in response to tenant-based housing assistance in the Housing Assistance Supply Experiment of the Experimental Housing Allowance Program (EHAP). As I mentioned at the hearing, the Supply Experiment involved operating an entitlement housing allowance program for ten years in St. Joseph County, Indiana (which contains South Bend) and Brown County, Wisconsin (which contains Green Bay). These were smaller than average metropolitan areas with populations of about 235,000 and 175,000 people, respectively. The general structure of the housing allowance program in the Supply Experiment was the same as the Section 8 Voucher Program that HUD operated from 1983 until its merger with the new Housing Choice Voucher Program, except that homeowners were eligible to participate in the Supply Experiment. About 20 percent of the households in the two counties were eligible to receive assistance (Lowry, Experimenting with Housing Allowances, 1983, pp. 92-93). By the end of the third year when participation rates leveled off, about 41 percent of eligible renters and 27 percent of eligible homeowners were receiving housing assistance (Lowry, pp.24-25). Data for analysis was collected during the first five years of the experiment in each site. During that period, about 11,000 dwellings were repaired or improved to meet program standards entirely in response to tenant-based assistance and about 5,000 households improved their housing by moving into units already meeting these standards (Lowry, p. 24). Since there were less than 130,000 dwelling units in the two sites at the outset of the Supply Experiment (Lowry, pp. 46-47) and half of the units occupied by low-income households prior to the experiment met its minimum standards (HUD, Experimental Housing Allowance Program: Conclusions – The 1980 Report, p. 107), the two sites contained fewer than 117,000 dwelling units meeting the program's housing standards prior to the Supply Experiment. Therefore, tenant-based assistance alone increased the supply of units meeting minimum housing standards by more than 9 percent within five years.

You also asked about the tightness of these housing markets at the time of the Supply Experiment compared with current conditions. The enclosed data from the U.S. Census Bureau website reveals that the overall rental vacancy rate in the U.S. in 2000 was 8.0%. The metropolitan area vacancy rate has been between 7.5% and 7.7% for each of the past five years. This source and the enclosed chart covering earlier periods indicate that these are high by historical standards. At the outset of the Supply Experiment, the vacancy rates in Brown and St. Joseph County were 5.1% and 10.6% (Lowry, p. 53). So the average vacancy rate in the two sites was almost exactly the average vacancy rate in 2000 for metropolitan areas. In 2000, only 26% of the 75 largest metropolitan areas had vacancy rates less than the vacancy rate in Brown County at the outset of the experiment and 20% had vacancy rates greater than the vacancy rate in St. Joseph County. The vacancy rates that I mentioned in response to your question at the hearing (4% and 7%) were my memory of the vacancy rates in 1970 that were used in selecting the experimental sites. The actual vacancy rates in 1970 in the two counties were 4.9% and 7.0%.

The tenant-based Section 8 Certificate and Voucher Programs have also substantially increased the supply of affordable housing meeting minimum housing standards. The most recent detailed analysis is based on data from 33 public housing authorities in 1993 (Kennedy and Finkel, Section 8 Rental Voucher and Rental Certificate Utilization Study – Final Report, October 1994). Thirty percent of all recipients outside of Los Angeles and New York City continued to live in the apartments that they occupied prior to participating in the program (Kennedy and Leger, p.15). Forty one percent of these units already met the program's standards and 59% were repaired to meet the standards (Kennedy and Leger, p.83). About 70% of all recipients outside of Los Angeles and New York City moved to a new unit. About 48% of these units were repaired to meet the program's standards (Kennedy and Leger, p.84). The rest moved to vacant units that already met the standards. Therefore, the units occupied by about half of the families that received certificates and vouchers outside NYC and LA during this period were repaired to meet the program's standards. The previously mentioned sources contain similar results for NYC. In this city, only 31 percent of the units occupied by recipients had to be repaired to meet the program's standards. LA did not submit enough information to be included in the study.

During the hearings, Mr. Frank asked questions trying to get at the cost of a national entitlement housing voucher program based on my comment about the cost of the Experimental Housing Allowance Program. My answers to his questions were extremely misleading. It is true that the Experimental Housing Allowance Program cost almost $200 million dollars, that is, more than $500 million in 2000 prices. However, this was for the entire ten years and all four components of the experiment, and for research as well as assistance payments. Mr. Frank really wanted to know the annual cost of housing assistance in Brown and St. Joseph County in order to get some idea of how expensive an entitlement housing allowance program would be. In the sixth year of the Supply Experiment, about $11 million was spent on assistance payments in these two sites (Lowry, p.67). This is about $26 million in current prices. The annual cost per household was less than $1200 at the end of 1979, that is, about $2700 in current prices.

Even worse than my failure to correctly report the annual cost of housing assistance in the Supply Experiment sites was my failure to mention that cost is no obstacle to an entitlement housing allowance program. It is easy to develop an entitlement housing assistance program with any cost desired. For example, we could have an entitlement housing assistance program without spending any additional money by a simple change in the Section 8 Voucher Program, namely reducing the subsidy available to each eligible household by the same amount. At current subsidy levels, many more people want to participate than can be served with the existing budget. As we reduce the subsidy at each income level, the number of households that are eligible for a subsidy and willing to participate will decline until we reach a point where all households who want to participate in the program are participating. So without any change in the program's budget, we can create an entitlement housing assistance program serving the poorest of the currently eligible households. This change would effectively eliminate from the program all households currently eligible for the smallest subsidies. These are the currently eligible households with the largest incomes. This would free up money to provide vouchers to poorer households who want to participate. The reduction in subsidies to those who continue to participate will free up money to provide vouchers to households with identical characteristics who had not previously been offered assistance. If reductions in the subsidies received by current participants seem too draconian, we could phase in the new system by freezing subsidies at current levels and allowing inflation to erode real subsidy levels.

This is not to say that we should not spend more money on housing assistance. If we spend a small amount on an entitlement housing assistance program, we will serve a small number of families and the improvement in their housing and increase in their expenditure on other goods will be small. Spending more will enable us to serve more households and to have bigger effects on their standard of living. My point is that we can have an entitlement housing assistance program no matter how much money we want to spend and thereby avoid offering assistance to some, but not other, families with the same characteristics.

During the hearing, it was suggested that Fair Market Rents in some metropolitan areas are not sufficient to allow eligible households to live in particular parts of these urban areas. Although there are certainly neighborhoods in virtually every metropolitan area for which this is true, it is no reason to increase Fair Market Rents for the entire metropolitan area or to grant exceptions for eligible households who want to live in these areas. I cannot afford to live in several neighborhoods in Charlottesville. Households who have lower incomes than mine but are not eligible for housing assistance are excluded from even more neighborhoods. Why should these households be taxed to enable poorer households to live in neighborhoods better than ineligible households can afford?

Since I think that the results of the Experimental Housing Allowance Program are highly relevant to current discussions of housing policy, I have taken the liberty of enclosing the brief description of EHAP and its major findings from my recent survey of what is known about the effects of housing programs for low-income households ("Housing Programs for Low-Income Households," April 2001, pp. 35-38). I've also enclosed a summary of the major findings of the Supply Experiment (Lowry, pp. 23-29). In support of the proposition that Fair Market Rents in the Section 8 Voucher Program are much higher than necessary to occupy units meeting the program's standards, I have enclosed the two studies of this question mentioned in my written testimony (Olsen and

Crews, "Are Section 8 Housing Subsidies Too High?" November 1997; Olsen and Reeder, "Misdirected Rental Subsidies," Summer 1983.) In support of the proposition that tenant-based Section 8 Vouchers provide equally desirable housing at a much lower total cost than any type of project-based assistance that has been studied, I have enclosed a paper that provides a description and critical appraisal of the data and methods used as well as a summary of the results of the five cost-effectiveness studies that I mentioned in my testimony (Olsen, "The Cost-Effectiveness of Alternative Methods of Delivering Housing Subsidies, December 2000). The reports themselves are lengthy, technical documents (about 1400 pages in total). My understanding is that you recently received a draft of a GAO report comparing the cost-effectiveness of tenant-based vouchers, LIHTC, HOPE VI, Section 202, Section 811, and Section 515. It will not be the last word on this matter, but it provides the first evidence of the cost-effectiveness of these major production programs.

I hope that the enclosed information is useful to your subcommittee in its deliberations and that the subcommittee is able to make some headway during the current session in providing housing assistance to the many poor households who live in seriously inadequate housing, homeless shelters, or on the streets.

Respectfully,

Ed Olsen

Edgar O. Olsen
Professor of Economics

Cc: The Honorable Barney Frank
Ranking Member, Subcommittee on Housing and Community Opportunity

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NATIONAL BUREAU OF ECONOMIC RESEARCH
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April 2001

An early version of this paper was presented in May 2000 at the NBER Conference on Means-Tested Transfers. I am grateful to Neil Seftor for superb research assistance and to Fred Eggers, Dennis Fricke, Bob Gray, Steve Malpezzi, Jim Mikesell, Kathy Nelson, Carla Pedone, Joe Riley, John Quigley, Jim Wallace, and John Weicher for helpful conversations and comments. The views expressed herein are those of the authors and not necessarily those of the National Bureau of Economic Research.

receives housing assistance. Her explanatory variables reflect participation costs broadly conceived and the factors involved in the preference systems of housing authorities. She found that the poorest households, nonwhites, food stamp and welfare participants, and the unemployed had higher participation rates that were statistically significant at the 1% level. The elderly have a much higher participation rate that is statistically significant at the 5% level. The variables representing federal preferences were jointly significant at the 1% level.

H. *Market Prices*

It is often argued that housing programs will have effects on the rents of unsubsidized units with specified characteristics throughout the housing market. For example, it has been argued that housing vouchers will lead to a higher demand and hence higher rents for units that just meet the standards of the housing program and lower demand and hence lower rents for the worst units because these units will be abandoned by households who receive vouchers. This argument is certainly well founded on economic theory at least in the short run. Others argue that new construction programs will lead to lower prices for existing apartments. If the new construction comes as a complete surprise to private suppliers, this is also a clear implication of standard economic theory. However, if the new construction under the program is completely anticipated by private suppliers, the opposite effect is to be expected. To the extent that subsidized construction programs lead to greater production of housing, they drive up the prices of inputs that are most important in the production of housing and thereby increase the cost of producing housing with any specified characteristics.

Other than studies of the effects of housing programs on the rents of units in the immediate neighborhoods of subsidized housing that will be discussed later, there are no studies of the effects of any of the programs under consideration on market rents. The aforementioned studies are usually interpreted as measuring the magnitude of nonpecuniary external effects rather than market effects due to changes in the pattern of demand and supply. NBER and Urban Institute simulation models have been used to study the effects of hypothetical programs bearing some resemblance to the programs under consideration (Kain, 1981). The Housing Allowance Supply Experiment did study the effect on market prices of an entitlement housing voucher program similar to the Section 8 voucher program in operation between 1983 and 1999. This study found little effect on the market rents of units of any type (Barnett and Lowry, 1979; Mills and Sullivan, 1981; Rydell, Neels, and Barnett, 1982). If an entitlement housing allowance program for which 20% of households were eligible had no discernible effect on housing prices, it is perhaps reasonable to conclude that existing tenant-based programs have little effect. Nothing is known about the effects of the construction programs on housing prices.

I. *Tangible External Benefits*

Many of the alleged tangible external benefits and costs of particular types of housing program would accrue to neighbors of subsidized households. To the extent that they existed, these external benefits and costs would be reflected in neighboring property values. Although the oldest study of this matter was conducted more than forty years ago, there have been relatively few studies over the years.[42] Until recently, these studies have usually been limited to a small number of projects in one city or based on crude methods and data. Recent advances in software for analyzing geographical data have led to several detailed analyses based on data on sales of all unsubsidized single family units and the location of all subsidized households or projects in several large metropolitan areas. Lee, Culhane, and Wachter (1999) studied the effects of all major urban rental housing programs.[43] They find small positive effects on average for some programs and small negative effects for others. Galster, Tatian, and Smith (1999B) find statistically significant effects of the occupancy of units by recipients of Section 8 certificates and vouchers on neighborhood property values. The direction of the effect depends on the nature of the neighborhood and the concentration of program participants in the neighborhood, and the magnitudes are relatively small.

J. *Other Issues*

Other important issues dealt with in the literature on housing policy are the extent to which subsidized new construction reduces unsubsidized construction (Murray, 1983; 1999), the effect of public housing waiting lists on intra-urban mobility (Painter, 1997), the effect of subsidized housing on homelessness (Early, 1998), the effect of living in public housing on the educational attainment of children (Currie and Yelowitz, 2000), the effect of living in different types of housing project as a child on educational attainment and earnings as an adult (Newman and Harkness, 2000), and the effect of requiring subsidized households to live in low-poverty neighborhoods on self-sufficiency, educational outcomes, and juvenile crime (Ludwig, Ladd, and Duncan, 2000A, 2000B, 2001).[44]

K. *Experimental Housing Allowance Program*

No discussion of housing policy research would be complete without some mention of the Experimental Housing Allowance Program (EHAP). The major goals of EHAP were to determine the market effects of an entitlement program of tenant-based housing assistance and the effects of various types of such assistance on household choices. Congress authorized this program in 1970, planning for the experiment occurred in the early 1970s, data were collected during the mid-1970s, and the final reports were completed in the late 1970s and early 1980s. The experiment cost almost $200 million (that is, more than $500 million in 2000 prices); research and data collection accounted for almost half of this amount.[45] The research firms that ran the experiments issued more

[42] See Galster, Tatian, and Smith (1999A) for a review of the literature.
[43] They incorrectly assume that the FHA-assisted units in their data are owner-occupied units. In fact, these are units in privately owned subsidized rental projects under programs such as Section 221(d)(3) and 236 whose mortgages are insured by the FHA. Therefore, their conclusions about the effect of homeownership programs on neighboring property values is not supported by their results.
[44] Ludwig, Ladd, and Duncan's research is based on data from HUD's Moving to Opportunity Demonstration Program in Baltimore. Their papers contain references to similar research based on data from the other cities in the demonstration.
[45] Sadly, HUD lost all of the data that had been so carefully collected and documented.

than 300 reports, technical notes, and professional papers. As a result of these expenditures, we know more about the effects of the experimental programs studied than any established housing program.

The experiment had four components: the Supply Experiment, the Demand Experiment, the Administrative Agency Experiment, and the Integrated Analysis. The first two were the largest and most important.

The Rand Corporation conducted the Supply Experiment. The experiment involved operating entitlement housing allowance programs in the Green Bay and the South Bend metropolitan areas. At the time of the experiment, Green Bay had few minorities and a very low vacancy rate. South Bend had a large minority population and a high vacancy rate. About 20 percent of the households in each area were eligible for housing assistance. Unlike established housing programs, both renters and homeowners could participate. These households were offered a cash grant on the condition that they occupy housing meeting certain standards. These payments could continue for up to ten years provided that the household remained eligible. The primary purposes of the experiment were to determine the market effects of an entitlement program of household-based assistance such as its effects on the rents of units with specified characteristics and how suppliers alter their units in response to the program. The Supply Experiment research still accounts for the bulk of what is known about these matters.

Abt Associates conducted the Demand Experiment in the Pittsburgh and Phoenix metropolitan areas. This experiment was primarily intended to see how recipients would respond to different types of household-based housing assistance and, for a given type, to different program parameters. To this end, eligible households were assigned at random to the different programs or to a control group that was paid a small amount of money to provide needed information. One type of housing assistance offered eligible households a cash grant under the condition that they occupy housing meeting certain standards, another offered a cash grant under the condition that they spend at least a certain amount on housing (two different amounts were tested), and another offered the same cash grant with no strings attached. Two other plans offered to pay different fractions of the household's housing expenditure with no other strings attached. Since the Demand Experiment provided subsidies for only three years and large changes in housing consumption have a large fixed cost component, the Demand Experiment results undoubtedly understate the responsiveness to a permanent program (Bradbury and Downs, 1981, pp. 367-368).

The most important Demand Experiment research from the viewpoint of influence on housing policy went beyond a comparison of different types of household-based assistance. It compared the effects of the minimum standards housing allowance program with the major established housing programs in existence at the time, namely Public Housing, Section 236, and Section 23. The results of some of this research are reported earlier in this paper.

In the Integrated Analysis, the Urban Institute helped to design all of the experiments and used data from all of the experiments to analyze many of the same questions considered by the contractors operating the experiments. The Administrative Agency Experiment conducted by Abt Associates focused on the behavior of local administrative agencies in operating an allowance program. Unlike the Demand Experiment, it was not a controlled experiment.

The best introductions to this vast literature are the final reports of the Supply Experiment, the Demand Experiment, and the Integrated Analysis (Lowry, 1983; Kennedy, 1980; Struyk and Bendick, 1981), an edited volume containing (with one exception) summaries of the findings by the major contributors to EHAP research (Friedman and Weinberg, 1983), an edited volume containing evaluations of this research by outside scholars (Bradbury and Downs, 1981), a monograph containing some of the more technical results on consumer behavior from the Demand Experiment (Friedman and Weinberg, 1982), and HUD's 1980 summary report.

Although it is impossible to present a detailed review of the findings here, it is possible to state a few of the most important results for housing policy. Since the only type of tenant-based housing assistance studied in EHAP that has been used in an established program is the cash grant conditional on occupying a dwelling meeting certain housing standards and both the Supply and the Demand Experiments studied this type of program, the summary will focus on it.[46]

About half of the eligible families in the Supply Experiment occupied housing meeting its standards and about a fourth of the eligible families in the Demand Experiment sites occupied housing meeting its more stringent standards prior to receiving assistance. Even at the lowest income levels, many households occupied units meeting the standards of the Demand Experiment. This suggests the importance of preferences in determining whether poor households meet housing standards. Not surprisingly, households whose units met the standards prior to the program were much more likely to participate in the minimum standards housing allowance program. They could receive a subsidy without moving or getting their landlords to improve their apartments.

Although the entitlement housing allowance programs in Green Bay and South Bend were heavily publicized, the participation rate leveled off at about a third after three years. It was about 41 percent for eligible renters and 27 percent for eligible homeowners. The primary reasons for the low participation rates are easy to understand. Since the subsidy declines linearly with income until the upper income limit is reached and the density of eligible households increases with income, many eligible households were entitled to small subsidies. Many others who were eligible for somewhat larger subsidies had to move to get them because their apartments were substantially below the program's minimum standards. Many households eligible at a point in time were only briefly eligible. Finally, despite the heavy publicity, seventeen percent of eligible households had not learned about the program by the end of its third year. Obviously, we should not conclude that the participation rate in any entitlement minimum standards housing allowance program would be a third. This is heavily dependent on the generosity of the subsidy and the minimum standards. It is possible to have an expensive entitlement housing allowance program serving a large number of households or an inexpensive program serving a small number.

[46] The Section 8 Voucher Program implemented in 1983 and currently being phased out is a program of this type. (See Figure 4.) Since this program does not have the same specific parameters (housing standards, real guarantee, and benefit reduction rate) as the programs studied in the experiments and participation in the Section 8 Voucher Program depends importantly on administrative selection, it should not be expected to have the same quantitative effects as the experimental programs. The best sources of information about the effects of the Voucher Program are the detailed studies commissioned by HUD (Leger and Kennedy, 1990A, 1990B; Kennedy and Finkel, 1994).

The minimum standards housing allowance program tested in the Supply and Demand Experiments resulted in modest increases in overall housing consumption as measured by the mean market rent of the units occupied and a substantial effect in terms of the fraction of eligible households meeting the program's minimum standards. Recipients in the Supply Experiment devoted 80 percent of their increased spending to goods other than housing. For a slight majority of recipients, the minimum housing standards were non-binding constraints. So the effect of the program on the consumption patterns of these households was an income effect alone. For many others, only modest improvements in their current housing were necessary to meet the standards. Indeed, the required improvements were so modest that many renters made them without involving their landlords.

Evidence from the Supply Experiment shows beyond a reasonable doubt that an entitlement housing allowance program similar to the one tested will have no significant effects on rents of units with specified characteristics even in the short run. Reasons for the program's small effect on rental housing prices are easy to find. Eligible families account for only a small fraction of the demand for housing services in a given housing market, and many of these families choose not to participate. So even a large increase in demand by participants will have a small effect on aggregate demand for housing services, and this small increase occurs gradually over time because not all families respond instantly to an offer of assistance.[47] Furthermore, the Supply Experiment revealed that even over short periods suppliers are willing to make many changes in existing units in response to small changes in the profitability of housing with different characteristics. The effect of the housing allowance program on the rents of unsubsidized units in submarkets defined in terms of housing characteristics was not studied.

V. Reform Options

The major options for reform of the system of housing subsidies to low-income households are answers to the following questions. Should housing assistance be an entitlement? Should the poorest households of each size be given priority for housing assistance? Should housing subsidies be delivered to additional households by building new projects under some type of construction or substantial rehabilitation program or by giving them housing vouchers? Should we require households currently living in subsidized projects for which future federal expenditure is discretionary to live in these projects to receive a subsidy and their owners given a sufficient subsidy to induce them to continue to serve these households, or should these households be given housing vouchers? This section will consider each of these questions.

Unlike other major means-tested transfer programs, housing assistance is not an entitlement despite its stated goal of "a decent home and suitable living environment for every American family" (Housing Act of 1949). No coherent justification for this feature of the system of housing subsidies has been offered. That is, no one has attempted to explain why we should offer assistance to some, but not other, households with the same characteristics.

The usual argument against making housing assistance an entitlement is that it would be too expensive. Those who make this argument seem to have in mind delivering housing assistance to all currently eligible households using the current mix of housing programs and the current rules for the tenant's contribution to rent. This would indeed increase the amount spent on housing assistance greatly, though this magnitude has not been estimated. However, we do not have to make more than forty percent of the population eligible for housing assistance, we can reduce the fraction of housing assistance delivered through programs that are cost-ineffective, and we can reduce subsidies at every income level. Indeed, U.S. housing policy has been moving in this direction as a result of (1) a series of amendments of 1937 Housing Act that required an increasing percentage of households served by tenant-based assistance to be the poorest of the currently eligible households, (2) the introduction and rapid expansion of the cost-effective tenant-based Section 8 Program authorized by the 1974 Housing Act, and (3) the increase in the tenant contribution to rent mandated by the Housing and Community Development Amendments of 1981. Each of these reforms moved us in the direction of an entitlement program.

Furthermore, it is easy to develop an entitlement housing assistance program with any cost desired. For example, we could have an entitlement housing assistance program without spending any additional money by a simple change in the Section 8 Voucher Program, namely reducing the subsidy available to each eligible household by the same amount. This will effectively eliminate from the program all households currently eligible for subsidies smaller than this amount. These are the currently eligible households with the largest incomes. This will free up money to provide vouchers to poorer households who want to participate. The reduction in subsidies to those who continue to participate will free up money to provide vouchers to households with identical characteristics who had not previously been served. At current subsidy levels, many more people want to participate than can be served with the existing budget. As we reduce the subsidy at each income level, the number of households that are eligible for a subsidy and willing to participate will decline until we reach a point where all households who want to participate in the program are participating. So without any change in the program's budget, we can create an entitlement housing assistance program serving the poorest of the currently eligible households. If reductions in the subsidies received by current participants seem too draconian, we could phase in the new system by freezing subsidies at current levels and allowing inflation to erode real subsidy levels.

In discussions of housing policy, a common objection to this proposal is that no one would be able to find housing meeting the program's standards with the lower subsidies. Obviously, this objection is logically flawed. If we start from a position where many more people want to participate than can be served with the existing budget and we reduce subsidy levels slightly, it will still be the case that more people want to participate than can be served. If we decrease the subsidy levels so much that no one wants to participate, we have decreased them more than the proposed amounts.

A more sophisticated argument against the proposal is that the poorest households will be unable to participate in the proposed program. The simple proposal above calls

[47] The response to an offer of housing assistance with minimum housing standards is surely slower than the response to an offer of assistance for most other goods because many households must substantially renovate their current housing or move in order to receive assistance. Despite this drawback of tenant-based housing assistance of this form, it still gets households into satisfactory housing much faster than any form of new construction. The lag between authorization of funds and occupancy under all construction programs is much greater than the lag under this form of tenant-based assistance.

Section 8 Rental Voucher and Rental Certificate Utilization Study

Final Report

Prepared for:
U.S. Department of Housing and Urban Development
Office of Policy Development and Research

Authors:
Stephen D. Kennedy
Meryl Finkel

Prepared by:
Abt Associates, Inc.

Contract HC-5864

October 1994

a more appropriate comparison is between unsuccessful enrollees and enrollees who qualify by moving. The tabulations in this report provide both comparisons. Exhibit 2.2 shows the number of enrollees in the analysis sample in each outcome category. All comparisons are based on unweighted numbers of enrollees in each category. Most comparisons are done separately for New York City and the remaining sites. Results for New York City are presented in Section 2.5 below.

Exhibit 2.2

ANALYSIS SAMPLE FOR ENROLLEE OUTCOMES

	National Sample[a]	New York City	Total
Number of enrollees	1,090	393	1,483
Successful in place	294	158	452
Successful by moving	671	99	770
Unsuccessful	125	136	261

[a]Unweighted tabulations for the sample of larger non-statewide PHAs other than New York City and Los Angeles.
Source: Enrollee Interviews.

PRE-PROGRAM AFFORDABILITY

The primary measure used to describe housing affordability is the rent burden, which is the total rent paid by the household (including rent paid to the owner and allowances for utilities not included in the rent) relative to total monthly income.

The majority of both successful and unsuccessful enrollees had high pre-program rent burdens. Sixty-nine percent of successful enrollees and 62 percent of unsuccessful enrollees were spending more than 30 percent of their income on housing (Exhibit 2.3). However, successful enrollees did on average pay more of their income for rent than unsuccessful enrollees. Fifty-five percent of successful enrollees paid over half their income for rent as did not try to qualify in place were either ineligible to qualify in their pre-program unit (69 percent), or thought they could not qualify in place (31 percent).[15]

Exhibit 3.24

QUALIFYING IN PLACE

	National Sample[a]	NYC
Number of all enrollees	1,090	393
Steps in the process:		
Percent of enrollees who asked pre-program landlord	51%	66%
Of those asking, percent where landlord agreed to an inspection	75%	78%
Of those where landlord agreed, percent where inspection was completed	79%	92%
Of those with inspection, percent where enrollee qualified in place	89%	85%
Of those units where enrollees qualified in place, percent that required repairs	59%	26%
Enrollees who qualified in place as a percent of all who asked their pre-program landlord	53%	61%

[a]Unweighted tabulations for the sample of larger non-statewide PHAs other than New York City and Los Angeles.
Source: Enrollee Interviews

In the national sample, in a fifth of the cases in which a landlord agreed to an inspection, the enrollee never attempted to arrange for an inspection; in contrast, in New York City only

[15] The results presented here focus on the ***actions*** of enrollees in their attempts to qualify in the Section 8 program. We therefore stratify the sample on the basis of the options they actually pursued, rather than their original stated preferences, as was done in some earlier studies (see Final Comprehensive Report of the Freestanding Housing Voucher Demonstration, HUD, May 1990, p. 48). In Appendix B, Exhibit B-6, we present search strategies and outcomes based on enrollee ***preferences*** regarding remaining in the pre-program unit or moving. In Appendix B, Exhibit B-7, we present similar information based on enrollee ***perceptions*** regarding the unit's ability to qualify and the landlord's willingness to participate.

Exhibit 3.26

QUALIFYING BY MOVING

	National Sample[a]	NYC
ENROLLEES		
Number of enrollees	1,090	393
Percent of enrollees who tried to move	79%	60%
Of those enrollees who tried to move, percent who actually looked at one or more units of those who tried to move	98%	94%
UNITS		
Number of units looked at (Average per searcher)	8,241 (9.6)	1,953 (8.1)
Of units enrollees looked at, percent they wanted to rent (Average number per searcher)	38% (3.7)	31% (2.5)
Of the units enrollees wanted to rent, percent where landlord agreed to an inspection (Average number per searcher)	37% (1.4)	28% (0.7)
Of units where landlord agreed, percent where inspection was completed (Average number per searcher)	65% (0.9)	63% (0.4)
Of units with inspection, percent where enrollee qualified by moving to that unit	89%	93%
Of units where enrollees qualified by moving to that unit, percent that required repairs	48%	40%

[a]Unweighted tabulations for the sample of larger non-statewide PHAs other than New York City and Los Angeles.
Source: Enrollee Interviews.

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Table 5. Rental Vacancy Rates for the 75 Largest Metropolitan Areas: 1986 to 2000

	1986	1987	1988	1989	1989/r	1990
Inside Metropolitan Areas	7.2	7.7	7.8	7.2	7.4	7.1
Akron, OH	NA	NA	NA	NA	NA	NA
**Albany-Schenectady-Troy, NY	4.8	7.0	9.3	6.4	7.1	7.2
**Atlanta, GA	6.3	6.4	9.7	12.5	12.5	11.6
**Austin-San Marcos, TX	NA	NA	NA	NA	NA	NA
Baltimore, MD	6.7	8.3	5.4	4.9	4.9	5.2
* Bergen-Passaic, NJ	3.6	3.2	8.6	5.2	5.2	6.6
**Birmingham, AL	5.2	5.5	8.4	7.7	7.7	5.2
**Boston, MA-NH\1	4.6	4.0	4.1	4.2	4.2	6.0
Buffalo, NY	3.5	6.2	7.1	1.9	1.9	3.4
* Charlotte-Gastonia-Rock Hill, NC-SC	6.5	5.7	6.1	6.7	7.2	5.9
**Chicago, IL	6.8	6.1	6.8	6.4	6.4	6.6
**Cincinnati, OH-KY-IN	6.6	6.9	6.1	7.3	7.3	6.3
**Cleveland-Lorain-Elyria, OH\2	5.3	5.3	5.4	6.4	6.4	7.8
**Columbus, OH	6.7	8.5	7.5	7.7	8.1	5.0
**Dallas, TX	17.2	16.2	17.9	14.4	14.6	12.3
* Dayton-Springfield, OH	5.3	6.5	4.9	5.6	5.6	5.0
Denver, CO	8.4	11.0	12.3	12.9	12.9	8.9
Detroit, MI	5.0	7.6	8.5	7.5	7.5	7.6
**Fresno, CA	NA	NA	NA	NA	NA	NA
* Ft. Lauderdale, FL\3	9.8	12.2	10.9	11.0	11.5	8.0
**Ft. Worth-Arlington, TX	16.1	14.2	13.6	11.6	11.6	8.9
**Grand Rapids-Muskegon-Holland, MI	NA	NA	NA	NA	NA	NA
**Greensboro-Winston Salem-High Point, NC	7.8	6.1	9.0	7.9	7.9	7.9
**Greenville-Spartanburg-Anderson, SC	NA	NA	NA	NA	NA	NA
* Hartford, CT	3.7	6.1	7.1	8.2	8.2	11.2
Honolulu, HI	5.0	5.5	4.1	5.1	5.1	3.8
**Houston, TX	18.0	18.3	14.4	12.3	12.5	9.6
**Indianapolis, IN	7.1	9.1	8.9	5.4	5.4	6.1
Jacksonville, FL	11.1	12.4	11.6	12.8	13.3	9.5

**Kansas City, MO-KS......................	12.5	11.7	8.8	7.5	8.1	9.9
**Las Vegas, NV...........................	NA	NA	NA	NA	NA	NA
* Los Angeles-Long Beach, CA..............	3.5	4.4	5.5	5.8	5.8	6.2
**Louisville, KY-IN.......................	15.9	17.8	11.5	11.7	11.7	7.5
**Memphis, TN-AR-MS.......................	5.9	5.5	8.3	8.9	8.9	10.2
* Miami, FL\4.............................	8.5	8.9	9.3	4.7	4.7	6.3
* Middlesex-Somerset-Hunterton, NJ........	2.9	4.0	3.3	4.0	4.0	5.2
Milwaukee-Waukesha, WI\5................	3.1	2.8	2.0	2.5	2.5	3.6
**Minneapolis-St. Paul, MN-WI.............	3.9	5.3	6.5	6.3	6.3	6.5
* Monmouth-Ocean, NJ......................	3.2	2.9	4.0	5.9	5.9	8.3
Nashville, TN...........................	5.3	8.0	8.4	10.3	11.2	11.3
* Nassau-Suffolk, NY......................	3.9	6.3	7.4	6.9	6.9	6.5
**New Orleans, LA.........................	12.8	16.5	15.3	12.9	12.9	13.8
New York, NY............................	2.5	2.4	2.8	3.3	3.3	4.7
**Newark, NJ..............................	4.3	4.6	4.3	4.9	4.9	4.1
**Norfolk-Virginia Beach-Newport News, VA.	7.5	12.5	11.2	9.1	9.1	9.2
* Oakland, CA.............................	5.9	5.5	7.8	7.2	7.2	6.3
Oklahoma City, OK.......................	21.1	23.6	17.8	18.0	18.0	22.6
**Omaha, NE-IA............................	NA	NA	NA	NA	NA	NA
* Orange County, CA\6.....................	2.5	3.8	7.3	6.5	6.5	4.8
**Orlando, FL.............................	12.2	11.6	11.8	9.5	10.1	10.1
**Philadelphia, PA-NJ.....................	4.5	4.6	6.3	7.1	7.1	9.6
**Phoenix-Mesa, AZ\7......................	13.2	13.8	12.3	11.6	11.6	10.3
**Pittsburgh, PA..........................	10.1	9.3	9.3	8.3	8.3	8.3
**Portland-Vancouver, OR-WA\8.............	5.3	5.3	5.0	2.7	2.7	3.3
* Providence-Fall River-Pawtucket, RI-MA..	4.3	4.6	5.0	8.7	8.7	9.4
**Raleigh-Durham-Chapel Hill, NC..........	NA	NA	NA	NA	NA	NA
Richmond-Petersburg, VA.................	8.3	3.9	7.9	5.6	5.6	5.3
**Rochester, NY...........................	4.3	5.8	9.1	4.8	4.8	5.6
Sacramento, CA..........................	10.2	8.7	5.9	8.0	8.0	7.4
* Salt Lake City-Ogden, UT................	10.6	11.9	12.0	11.2	11.2	7.8
**San Antonio, TX.........................	13.9	17.8	16.6	12.9	13.2	11.7
* San Bernardino-Riverside, CA............	7.5	7.9	10.1	10.3	10.3	9.9
* San Diego, CA...........................	5.4	6.2	8.5	6.6	6.6	6.9
San Francisco, CA.......................	4.6	4.9	3.5	2.8	2.8	4.2
* San Jose, CA............................	4.6	4.0	5.0	3.3	3.3	4.6
**Scranton-Wilkes-Barre-Hazelton, PA......	NA	NA	NA	NA	NA	NA
**Seattle-Bellevue-Everett, WA\9..........	3.1	4.7	4.1	5.7	5.7	3.1
**St. Louis, MO-IL........................	6.6	6.9	7.6	8.9	8.9	10.7
**Syracuse, NY............................	NA	NA	NA	NA	NA	NA
Tampa-St Petersburg-Clearwater, FL......	14.7	11.3	13.3	11.0	11.3	10.4
Tucson, AZ..............................	NA	NA	NA	NA	NA	NA
Tulsa, OK...............................	NA	NA	NA	NA	NA	NA
Ventura, CA.............................	NA	NA	NA	NA	NA	NA
**Washington, DC-MD-VA-WV\10..............	3.7	4.8	4.6	5.8	5.8	6.7

West Palm Beach-Boca Raton, FL..........	NA	NA	NA	NA	NA	NA

Table 5. Rental Vacancy Rates for the 75 Largest Metropolitan Areas: 1986 to 2000 - Continued

	1991	1992	1993	1993/r	1994	1995
Inside Metropolitan Areas	7.5	7.4	7.6	7.5	7.3	7.6
Akron, OH..............................	NA	NA	NA	NA	4.7	5.6
**Albany-Schenectady-Troy, NY............	12.7	7.1	6.1	6.1	9.7	10.2
**Atlanta, GA............................	12.9	11.2	9.6	9.3	6.1	9.8
**Austin-San Marcos, TX..................	NA	NA	NA	NA	7.2	4.8
Baltimore, MD...........................	7.4	7.0	8.5	8.5	8.9	6.4
* Bergen-Passaic, NJ.....................	6.4	6.0	5.7	5.5	2.8	2.6
**Birmingham, AL.........................	4.4	5.5	6.6	6.6	4.9	9.9
**Boston, MA-NH\1........................	7.2	7.0	6.6	6.5	5.6	5.4
Buffalo, NY.............................	6.3	7.5	5.4	5.4	7.7	8.5
* Charlotte-Gastonia-Rock Hill, NC-SC.....	8.9	9.3	5.7	5.6	6.2	4.2
**Chicago, IL............................	7.3	8.4	7.3	7.3	8.2	7.9
**Cincinnati, OH-KY-IN...................	3.8	5.7	7.1	7.0	7.0	6.6
**Cleveland-Lorain-Elyria, OH\2..........	6.9	7.3	9.6	9.4	8.0	8.3
**Columbus, OH...........................	6.3	6.3	7.2	7.1	6.9	7.4
**Dallas, TX.............................	10.7	9.0	10.7	10.6	8.4	7.4
* Dayton-Springfield, OH..................	4.5	6.6	7.6	7.4	6.8	11.1
Denver, CO..............................	6.3	5.0	4.9	4.6	4.5	4.9
Detroit, MI.............................	7.4	8.7	9.7	9.6	9.8	9.0
**Fresno, CA.............................	NA	NA	NA	NA	13.1	8.5
* Ft. Lauderdale, FL\3...................	8.2	6.4	6.3	6.4	7.3	7.4
**Ft. Worth-Arlington, TX................	8.7	9.3	9.1	9.0	7.9	7.6
**Grand Rapids-Muskegon-Holland, MI.......	NA	NA	NA	NA	13.5	9.6
**Greensboro-Winston Salem-High Point, NC.	6.9	8.5	6.4	6.3	6.7	5.0
**Greenville-Spartanburg-Anderson, SC.....	NA	NA	NA	NA	5.7	3.6
* Hartford, CT...........................	5.0	6.9	9.0	8.8	6.8	8.8
Honolulu, HI...........................	3.8	3.4	3.9	3.9	5.0	5.4
**Houston, TX............................	11.9	11.7	12.0	11.8	8.5	10.2
**Indianapolis, IN.......................	6.4	9.5	9.8	9.7	3.5	6.3
Jacksonville, FL.......................	9.1	10.8	8.1	8.3	6.5	5.9
**Kansas City, MO-KS.....................	12.3	10.8	13.2	13.1	11.8	14.0
**Las Vegas, NV..........................	NA	NA	NA	NA	6.5	7.3
* Los Angeles-Long Beach, CA.............	6.7	8.2	9.5	9.5	8.7	9.7
**Louisville, KY-IN......................	10.7	9.3	15.3	15.2	9.5	5.6
**Memphis, TN-AR-MS......................	10.8	10.2	7.5	7.4	6.8	8.8
* Miami, FL\4............................	6.6	6.0	3.6	3.5	4.6	5.7
* Middlesex-Somerset-Hunterton, NJ........	7.4	7.8	7.7	7.5	4.6	5.5

	1996	1997	1998	1999	2000	
Milwaukee-Waukesha, WI\5...............	6.2	5.0	5.5	5.4	5.7	6.2
**Minneapolis-St. Paul, MN-WI............	6.7	5.5	5.2	5.2	4.7	4.9
* Monmouth-Ocean, NJ.....................	16.2	8.4	6.8	6.7	6.2	2.1
Nashville, TN..........................	8.8	4.3	4.9	4.9	2.7	4.2
* Nassau-Suffolk, NY.....................	6.2	4.6	5.6	5.5	4.2	4.9
**New Orleans, LA........................	10.3	6.7	6.7	6.6	8.4	5.9
New York, NY...........................	5.1	5.5	5.0	4.9	5.1	5.2
**Newark, NJ.............................	6.4	7.7	8.8	8.7	9.1	10.8
**Norfolk-Virginia Beach-Newport News, VA.	16.2	10.1	10.4	10.5	12.9	9.3
* Oakland, CA............................	4.6	5.1	4.5	4.5	10.8	8.2
Oklahoma City, OK......................	15.5	15.0	21.2	21.2	14.4	11.8
**Omaha, NE-IA...........................	NA	NA	NA	NA	7.4	5.8
* Orange County, CA\6....................	5.8	6.8	8.6	8.6	7.3	7.1
**Orlando, FL............................	11.2	14.4	10.7	10.8	13.1	9.1
**Philadelphia, PA-NJ....................	11.9	8.7	12.3	12.4	11.0	10.8
**Phoenix-Mesa, AZ\7.....................	9.6	9.2	7.6	7.3	7.7	6.6
**Pittsburgh, PA.........................	4.9	7.1	5.1	5.1	5.4	4.7
**Portland-Vancouver, OR-WA\8............	6.5	5.6	6.6	6.6	2.7	2.8
* Providence-Fall River-Pawtucket, RI-MA..	8.9	8.5	8.7	8.8	6.5	6.8
**Raleigh-Durham-Chapel Hill, NC.........	NA	NA	NA	NA	6.2	8.1
Richmond-Petersburg, VA................	14.7	15.8	10.1	10.0	7.6	10.8
**Rochester, NY..........................	3.7	3.6	7.8	7.7	6.0	8.4
Sacramento, CA.........................	8.4	8.5	10.3	10.6	10.2	12.0
* Salt Lake City-Ogden, UT...............	3.6	2.6	2.9	2.7	2.2	4.7
**San Antonio, TX........................	7.6	6.0	3.5	3.4	4.1	5.5
* San Bernardino-Riverside, CA...........	8.9	8.6	10.3	10.3	10.4	8.7
* San Diego, CA..........................	6.3	8.3	7.8	7.8	6.4	8.7
San Francisco, CA......................	3.3	4.1	5.8	5.9	3.9	5.4
* San Jose, CA...........................	3.9	9.4	7.3	7.3	4.3	2.9
**Scranton-Wilkes-Barre-Hazelton, PA......	NA	NA	NA	NA	7.5	6.4
**Seattle-Bellevue-Everett, WA\9..........	5.4	5.3	6.4	6.2	8.3	7.3
**St. Louis, MO-IL.......................	12.8	10.0	7.8	7.8	7.8	5.6
**Syracuse, NY...........................	NA	NA	NA	NA	7.2	12.7
Tampa-St Petersburg-Clearwater, FL......	10.6	8.8	9.0	9.1	8.3	6.4
Tucson, AZ.............................	NA	NA	NA	NA	7.7	3.5
Tulsa, OK..............................	NA	NA	NA	NA	4.6	7.9
Ventura, CA............................	NA	NA	NA	NA	6.3	6.5
**Washington, DC-MD-VA-WV\10..............	7.9	8.8	8.4	8.0	8.6	8.3
West Palm Beach-Boca Raton, FL..........	NA	NA	NA	NA	9.4	6.8

Table 5. Rental Vacancy Rates for the 75 Largest Metropolitan Areas: 1986 to 2000 - Continued

Inside Metropolitan Areas	7.7	7.5	7.7	7.8	7.7
Akron, OH	6.3	6.3	4.8	10.1	8.1
**Albany-Schenectady-Troy, NY	16.1	12.1	20.4	12.5	9.3
**Atlanta, GA	10.5	10.2	9.6	9.8	9.3
**Austin-San Marcos, TX	8.8	8.4	9.3	8.2	4.6
Baltimore, MD	7.1	10.7	6.0	7.2	5.4
* Bergen-Passaic, NJ	1.9	2.2	2.9	2.8	1.9
**Birmingham, AL	8.6	8.9	14.5	18.6	23.3
**Boston, MA-NH\1	5.9	4.0	4.1	3.1	2.7
Buffalo, NY	16.5	15.4	16.8	14.9	17.5
* Charlotte-Gastonia-Rock Hill, NC-SC	4.5	8.8	10.4	7.9	8.8
**Chicago, IL	7.9	8.2	7.8	6.5	6.9
**Cincinnati, OH-KY-IN	7.8	10.3	11.5	11.9	10.6
**Cleveland-Lorain-Elyria, OH\2	8.4	10.1	10.3	11.3	8.4
**Columbus, OH	9.4	8.1	7.9	7.4	10.5
**Dallas, TX	8.9	6.8	5.9	7.2	9.2
* Dayton-Springfield, OH	10.6	11.6	10.9	11.0	8.2
Denver, CO	5.2	2.4	4.0	5.6	4.6
Detroit, MI	8.8	7.2	7.4	8.5	8.7
**Fresno, CA	10.9	10.1	10.6	7.1	8.7
* Ft. Lauderdale, FL\3	8.6	9.3	5.7	8.1	6.2
**Ft. Worth-Arlington, TX	5.6	6.9	6.8	6.1	6.9
**Grand Rapids-Muskegon-Holland, MI	15.6	13.6	6.2	7.3	6.9
**Greensboro-Winston Salem-High Point, NC	3.3	7.9	6.3	8.7	8.9
**Greenville-Spartanburg-Anderson, SC	9.9	9.8	13.4	10.3	7.6
* Hartford, CT	8.1	9.0	13.2	9.2	10.9
Honolulu, HI	4.7	6.4	6.3	7.6	4.9
**Houston, TX	8.0	9.8	9.6	9.8	13.4
**Indianapolis, IN	6.8	10.3	10.5	13.3	12.3
Jacksonville, FL	7.2	5.8	6.8	7.1	9.9
**Kansas City, MO-KS	7.9	6.8	7.5	6.7	8.8
**Las Vegas, NV	7.4	6.3	9.4	9.4	10.7
* Los Angeles-Long Beach, CA	8.7	8.0	6.9	5.1	4.7
**Louisville, KY-IN	4.1	3.7	7.9	9.2	7.2
**Memphis, TN-AR-MS	5.9	3.3	6.6	9.2	7.1
* Miami, FL\4	8.3	10.0	9.8	8.5	8.8
* Middlesex-Somerset-Hunterton, NJ	6.1	2.6	3.5	2.3	4.0
Milwaukee-Waukesha, WI\5	7.4	8.4	8.9	6.5	5.9
**Minneapolis-St. Paul, MN-WI	3.9	3.9	3.9	4.2	3.9
* Monmouth-Ocean, NJ	2.5	4.3	4.2	6.2	4.0
Nashville, TN	3.9	6.6	5.4	4.4	3.5
* Nassau-Suffolk, NY	5.1	4.3	4.9	1.9	2.7
**New Orleans, LA	6.8	9.3	12.3	16.3	15.5
New York, NY	5.5	5.2	5.0	4.7	4.0

**Newark, NJ.............................	11.4	6.2	3.7	4.6	6.2
**Norfolk-Virginia Beach-Newport News, VA.	6.5	5.7	7.6	4.2	6.8
* Oakland, CA............................	6.8	4.4	6.0	4.6	4.2
Oklahoma City, OK......................	10.7	10.0	12.2	14.9	16.0
**Omaha, NE-IA...........................	7.2	5.1	7.9	9.0	7.6
* Orange County, CA\6....................	5.9	6.2	4.4	4.2	2.2
**Orlando, FL............................	11.0	6.5	4.7	6.8	7.4
**Philadelphia, PA-NJ....................	10.0	11.4	10.3	10.8	8.3
**Phoenix-Mesa, AZ\7.....................	8.0	6.3	7.4	9.2	9.6
**Pittsburgh, PA.........................	8.7	10.3	10.4	12.5	10.3
**Portland-Vancouver, OR-WA\8............	5.2	5.2	7.7	7.4	6.4
* Providence-Fall River-Pawtucket, RI-MA..	7.1	6.9	5.7	4.8	4.8
**Raleigh-Durham-Chapel Hill, NC.........	10.0	11.9	15.3	11.8	13.8
Richmond-Petersburg, VA................	10.1	7.5	5.2	11.0	6.1
**Rochester, NY..........................	6.7	7.1	6.8	10.3	11.6
Sacramento, CA.........................	8.1	5.0	4.9	6.2	5.6
* Salt Lake City-Ogden, UT...............	4.6	5.4	6.4	8.5	6.5
**San Antonio, TX........................	7.0	7.1	6.6	6.8	7.5
* San Bernardino-Riverside, CA...........	8.6	9.3	9.2	8.1	7.5
* San Diego, CA..........................	6.0	5.1	5.1	4.2	4.0
San Francisco, CA......................	3.1	1.7	2.5	3.3	3.1
* San Jose, CA...........................	1.8	2.0	2.2	2.1	3.0
**Scranton-Wilkes-Barre-Hazelton, PA......	9.2	14.6	7.5	7.4	3.0
**Seattle-Bellevue-Everett, WA\9..........	7.1	3.4	2.6	3.9	5.4
**St. Louis, MO-IL.......................	5.9	7.8	10.3	9.9	16.4
**Syracuse, NY...........................	13.6	12.2	14.8	8.6	10.7
Tampa-St Petersburg-Clearwater, FL......	7.4	6.2	7.1	9.2	9.5
Tucson, AZ.............................	10.3	10.0	6.3	9.0	9.1
Tulsa, OK..............................	7.7	8.6	6.8	9.8	10.8
Ventura, CA............................	5.4	2.1	4.2	1.3	3.0
**Washington, DC-MD-VA-WV\10..............	8.8	8.1	8.3	6.6	7.0
West Palm Beach-Boca Raton, FL..........	10.0	14.8	11.8	19.2	22.9

Data from 1986 to 1994 are based on 1980 metropolitan/nonmetropolitan definitions, while 1995 and later data are based on 1990 metropolitan/nonmetropolitan definitions. See Source and Accuracy section for explanation.

rRevised.

* Boundaries did not change as a result of the 1990 Decennial Census of Population and Housing; one or more central city/cities added or deleted.
** Boundaries changed as a result of the 1990 Decennial Census of Population and Housing; one or more county/counties added or deleted.
NA Not Available

\1 Formerly titled Boston, MA.
\2 Includes former Lorain-Elyria, OH PMSA
\3 Formerly titled Fort Lauderdale-Hollywood-Pompano Beach, FL.
\4 Formerly titled Miami-Hialeh, FL.
\5 Formerly titled Milwaukee, WI.
\6 Formerly titled Anaheim-Santa Ana, CA.
\7 Formerly titled Phoenix, AZ.
\8 Formerly titled Portland, OR.
\9 Formerly titled Seattle, WA.
\10 Formerly titled Washington, DC-MD-VA.

Source: U.S. Census Bureau

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Created: ***February 14, 2001***
Last Revised: ***February 22, 2001***

EXPERIMENTAL HOUSING ALLOWANCE PROGRAM

CONCLUSIONS

THE 1980 REPORT

U. S. Department of Housing and Urban Development
Office of Policy and Development and Research
Division of Housing Assistance Research

February 1980

Table B-1

Percent of Pre-Program Units That Failed to Meet Housing Standards in the Supply and Demand Experiments

	Renters	Homeowners
Demand Experiment a/		
Pittsburgh	75%	NA
Phoenix	71	NA
Combined Sites	73	NA
Supply Experiment b/		
Green Bay	44%	47%
South Bend	56	51
Combined Sites	50	49

a/ From inspections at enrollment of 2,914 units in which a representative sample of low-income households lived. Abt Associates Inc., 1975: 132-133.

b/ From inspections at enrollment of 18,187 units occupied by low-income households who applied for assistance from the housing allowance program in each site through the first four program years (through June 1978 in Green Bay and December 1978 in South Bend). Data provided by the Rand Corporation, February 21, 1980.

Experimenting with Housing Allowances

The Final Report of the Housing Assistance Supply Experiment

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OG &H Oelgeschlager, Gunn & Hain, Publishers, Inc.
Cambridge, Massachusetts

ing or shortly after the field period, file development was not completed until the end of 1980 and documentation continued into 1981.

Meanwhile, analysis proceeded on the data that were available, testing and refining both methods and hypotheses. The earliest publications were mostly methodological; but between 1974 and 1980, HASE published over 60 research notes and reports of interim findings. As the data files accumulated, our investigations became both wider (integrating data from different but concurrent surveys or files of program records, analyzing time-series, making cross-site comparisons) and deeper (using more elaborate statistical methods to capture elusive relationships). That research culminated in seven final reports, one for each major topic on our agenda.[19]

This comprehensive final report is based mainly on the seven final topical reports mentioned above. It abstracts and interprets the main findings from each, avoiding methodological detail. Chapter II introduces the reader to our experimental sites and Ch. III summarizes the history of the allowance program conducted in each. This background will help the reader understand and evaluate the research findings reported in Chs. IV through VIII. Chapter IX integrates those findings and explores their policy implications.

Most of the statistics and tables in this book first appeared in other HASE publications. To avoid excessive cross-referencing, we do not identify such publications, indicating instead the primary data source. At the end of each chapter is a list of references that may be consulted for more detail, particularly for methodological detail. Where appropriate, these are cited also in the main text and in table notes.

KEY FINDINGS FROM THE EXPERIMENT

Not all readers will be equally interested in all aspects of the Supply Experiment. To guide the selective reader, we offer below a chapter-by-chapter precis of the findings.

The Experimental Sites (Ch. II)

For some years before the experiment began, Brown County's flourishing economy and growing population had combined to keep vacancy rates low and property values high. As St. Joseph County's

[19]In all, HASE published over 280 reports, technical notes, and professional papers. Appendix A indexes 169 that deal with experimental design and research findings. Appendix B lists 109 codebooks and audit reports and a three-volume *User's Guide* that documents the data collected by HASE.

manufacturing industries declined, it lost population, especially in the urban core; vacancy rates were high and property values were low. However, rents were about the same for comparable dwellings in the two counties. In both places, low-income households allocated large shares of their budgets to housing expenses; those with moderate incomes spent very little more for housing.

Our analysis of these housing markets at baseline cast doubt on two widely accepted scenarios of allowance program effects: that an allowance program would powerfully stimulate housing demand, and that such a demand change would promptly be reflected in rents.

The Housing Allowance Program (Ch. III)

Through the first five program years, over 25,000 households enrolled in the two allowance programs and over 20,000 received one or more allowance payments. At the end of year 5, about 11,500 households were enrolled and nearly 9,500 were receiving monthly payments.

During those five years, the program provided financial assistance to 11,350 renters and 8,650 homeowners. At the end of year 5, the average monthly payment was $97, augmenting the average recipient's gross income by 25 percent.

Nearly half of all enrollees joined the program while living in dwellings that met program standards; thus, their allowances mainly helped them meet existing housing expenses (which usually greatly exceeded the legislative norm of one-fourth of adjusted gross income). But nearly 11,000 dwellings were repaired or improved to meet program standards, and about 5,000 households improved their housing circumstances by moving. Over 300 renters bought homes after enrolling in the program.

The programs grew rapidly during their first three years; thereafter, growth was much slower because terminations nearly offset new enrollments. However, growth resumed during the sixth and seventh program years, perhaps because the 1980-81 recession increased the number of income-eligible households.

Eligibility and Participation (Ch. IV)

About 28 percent of all renters and 17 percent of all homeowners in the two counties were usually eligible for assistance under program rules, but about a third of the eligibles became ineligible each year and were replaced by newly formed or newly eligible households. At the end of year 3, about 41 percent of the currently eligible renters and 27 percent of the currently eligible homeowners were enrolled and receiving payments. Current recipients thus constituted about 6.5 percent of all households and a third of all eligible households.

The main reasons for nonparticipation were the small entitlements of those who were only marginally or briefly eligible, and the unwillingness of some whose dwellings were unacceptable to either repair them or move to better housing. The neediest were most likely to participate, but more of them would have participated in the absence of minimum housing standards.

Among those who had to repair or move in order to qualify for payments, about two-thirds did so and one-third dropped out. Overall, over 80 percent of the enrollees eventually qualified for payments. Most of those who dropped out could have recovered repair costs from their first few allowance payments.

Effects on Participants (Ch. V)

Participation in the program increased the likelihood of occupying standard housing from about 50 to about 80 percent, and reduced preenrollment housing expense burdens from about 50 percent of gross income to about 30 percent. In addition to making required repairs, two-fifths of the renters moved to larger or better dwellings and three-fourths of the owners voluntarily improved their dwellings each year. However, the average participant increased his housing expenditures by only 8 percent over his estimated expenditures absent the program.

Enrollees were able to meet program standards without much increase in expenditure because their housing defects were mostly minor health and safety hazards, rather than major structural defects or lack of basic domestic equipment. Repairs were generally made by the participants themselves, their friends, or their landlords, rather than by professional contractors. The average cost of repairing a failed dwelling was about $100, including an imputed wage for unpaid labor. Although allowances augmented the typical renter's income ($4,100) by about a fourth and the typical owner's income ($4,600) by a sixth, recipients chose to spend only a fifth of the extra money on housing. Thus, four-fifths of all allowance payments were allocated to nonhousing consumption.

Although the fiscal mechanism is different, the public housing program has about the same effect as housing allowances on participants' housing and nonhousing consumption. However, the public cost per dollar of participant benefit is over twice as high for public housing as for housing allowances. An unrestricted cash grant would be more efficient than the allowance program in delivering benefits to participants, but would have negligible effects on housing quality.

Market Effects (Ch. VI)

A full-scale open-enrollment allowance program had no perceptible effect on rents or property values in either a tight housing market (Brown County) or a loose market (St. Joseph County). One reason was that the program increased aggregate housing demand by less than 2 percent. Another was that it proved relatively easy and inexpensive to transform substandard to standard dwellings. When a renter joined the program without moving, his rent typically increased by less than 2 percent, even though his landlord may have made minor repairs to bring the dwelling up to program standards. Nonparticipants' rents were unaffected.

The program had little effect on the physical appearance or social composition of residential neighborhoods. Even in neighborhoods where participants made up a fifth or more of all residents, the housing improvements were inconspicuous because program standards were not concerned with cosmetics. Though many renters moved, the origins and destinations of the moves were too diffuse to alter neighborhood populations. The degree of racial segregation did not change perceptibly because of the program.

Because required repairs were inexpensive and could usually be completed with amateur labor, neither home improvement lenders nor home repair contractors were salient actors in the program. Real-estate brokers and mortgage lenders were involved in home purchases by participants, but few renter enrollees sought to buy homes. Those who did so usually obtained financing either from a mortgage bank or the seller of the property; commercial banks and thrift institutions were conspicuously uninterested in lending on low-valued properties.

Community Attitudes (Ch. VII)

Brown and St. Joseph counties offered very different political and social environments for the proposed experimental program. The former was a conservative community, remarkably free of competing interest groups and inexperienced with federal assistance programs. The latter was less a "community" than a network of overlapping interest groups—jurisdictional, political, economic, and ethnic—and had participated in similar federal programs. Although negotiations to operate the program in the two sites followed very different patterns, the outcomes in terms of public knowledge and attitudes were quite similar.

After three years of experience with the program, a majority of all household heads and 90 percent of all participants thought it was a "good idea." Landlords were less enthusiastic, but a majority of those whose tenants included recipients approved of the program. In general, the public approved of who got help, what the help was for, and how the program was run. However, only participants were very conscious of program-induced housing or neighborhood effects. Virtually no one perceived negative consequences, such as rent increases, property deterioration, or undesirable new neighbors.

Program Administration (Ch. VIII)

The allowance programs were administered by nonprofit corporations under the supervision of Rand and HUD. Hiring staff locally at prevailing wages, these housing allowance offices (HAOs) performed their functions promptly, equitably, and humanely at the surprisingly low cost of $163 per recipient-year (1976 dollars).

We attribute this administrative success to several factors. One is the intentionally limited nature of HAO administrative functions, which made workloads controllable and susceptible to routine procedures. Another was the administrative style, which stressed formal procedures, careful training, thorough and conspicuous checks on both clients' submissions and staff work, and a management information system that closely tracked individual performances as well as workloads and costs.

Lessons from the Supply Experiment (Ch. IX)

Much discourse on federal housing policy is based on two widely held beliefs: (a) that most poor people live in seriously substandard dwellings, and (b) that they do so because they cannot afford adequate housing. Evidence from the Supply Experiment strongly qualifies both propositions. Both in our sites and elsewhere, seriously overcrowded, under-equipped, or dilapidated dwellings are now rare. The much more common health and safety hazards could be corrected inexpensively by the dwellings' occupants if they were aware of them and concerned about them.

However, housing expenses are quite burdensome for low-income families, typically absorbing about half of their incomes. We judge that low-income households in our sites and probably elsewhere would much prefer help with their present housing expenses to any substantial increase in their housing consumption.

A housing allowance program serves that function, and at the same time requires the beneficiaries to bring their dwellings up to standards that are embodied in most local housing codes but are rarely enforced by local authorities. Although housing allowances are effective and efficient remedies for both the housing expense and quality problems of low-income families, they do not contribute much to other objectives of federal housing policy, such as neighborhood improvement, racial and economic integration, homeownership, stabilization of the construction industry, and liquidity of housing investments.

The experimental program was open to nearly all low-income households, regardless of family composition or housing circumstances. Nationally, about a fifth of all households would be eligible under Supply Experiment rules, and we estimate that about a tenth would actually participate. However, the size of a national program could be varied substantially by adopting broader or more restrictive eligibility rules, offering higher or lower benefits, or applying different housing standards.

We strongly recommend additional research and field testing for housing standards that are applied in both federal housing assistance programs and local housing codes. Those in common use represent a consensus of expert opinion; but their premises are largely untested and their consequences in the field are, except for the housing allowance experiments, poorly documented.

In the experimental program, assistance was conditional on both need and performance. Among those who were eligible, the needier were much more likely to participate than the less needy. It is also clear, however, that more of the neediest would have participated in the absence of performance requirements (housing standards). We leave it to the reader to decide whether the housing improvements achieved by the program warrant excluding those who were unable or unwilling to meet the program's housing standards.

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Table 2.5

RESIDENTIAL PROPERTIES AND HOUSING UNITS BY TYPE OF PROPERTY AND OCCUPANCY STATUS OF UNIT: BROWN COUNTY (1974) AND ST. JOSEPH COUNTY (1975)

Type of Property	Number of Properties	Number of Housing Units, by Occupancy Status				Percentage Distribution	
		Owner-Occupied[a]	Renter-Occupied	Vacant	Total	Properties	Housing Units
Brown County, 1974							
1 unit	34,389	31,950	2,085	354	34,389	87.9	69.8
2-4 units	4,380	1,969	7,425	360	9,754	11.2	19.8
5-19 units	231	37	1,822	123	1,982	0.6	4.0
20-99 units	43	2	1,520	89	1,611	0.1	3.3
100+ units	2	--	255	15	270	(*b*)	0.6
Mobile-home park[c]	13	807	--	90	897	(*b*)	1.8
Rooming house[d]	40	10	326	29	365	0.1	0.7
Total	39,098	34,775	13,433	1,060	49,268	100.0	100.0
St. Joseph County, 1975							
1 unit	62,373	54,548	5,720	2,105	62,373	94.8	78.3
2-4 units	3,169	1,295	5,176	914	7,385	4.8	9.3
5-19 units	179	39	1,037	188	1,264	0.3	1.6
20-99 units	28	39	987	161	1,187	(*b*)	1.5
100+ units	27	1,098	3,998	506	5,602	(*b*)	7.0
Mobile-home park	18	1,681	--	172	1,853	(*b*)	2.3
Rooming house	5	1	25	8	34	(*b*)	(*b*)
Total	65,799	58,701	16,943	4,054	79,698	100.0	100.0

SOURCE: Reconciliation by HASE staff of sampling and survey records for the baseline surveys of landlords, tenants, and homeowners in both sites.

NOTE: Estimates are based on sample data, but the samples cover all known residential properties in each site at the time of the surveys. Rented rooms in private homes are not counted as separate units. Mobile homes outside of mobile-home parks are counted in the property-size categories in which they occur. In Brown County, vacancies in 1,230 federally subsidized units were estimated without survey data.

[a] Includes owner-occupied units in cooperatives and condominiums and units occupied by resident landlords on rental properties. Also includes mobile homes owned by the occupant even though the vehicle may be in a rented space.

[b] Less than 0.1 percent.

[c] Mobile-home parks have five or more mobile-home spaces. Vacancies refer to vacant spaces rather than vacant vehicles.

[d] Rooming houses have five or more units that lack either complete kitchen facilities, a private bath, or a separate entrance.

Table 2.6

HOUSING VACANCIES AND TURNOVER AT BASELINE: BROWN COUNTY (1973), ST. JOSEPH COUNTY (1974), AND THE UNITED STATES (1975)

Area	Number of Habitable Units	Average Vacancy Rate (%)	Annual Turnover per 100 Units	Average Vacancy Duration (weeks)
Rental Housing[a]				
Brown County	14,700	5.1	65.6	4.0
St. Joseph County	16,400	10.6	57.4	9.6
Central South Bend	8,000	12.3	59.5	10.7
Rest of county	8,400	8.9	55.3	8.4
United States	27,145[c]	6.0	51.5	6.1
Homeowner Housing[b]				
Brown County	31,700	.8	7.4	5.6
St. Joseph County	57,000	2.4	9.9	12.6
Central South Bend	13,600	4.2	8.5	25.7
Rest of county	43,400	1.9	10.2	9.7
United States	47,444[c]	1.2	9.9	6.3

SOURCE: Entries for Brown and St. Joseph counties were estimated by HASE staff from records of the baseline surveys of landlords and homeowners in each site. Entries for the United States were estimated from published data of the Annual Housing Survey; see Rydell, 1979c, for details.

[a]For HASE sites, excludes mobile-home parks, rooming houses, farmhouses, and federally subsidized dwellings; for the United States, excludes seasonal dwellings and others held off the market.

[b]For HASE sites, excludes mobile homes; for the United States, excludes seasonal dwellings and others held off the market.

[c]Entries are in thousands of dwellings.

III. THE HOUSING ALLOWANCE PROGRAMS

The experimental housing allowance programs were administered in the two sites by nonprofit corporations called housing allowance offices (HAOs). As explained in Ch. I, the programs were funded by annual contributions contracts between HUD and a local housing authority in each county; the local authority delegated operating responsibility for the program to the HAO. Each HAO was governed by a board of trustees that included both members of The Rand Corporation and local citizens; the chairman of each board was also Rand's site manager for the experiment.

HASE staff and newly hired HAO staff collaborated in developing the program rules and administrative procedures documented in the *Housing Allowance Office Handbook* (Katagiri and Kingsley, 1980). After all the needed intergovernmental agreements had been secured, offices had been leased and furnished, HAO staffs had been hired and trained, and HUD had approved the *Handbook*, low-income households in each site were publicly invited to apply for assistance. Enrollment began on 20 June 1974 in Brown County and 27 December 1974 in St. Joseph County.

Through the first five program years (ending June 1979 in Brown County and December 1979 in St. Joseph County), over 25,000 households enrolled and over 20,000 received one or more allowance payments. At the end of year 5, about 11,500 households were enrolled and nearly 9,500 were receiving monthly payments.

During those five years, the program provided financial assistance to 11,350 renters and 8,650 homeowners. At the end of year 5, the average monthly payment was $97, augmenting the average recipient's gross income by 25 percent. The annual equivalent of all payments made in the first month of the sixth program year was $4.0 million in Brown County and $7.2 million in St. Joseph County, or about $11 million in all.

Nearly half of all enrollees joined the program while living in dwellings that met program standards; thus, their allowances mainly helped them meet existing housing expenses (which usually greatly exceeded the legislative norm of one-fourth of adjusted gross income). But nearly 11,000 different dwellings were repaired or improved to meet program standards, and about 5,000 households improved their housing circumstances by moving. Over 300 renters bought homes after enrolling in the program.

Table 4.1

ALL HOUSEHOLDS AND ELIGIBLE HOUSEHOLDS IN 1977, BY SITE AND SELECTED CHARACTERISTICS

Characteristic	Number of Households		Percentage Distribution	
	All Households	Eligible Households	All Households	Eligible Households
Brown County				
Housing Tenure				
Renter	14,342	3,689	29.8	46.6
Owner	33,730	4,223	70.2	53.4
Total	48,072	7,912	100.0	100.0
Household Composition[a]				
Single parent	3,471	1,973	7.2	24.9
Other nonelderly single person	8,079	(*b*)	16.8	(*b*)
Elderly single person	3,841	1,778	8.0	22.5
Young couple, young children	12,344	1,703	25.7	21.5
Other nonelderly couple	16,458	1,105	34.2	14.0
Elderly couple	3,879	1,353	8.1	17.1
Total	48,072	7,912	100.0	100.0

St. Joseph County

Housing Tenure				
Renter	15,619	4,644[c]	21.7	30.2[c]
Owner	56,267	10,755	78.3	69.8
Total	71,886	15,399	100.0	100.0
Household Composition[a]				
Single parent	6,141	3,801	8.5	24.7
Other nonelderly single person	12,508	(*b*)	17.4	(*b*)
Elderly single person	8,589	5,464	11.9	35.5
Young couple, young children	15,279	1,878	21.2	12.2
Other nonelderly couple	20,633	1,580	28.7	10.3
Elderly couple	8,736	2,676	12.2	17.4
Total	71,886	15,399	100.0	100.0
Race of Head				
White non-Latin	64,336	12,508	89.5	81.2
Other	7,550	2,891	10.5	18.8
Total	71,886	15,399	100.0	100.0

SOURCE: Estimated by HASE staff from household survey records for wave 4 in Brown County and wave 3 in St. Joseph County. See Carter and Balch, 1981, for estimating methods.

NOTE: Resident landlords and occupants of subsidized housing are excluded from both the total and eligible populations. Distribution by race of head was not estimated for Brown County, where over 98 percent of all household heads were non-Latin whites. Distributions may not add exactly to totals because of rounding.

[a] Compositional categories are derived from life-cycle stages defined in Sec. II, Table 2.2.

[b] Single persons under 62 are all classified as ineligible, although a few were eligible because of handicaps, disabilities, or residential displacement. See text for explanation.

[c] This figure would be substantially larger if renters in federally subsidized housing units had been counted as eligible. See text for explanation.

THE NATIONAL ALLIANCE TO END HOMELESSNESS, INC.

Testimony of

Nan P. Roman
President
National Alliance to End Homelessness

to the

Subcommittee on Housing and Community Opportunity
Committee on Financial Services

June 21, 2001

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Madam Chairman, Mr. Frank and members of the Subcommittee, I am honored that you have invited the National Alliance to End Homelessness to testify before you today on the relationship between affordable housing and homelessness. The National Alliance to End Homelessness is convinced that ending homelessness is well within our reach as a nation. In the past we have been pleased to work with the Committee to make progress toward this goal. Your concern about the crisis in housing affordability and availability is laudable. Addressing this crisis will surely move us forward in our struggle to end homelessness.

The National Alliance to End Homelessness is a nonpartisan, nonprofit organization that was founded in 1983 by a group of leaders deeply disturbed by the emergence of a new social phenomenon – thousands of people living on the streets. From its founding in 1983, the focus of the National Alliance to End Homelessness (the Alliance) has shifted as the problem of homelessness has changed. Once focused on securing immediate food and shelter, today the Alliance, which has grown to include 2,000 member nonprofit and public sector agencies and corporate partners in every state in the nation, focuses on permanent solutions to homelessness.

I have been asked to speak to you today about the relationship between housing affordability and homelessness. The relationship is a simple one. Homelessness is caused by the lack of affordable housing. Homelessness *is* a housing problem. Notwithstanding all of the other problems and disadvantages that homeless people may have, it is the lack of housing that causes and defines their homelessness. Homeless people may have problems, disadvantages, or disabilities that make them less competitive for the affordable housing that does exist, and they certainly have service needs. But at the end of the day, if there were enough affordable housing there would not be homeless people.

You have heard repeatedly in these hearings that there is not enough affordable housing, or the mirror image of that proposition, that people's earnings are insufficient to pay for the housing that does exist. I will not revisit that discussion except to say this. People who are homeless are at the very bottom of the income spectrum. In 1996, the average income of a homeless person was $367 per month[1] (or $4,404 per year). This is 13% of the 1995 median monthly household income for all U.S. households. Homeless people obtain this income from work, from public benefits, or from a combination of the two.

According to the U.S. Department of Housing and Urban Development, extremely low-income people are defined as those having incomes that are 30% of area median income (AMI) or below. The vast majority of homeless people cannot even imagine having an income as high as 30% of AMI. Homeless people are the very poorest people. In some sense it can be said that the homeless assistance system is managing the churn in the very bottom of the housing market. If a person at 50% of AMI cannot afford housing, that person could move into a unit affordable to someone at 30% of AMI. But, if someone at 13% of AMI cannot find affordable housing, his or her only option is more likely to be to move to a homeless shelter. When there are not enough units of housing that are affordable to very poor people, some poor people are likely to become homeless.

The dimensions of this housing problem for very poor people are sizeable. The Urban Institute, based upon analysis of the National Survey of Homeless Assistance Providers and Clients undertaken in 1996 by the U.S. Census Bureau, estimates that as many as 3.5 million people experience homelessness in the course of a year[2]. That is nearly 11% of the poor population *per year*. And, this number had grown since the late 1980s when, using a similar methodology, Dr. Martha Burt estimated that some two million people were becoming homeless each year.

Other data confirm this national picture. Dr. Dennis Culhane, using administrative data from New York City that tracked actual cases of homelessness, determined that in that city more than one out of every hundred people used the public shelter system in the course of a single year. If one considered race and age, considerably more African Americans experienced homelessness than other races, and the highest risk group was children.[3] Similarly, Bruce Link et al, in a survey of 1,507 people across the country, without regard to income, found that 12 % reported having been homeless at some time in their lives – and 7% reported having slept in a shelter or pubic space. 3.2% reported having been literally homeless in the past five years, a figure that corresponds to the Culhane data on New York City.[4] Further, the latter two studies were done in the early- to mid-1990s, at a time when homeless rates were lower and affordable housing was in greater supply.

Based on such data, it is clear that a significant number of Americans are experiencing homelessness every year. However, this has not always been the case. As late as the 1970s, there was not significant homelessness in America. In 1970 there were 300,000 more affordable housing units available, nationally, than there were low-income households that needed to rent them.[5] As result, there was not homelessness. Many people may have had mental illness, substance disorders, poor educations and low incomes. But they could still find and afford a place to live. Today, the situation is reversed. In 1995 there were 4.4 million more low income households that needed housing than there were affordable housing units. As a result, nearly a million people were homeless every night.

Given, then, that homelessness is a housing problem, presumably an increase in the supply of affordable housing could end homelessness. Is there some special type of affordable housing that is required for homeless people? The answer is no – and yes.

In order to assess how affordable housing could be used to end homelessness, the nature of the housing needs of the homeless population must be assessed. There are two major sub-groups of homeless people, and they have somewhat different affordable housing needs. The first and largest group consists of people who have lost their housing for some reason, but who do not differ substantially from poor, housed people in their demographic characteristics. The second and much smaller group consists of people who have special needs and who need housing that is linked to services.[6]

80% of people who become homeless enter the homeless system and exit it again relatively quickly. They are having a crisis that affects their housing. Typically these households address their immediate problem and re-enter housing – probably not very good housing and probably not very stable housing. But they do leave and find housing. One way or another they accommodate the housing crisis. People in this group are both single individuals and families. They do not seem to differ in most characteristics from other people who are poor. They have similar rates of mental illness, substance abuse disorders, physical ailments, and domestic violence experience. They have similar education levels and numbers of children. One way in which they do seem to differ from their housed, poor counterparts is in the depth of their support networks, which are very thin. Also, they often have somewhat lower incomes and may be younger.[7]

Taken as a whole, this group does not need any special type of housing. They just need housing that is affordable. Research indicates that the one thing that stabilizes homeless families in housing is housing subsidy.[8] According to an overview of the research literature on homelessness, "Homeless persons who receive subsidized housing will, for the most part, remain in that housing."[9] While homeless people may have service needs, as do other poor families, these needs are best met once they are in permanent housing. If there were an adequate supply of affordable housing for poor people, this group would not be homeless, although it might not be self-sufficient and would probably still have very severe needs.

There is a second group of people that does have a more specific housing need. 20% of people who are homelessness spend a much longer time in the homeless system. About half of this group virtually lives in shelter and on the street. Another half moves frequently between the streets, shelter, other makeshift housing arrangements, hospitals, jails and prisons. These two groups, primarily single men and some single women,[10] *do* differ quite significantly from the general population of poor people in that they almost universally have chronic disabilities. These tend to be mental illness, chronic substance abuse disorders, physical disabilities and HIV/AIDS. Because of these illnesses, supportive housing – housing explicitly linked to services – is a more successful housing model.

Supportive housing comes in all makes and models. It can be multi-family, scattered site, group homes, etc. In some supportive housing, the services are delivered in the housing. In others, case managers link people to services and monitor the needs of tenants to ensure that these needs are being met. Supportive housing is permanent housing – there is no artificial limit on tenancy, and in many cases people live there for long periods of time. In other cases, once people get on their feet they re-unite with family and supportive friends, and leave.

The National Alliance to End Homelessness estimates that there are 200,000-250,000 chronically homeless people in the nation[11]. At present, these people are largely served through the shelter system and other public systems of care, such as hospital emergency rooms, jails and prisons. This is not only wrong, it is costly. A recent, and noteworthy, study by the University of Pennsylvania found that the annual cost of a homeless, severely mentally ill person to public systems of care in New York City was $40,449.[12] The annual cost to public systems after these individuals were placed in supportive housing was $41,444. For a net cost of $995 per year, chronically ill, chronically homeless people can be placed in housing. This would seem to be a sensible approach.

In fact, because of the foresight of the Congress over the past three years, more of the HUD Homeless Assistance Grant program funds are going to this type of permanent supportive housing. Following the approach taken by this Committee on a bi-partisan basis in the last Congress, the appropriators have designated 30% of the HUD Homeless Assistance Grant program funds to be used to supply new permanent supportive housing for people with disabilities. Through this expenditure, affordable supportive housing is being produced for this neediest group. I will return to this subject in my recommendations.

In summary, homelessness is a housing affordability problem. When there was an adequate supply of affordable housing for extremely low income people, there was not widespread homelessness, notwithstanding all of the other problems that people may have had. If there were an adequate supply of affordable housing for this group today, there would not be homelessness. Housing does not solve all problems. But it would solve this one.

Recommendations

Based upon this analysis of the relationship between homelessness and housing affordability, we have the following recommendations.

- There is a national shortage of affordable housing and it is causing a significant number of poor people to become homeless. We urge the Committee to initiate a housing production program that will significantly address this shortage.

- While fully recognizing that there are housing needs across a wide spectrum of incomes, it is an inescapable fact that the problem is much, much more severe for some than for others. While the values surrounding balanced community development, mixed income housing, and support for working families are laudable, the first order of business must be to alleviate housing need so severe that it causes people to live on the streets or in shelter. Housing people in such a way is not only inhumane; it is surprisingly costly. If there are adequate resources available to meet the housing needs of all Americans up to 120% of Area Median Income and beyond, then the needs of people at 15% of Area Median Income and below will be met, and no further targeting will be required. However, if there are not enough resources to meet the full spectrum of need – and I presume there will not be – there must be substantial targeting. While this targeting should be directed to people at 30% of Area Median Income and below, there must also be special consideration given to people who are at 15% of AMI and below.

- We know the solution to chronic homelessness – it is permanent supportive housing. We estimate that 200,000 units of such housing would be required to end chronic homelessness. Resources are available to supply this housing via the Homeless Assistance Grant program at HUD, but only if two things are done. The first is to ensure that at least 30% of the funds (assuming an appropriations level of at least $1.02 billion) is spent on permanent supportive housing for chronically homeless people. The second is to provide for renewal of such housing from the Housing Certificate Fund, not from homelessness programs. This will create a pipeline that, over time, holds the promise of providing enough units to end chronic homelessness. This Committee has supported these provisions in the past, and, accordingly they have been placed in the appropriations bill. However, it would be preferable to have these provisions authorized, and we request the Committee to do so.

- All people have service needs, and their ability to have these needs met has an impact on their behavior and stability in housing. This is no less true for high- than for low-income people, and it is certainly true for homeless and chronically homeless people. Services are needed, and for low-income people, these services will likely be subsidized. HUD is not particularly adept at service delivery, and yet HUD provides a good amount of funding for services to homeless people. HUD dollars spent on services are HUD dollars that cannot be spent on housing. This is a particular problem when it concerns a group of people who are defined by their lack of housing – homeless people. The appropriate agency to provide services and service funding is HHS. HUD and HHS seem now to be struggling to better coordinate services and housing. We urge the Committee to encourage this collaboration so that HUD dollars can be used to solve the housing problems of homeless people.

Ms. Chairman and members of the Committee, I appreciate your concern for homeless people and for affordable housing as expressed in this hearing and in your invitation to us to speak about homelessness. We will be happy to work with you in any way possible to create more affordable housing, and to end homelessness.

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Testimony of

Barbara Poppe
Executive Director
Community Shelter Board

to the

Subcommittee on Housing and Community Opportunity
Committee on Financial Services

June 21, 2001

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Testimony of the Community Shelter Board, Barbara Poppe, Executive Director
Before the House Committee on Financial Services,
Subcommittee on Housing and Community Opportunity
June 21, 2001

Introduction

On behalf of the Community Shelter Board (CSB), thank you for the opportunity to testify before this Committee on the affordable housing needs of homeless and disabled citizens. We hope that this testimony will encourage Congress to make a firm commitment to ending homelessness in our country.

The Community Shelter Board is a nonprofit organization which since 1986, has operated as a true public/private partnership responsible for the collaboration of funding, service delivery and planning to assist persons experiencing a housing crisis in Columbus and Franklin County, Ohio. A seventeen-member board of trustees, largely from the corporate and business community, guides the organization along with a professional staff of twelve employees. This year, the Community Shelter Board will raise, allocate and administer over $7 million to its 17 partner agencies. The Community Shelter Board receives 18 percent of its support from the private sector. We recently set a record in private sector fundraising by securing over a million dollars in annual operating support and a successful $1.5 million campaign to develop a new emergency shelter facility. The City of Columbus and the Franklin County Commissioners each contribute $3,052,165 and $1,289,711 respectively, along with $888,382 from the United Way of Central Ohio. Federal funds through the U.S. Department of Housing and Urban development total $920,000.

The Community Shelter Board and our partner agencies, along with our funders, have created an infrastructure of programs in Columbus and Franklin County that meets the immediate needs of homeless people, providing a roof over their heads, food, and health care. Our efforts have been successful. We believe it is unacceptable to turn any family, child or adult away from our sheltering system, and continue to work toward this end.

In June 1999, the Community Shelter Board (CSB) and the Greater Columbus community were selected as being one of the best efforts in the nation for addressing homelessness by the U.S. General Accounting Office (GAO). The GAO conducted extensive studies to identify "particularly effective or innovative" homeless assistance programs, and from that research, CSB emerged as one of only four "model" efforts. A special report developed by GAO features Community Shelter Board, along with outstanding homeless assistance programs in Minnesota, Massachusetts and King County, Washington (Seattle). The report praises CSB for playing a central role among service providers and programs in the community, and for ensuring that the whole system works together. CSB also was recognized for its ability to track and measure outcomes of homeless assistance programs countywide.

However, the Franklin County homeless system cannot end homelessness. Why? First, this system does not control the number of people who become homeless because of a host of factors including:

- declines in the availability of affordable housing for low income people,
- growing mismatches between the cost of basic necessities (food, shelter, clothing) and the incomes of extremely poor and low-income people, and
- a lack of core community treatment services for the poor.

Second, while most people who become homeless enter and exit the homeless system quickly, others virtually live in it. For people who are chronically disabled and very poor, emergency shelters have become home.

The Community Shelter Board believed that as a community we were at a critical juncture in dealing with the problem of homelessness. On August 8, 1997, the Community Shelter Board (CSB) received a request from the City of Columbus to develop a plan to address the needs of persons experiencing a housing crisis who may be impacted by development of the Scioto Peninsula (the riverfront corridor in downtown Columbus). With support of the City of Columbus, the United Way of Central Ohio, and the Franklin County Commissioners, CSB established the Scioto Peninsula Relocation Task Force. In October of 1998, the Task Force recommended a plan called *"Rebuilding Lives"* that outlined a better, more targeted system that provides both emergency housing for those in crisis and supportive housing for those with long-term needs. The goal was "that no one is left behind while others move forward." The Rebuilding Lives plan is our community's plan to end homelessness.

We share the assessment of the National Alliance to End Homelessness that so far, much has been accomplished, but the end is not yet in sight. "The pieces necessary to craft a solution to the problem are in place. But we must make changes in order to address the continuing flow into the homeless assistance system, and the backlog that has been created within it. If we do not turn the ship -- if we stay our current course -- homelessness will be with us indefinitely."[1]

Homelessness in Columbus and Franklin County

Columbus and Franklin County have steadily gained population over the past several decades. According to the 2000 Census, Columbus was the fifteenth largest city in the United States with a population of 711,470 (11.0% increase since 1990)[2]. Adding in the suburban metropolitan area, Franklin County exceeds one million people. Black and other minority households have also grown and now represent 21% of the Franklin County population.[3] There are 116,977 persons living below the poverty level in Franklin County, the vast majority within the City of Columbus.[4]

Homeless affects many Franklin County residents. Since 1989, the Community Shelter Board has maintained a centralized database of all persons who have accessed emergency shelter within Franklin County. To date, more than 100,000 households – families with children, single men and single women -- have received shelter.

A random telephone survey of 500 Franklin County residents in 1999 found that ten percent of area residents have stayed in a homeless shelter or been without housing. Eighteen percent had a family member who had experienced homelessness.[5]

Current trends:

The annual number of families sheltered has plummeted from a high of 1,168 households in 1995 to a low of 612 households in 1999. This represented a 47% decrease from 1995 to 1999. This decrease was achieved because we dramatically increased homeless prevention services. However, the average length of stay in shelter has increased to 71 days.[6] The increase is partially a factor related to serving more families through the prevention initiative, thus avoiding a shelter stay for families who have a slightly better economic condition. The increase in length of stay is also attributable to the loss of affordable housing and the increasing sophistication of property managers in screening out prospective tenants with credit problems.

It is important to realize, for reasons not yet fully understood, but perhaps attributable to the changing economy, the number of families seeking shelter increased by 20% in 2000 compared to 1999. The typical family receiving shelter from a Community Shelter Board partner agency during 2000 was a single mother approximately 31 years of age with 2 children. Roughly 36 percent of the children were under the age of five and 18 percent of the families reported their primary income source as Temporary Assistance for Needy Families (TANF). The number of families who reported income from employment increased to 33 percent. Approximately 57 percent of the families moved from CSB shelters to a successful housing placement. At intake the families listed eviction, relocation, and relationship problems as the most common contributing factors to their housing crisis.[7]

The number of single women who are homeless has remained constant since 1995 while the number of single men has decreased by 3.5 percent. In 2000, 931 single women and 3,869 single men experienced homelessness. The majority of the single adult individuals served were between the age of 31-45. Of the total, 81 percent of the single adults were men and 19 percent were women. About 46 percent have a high school degree or the equivalent and 21 percent have some college education or a college degree. Just fewer than 25 percent of these adults were working full or part-time at intake. Single adults listed insufficient wages or benefits, drinking/drug problems, and relationship problems as the most common contributing factors to their housing crisis.[8]

Our community's existing shelter system works best for 85 percent of homeless persons who face a *short-term* problem, providing them with a place to stay and food to eat until they are able to support themselves. The remaining 15 percent have more difficult, *long-term* problems that the current system does not effectively address. This 15 percent of the population ineffectively and inefficiently uses more than half of the shelter resources.[9]

Table 1. Types of Homeless men in Franklin County, 1994-1996[10]

	Transitional Homeless	Episodic Homeless	Chronic Homeless
Average length of system stay	24.2 days	119 days	500 days
Average number of homeless episodes	1.4	5.3	4.0
Number of homeless men (unduplicated)	6,752	1,033	159
Percent of all homeless men served	85%	13%	2%
Percent of all units of shelter service used [(1)]	44%	32%	24%

(1) A shelter unit of service is equal to one person sheltered for one night

Columbus and Franklin County's Continuum of Care

The Columbus and Franklin County, Ohio, Continuum of Care system has been developed through extensive collaboration among public, private and non-profit organizations concerned with programs for homeless persons. The lead organization for this process is the Community Shelter Board. An array of groups and individuals are actively involved in local Continuum of Care planning and program implementation by serving on coordinating and advisory groups. All components of a Continuum of Care system are present in Columbus and Franklin County. These include homelessness prevention, outreach, emergency shelter, transitional housing, permanent supportive housing, and supportive services. A priority of our community is to direct resources to expand and strengthen permanent housing options and services for the hardest-to-serve populations including chronically homeless individuals, families, and youth.[11]

Our community's continuum of care is extensive and comprehensive -- more than 50 non-profit and public organizations are involved.

Innovative Features in Franklin County:

One innovation in our community is a comprehensive **Homelessness Prevention Program** to serve individuals and families who are in imminent risk of homelessness with relocation assistance, case-management, service linkage, budget counseling and mediation services. The Prevention Program also provides short-term financial assistance in the form of rent, mortgage, and utility assistance if necessary to resolve their housing crisis. The program successfully reduces the number of households entering mainstream emergency shelter.

The target population for the Prevention Program is low-income families and individuals with stable incomes who are at risk of becoming homeless due to an eviction notice, code enforcement notice to vacate, utility past due/shutoff notice, and overcrowded living conditions. Households access homeless prevention via telephone where an initial interview is conducted to examine potential options and gather basic information.

The Prevention Program, implemented by Lutheran Social Services, coordinates with other community agencies in order to provide services to families and individuals in need of prevention services. The primary collaborations are with satellite offices at Central Community Center, Columbus Area, Inc. (a community action agency), Gladden Community House, Columbus Legal Aid Society and Godman Guild Association. The primary collaborating funders are the City CDBG, County CDBG, Ohio Housing Trust Fund and CSB's private resources.

As a result of the Prevention Program, the Community Shelter Board is able to provide proven and cost-effective housing alternatives to prevent homelessness for 1,100 households annually and thereby decrease the demand on our community's sheltering system.

Based on the *Rebuilding Lives* plan, an **improved emergency shelter safety net** will meet the needs of people who have short-term needs and are "transitionally" homeless. The *transitionally homeless* population consists of those people who generally enter the shelter system for only one short stay. They have usually lost their housing due to a catastrophic event. In most cases, transitionally homeless people stay in shelter for an average of one month and do not return to homelessness after they leave shelter. The shelters also serve as an entry point to supportive housing for the 15 percent of the adults with long-term needs. These improvements include:

- Three new men's shelters will be opening this year to replace the outdated shelters concentrated in a downtown neighborhood. The new facilities, along with existing facilities, assure better geographic dispersion of emergency shelters. One is a specialized program for publicly inebriated individuals that has exceeded all expectations by linking more than one-third of the men and two-thirds of the women served to treatment programs.

- All CSB emergency shelters passed the Shelter Certification Standards, which include Good Neighbor Agreements. The latter are written agreements that are signed with neighbors of the projects. The agreements stipulate communication, expectations, and safety issues.
- A new family shelter recently opened in an older suburban community that provides individual apartments for each family instead of the prior congregate shelter in a former convent. With the exception of the front-door shelter, all family shelters now operate in apartment settings offering greater privacy and autonomy for families, as well as the ability to serve diverse family compositions.
- Resource Centers located in each shelter are equipped with computers, Internet access, telephones with voice messaging capabilities and current information about job and housing leads. The Resource Centers provide an efficient way to meet resident needs.

The **supportive housing** component of the Rebuilding Lives plan provides permanent, affordable housing that includes counseling and on-site social services for individuals who have long-term needs. The goal is to develop 800 units of supportive housing over a five-year period, including assisted living for persons with disabilities, treatment housing, and mixed population housing. Supportive housing is being developed throughout our community and will help to revitalize and develop downtown and neighborhoods.

Since the *Rebuilding Lives* plan implementation started in July 1999, more than 90 units of supportive housing are operational and 117 more units will be online by the end of the year. Another 120 units are in the early development process. This represents 96 percent of the two-year goal for supportive housing development.

In order to accommodate the needs of homeless families, the **Family Housing Collaborative** was established as an effective alternative to traditional homeless facility-based shelter services. The Family Housing Collaborative houses some of the sheltering system's neediest families in a non-facility-based program that has a housing success rate of greater than 95%. Since the inception of the program in 1988, no participating families have returned to shelter after being housed by the Family Housing Collaborative.

The Family Housing Collaborative (FHC) began as a Direct Housing Demonstration program modeled after Beyond Shelter, a Los Angeles program. Direct housing returned homeless families to independent living as soon as possible, with transitional support provided after the family was placed in permanent rental housing. In July 1999, the Direct Housing Program expanded into the FHC to implement the direct housing concepts on a community-wide basis.

The goal of the Family Housing Collaborative is to quickly place a homeless family in a permanent apartment. Services include housing search assistance to help a family locate housing and providing assistance with deposit, several months' rent, and utility arrearages. The services continue until the family is stabilized in their new home.

Through the Family Housing Collaborative, the Community Shelter Board is working with its partner agencies to ensure that resources are available to quickly move families out of shelters and into homes. As a result, our community is able to provide services to homeless families that decrease the length of time families stay in the shelter system, increase permanent housing outcomes, and break the cycle of homelessness.

Lack of Available and Affordable Housing

Despite this impressive and innovative continuum of services, Central Ohio still lacks the most important component required to end homelessness – accessible and affordable housing. Homeless families and individuals are a sub-set of very poor households in Franklin County who cannot afford decent, safe housing.

In Ohio, the Fair Market Rent of a typical two-bedroom apartment is $535 per month. A worker earning the Minimum Wage ($5.15 per hour) has to work 80 hours per week in order to afford a two-bedroom unit at the area's Fair Market rent. Alternatively a worker would have to earn $10.30 per hour to afford an apartment. Disabled Ohioans receiving SSI can afford monthly rent of no more than $111.[12]

There is only one affordable rental unit in Central Ohio for every two extremely low-income renter households, or a deficit of about 22,000 affordable rental units with incomes at or below 30% of median income.[13]

A typical homeless family receives on $630 per month[14]. This translates to an ability to afford an apartment that rents for less than $200. A single adult, homeless woman has an average annual income of about $3,500 and needs an apartment renting for less than $100 a month.

The need for permanent supportive housing for disabled homeless is underscored by the size of the waiting list for a new 25-unit apartment building – 94 homeless persons who are either living outside or long-term in shelters are on the waiting list after just four months of operation.[15]

Coordinated Local Investment

In addition to coordinated funding provided via the Community Shelter Board, a local collaborative of funders was established in 1999. The Rebuilding Lives Funder Collaborative evolved out of the need for the collaboration described previously. The 16-member Collaborative provides funding for the capital, services and operations of supportive housing in order to achieve the community goal to develop 800 units of supportive housing for homeless men with long-term needs. The Collaborative was funded through the Rebuilding Lives plan to jointly develop: strategies, program guidelines and standards, underwriting criteria, program evaluation, outcome measurement and reporting requirements. The group meets monthly to review, evaluate, and approve funding for individual projects, as well as, assist with providing access to other community resources necessary for the success of approved projects.

TABLE 2 . MEMBERSHIP OF THE REBUILDING LIVES FUNDER COLLABORATIVE

- ADAMH Services Board
- City of Columbus Administration
- Columbus City Council
- Columbus Foundation
- Columbus Health Department
- Columbus Medical Association Foundation
- Columbus Metropolitan Housing Authority
- Community Shelter Board
- Corporation for Supportive Housing
- Franklin County Department of Job & Family Services
- Franklin County Board of Commissioners
- Franklin County Office on Aging
- Mid-Ohio Regional Planning Commission
- Ohio Capital Corporation for Housing
- United Way of Central Ohio
- Veteran's Service Commission

Additional Federal Response Needed

Columbus/Franklin County is a model community in terms of the level of cooperation and coordination among providers and funders. We are a model in terms of the level of local investment – private and public. We know what works and can document success. We are committed to ending – not just managing – homelessness. Without a strong federal partnership we cannot be successful.

Recommendations:

1. Make permanent the provision that requires that 30% of the HUD Homeless Assistance Grant program funding be spent for permanent housing.
2. Make permanent the shift of the cost of renewing HUD permanent housing units (Shelter Plus Care and Permanent Supportive Housing) out of McKinney and into the Housing Certificate Fund.
3. Provide HUD funding to end homelessness among chronically homeless and chronically ill people by developing 300,000 new units of supportive housing.
4. Support the development of a National Affordable Housing Trust Fund to expand affordable rental housing.
5. Provide DHHS funding for supportive services on-site in permanent supportive housing.
6. Continue to require a local Continuum of Care process that relies on the expertise of the nonprofit sector. It is an effective planning requirement that forces local communities to work together to provide coordianted services, shelter and housing to homeless persons.
7. Examine how the federal government can prevent homelessness through effective discharge planning at federal and state level and provision of homeless prevention services.

8. Provide federal funding to help nonprofit organizations develop the capacity to create and operate permanent supportive housing across the country.

Thank you for your interest and attention to this important subject.

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[1] Statement of Nan Roman, President, The National Alliance to End Homelessness, to the Subcommittee on VA, HUD and Independent Agencies of the Committee on Appropriations U.S. House of Representatives, April 13, 2000
[2] 2000 US Census
[3] 2001-2003 Fair Housing Plan, Columbus and Franklin County, Ohio, March 15, 2001.
[4] 2001-2003 Fair Housing Plan, Columbus and Franklin County, Ohio, March 15, 2001.
[5] Survey of Attitudes and Opinions on the Homeless in Franklin County, Ohio, GCA Strategies, October 1999
[6] Community Shelter Board, Homeless Management Information System, January 2001.
[7] Community Shelter Board, Homeless Management Information System, January 2001.
[8] Community Shelter Board, Homeless Management Information System, January 2001.
[9] Rebuilding Lives: A New Strategy to House Homeless Men. Community Shelter Board, October 1998.
[10] Rebuilding Lives: A New Strategy to House Homeless Men. Community Shelter Board, October 1998.
[11] Columbus and Franklin County Continuum of Care application, May 2001.
[12] Out of Reach, National Low Income Housing Coalition, September 2000.
[13] Providng Affordable Rental Housing in Central Ohio: Market Analysis and Community Strategies, Replacement Housing Collaborative, August 1997.
[14] Community Shelter Board, Homeless Management Information System, January 2001.
[15] Personal communication, Susan Weaver, Executive Director, Community Housing Network, March 2001.

CONSORTIUM
for
CITIZENS
with
DISABILITIES

TESTIMONY OF ANN O'HARA
TECHNICAL ASSISTANCE COLLABORATIVE
BOSTON, MA

ON BEHALF OF THE CONSORTIUM FOR CITIZENS WITH DISABILITIES HOUSING TASK FORCE

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

JUNE 21, 2001

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Introduction

Chairwoman Roukema, Ranking Member Frank and members of the Subcommittee, the Consortium for Citizens with Disabilities (CCD) Housing Task Force is grateful for the opportunity to provide testimony to the housing affordability crisis facing people with disabilities. We would like to take this opportunity to share our views on this important issue.

The Consortium for Citizens with Disabilities (CCD) is a Washington based coalition of approximately 100 consumer, advocacy, providers and professional organizations who advocate with and on behalf of people of all ages with disabilities and their families. The CCD Housing Task Force focuses specifically on housing issues that affect people with disabilities, particularly the availability of affordable and accessible community based housing options and the protection of their fair housing rights. The individuals who we represent – most of whom have very low incomes, many of whom depend solely on Supplemental Security Income or other disability benefits – may be current participants of HUD public and assisted housing programs, may be on federal housing program waiting lists, or may need to apply for federal housing assistance.

With funding from the Melville Charitable Trust, the CCD Housing Task Force and TAC have formed a partnership to address the acute housing crisis which faces people with disabilities today in virtually all communities across the United States. Today, TAC and the CCD Housing Task Force are publishing *Priced Out in 2000: The Crisis Continues* the findings from a very important study of the housing affordability problems of people with disabilities. This report contains the most complete, current and accurate analysis of housing affordability for the poorest of our nation's citizens – people with severe disabilities who are receiving federal Supplemental Security Income benefits. Unfortunately, the study documents that we have a national crisis on our hands. Across our nation today, housing needs of people with disabilities, and the housing affordability crisis that they experience, is worse now than it has been in recent memory.

CCD's testimony will focus on a range of issues including: (1) information and data describing the magnitude of the need for affordable housing among people with disabilities; (2) the key findings of *Priced Out in 2000*; (3) the critical housing policy issues which have contributed to the housing problems of people with disabilities in recent years; (4) recommendations which can serve as a "blue-print" for Congress and the Administration to begin to address this critical problem.

Housing Needs of People With Disabilities

Unfortunately, millions of people with disabilities today stand little chance of having a decent and affordable home of their own. This is particularly true for more than 3 million adults with disabilities who receive federal Supplemental Security Income (SSI) benefits – equal to a monthly income of only about $517 in 2001.

Because of their extremely low incomes, people with disabilities are facing a severe housing crisis – a crisis that is getting worse. Currently, people with disabilities – particularly people with disabilities receiving SSI benefits – have the highest incidence of unmet housing need of any group eligible for federal housing assistance.

During this past decade of increasing prosperity, low-income elderly households and low-income households with children have seen their need for government housing assistance actually decline as their incomes increased. Unfortunately, this has not been the case for people with severe disabilities receiving SSI benefits. According to HUD's recent policy report *A Report on Worst Case Housing Needs in 1999: New Opportunity Amid Continuing Challenges*, the number of "worst case" renter households in the United States actually declined 8 percent between 1997 and 1999. However, this decline in housing need occurred only among elderly and family households and specifically did not benefit people with disabilities. In fact, HUD states that "new research with Supplemental Security Income program data suggests that [housing] needs among the disabled may have increased slightly between 1997 and 1999."

HUD's 1999 report indicates that at least 1.3 million adults with disabilities receiving SSI had "worst case" housing needs in 1999. It is very important to note that HUD states that this needs estimates undercounts people with disabilities. Currently, HUD estimates only capture one segment of the very low-income population of people with disabilities – that is individuals who receive federal SSI benefits. HUD estimates completely exclude people with disabilities receiving other types of disability benefits such as Social Security Disability. HUD estimates also do not include people with disabilities who may be employed at low wage jobs, or who are in the process of applying for SSI, and need housing assistance.

HUD's estimates do not consider people with disabilities living unnecessarily in "restrictive" settings such as state institutions or nursing homes which, according to the U.S. Supreme Court's *Olmstead vs. L.C.* decision, violate the Americans with Disabilities Act (ADA). In 1999, the U.S. Supreme Court's *Olmstead* decision affirmed that under the ADA, people with disabilities have a basic civil right to live in the most integrated community-based setting appropriate to their needs. Most people with disabilities who will benefit from the *Olmstead* decision are SSI recipients. They will require federal housing assistance in order to be able to move into permanent housing in the community. Without a substantial increase in federal housing assistance targeted to people with disabilities, the ADA mandates affirmed by the U.S. Supreme Court's *Olmstead* decision simply cannot be achieved.

The lack of accurate data from HUD compelled the CCD Housing Task Force to publish its own housing needs estimates. Using HUD data which showed that more than 70 percent of households below 30 percent of median income have a severe rent burden, the CCD Housing Task Force estimated in 1996 that at least 1.8 million people with disabilities receiving SSI had worst case needs. In the year 2001, the number is certainly much higher.

Because of their extreme poverty, people with disabilities receiving SSI or other disability benefits cannot afford decent housing anywhere in the country without some type of government housing assistance. Yet relatively few non-elderly disabled households (ages 18-61) currently benefit from HUD subsidized housing programs. Recent HUD data indicate that fewer than 500,000 people with disabilities are being assisted by all HUD subsidized housing programs. Despite the fact that households with disabilities make up at least 25 percent of the households with "worst case" housing needs data published by HUD Policy Development and Research show that fewer than 13 percent of the households assisted by HUD are households with disabilities.

Because housing assistance is so difficult to obtain, millions of people with disabilities are living unnecessarily in restrictive congregate settings (public institutions, nursing homes, board and care homes, etc.) which violate the ADA. Others fortunate enough to be living in the community are likely to be living in seriously substandard housing that costs virtually all of their monthly income. Thousands of adults with disabilities are still living at home with aging parents who are literally afraid to die because they do not know where their adult child will obtain housing after they are gone. Perhaps the most telling statistic of all is the fact that every night, at least 200,000 people with disabilities are homeless and living on the streets, in overcrowded emergency shelters, or other places unsuitable for human habitation.

Finally, as will be discussed later in this testimony, there currently is no strategy within the federal government for addressing this housing crisis which grows worse – not better – each year.

Priced Out In 2000 – A New Study on Housing Affordability for People with Disabilities

In order to document the full scope of this housing crisis, TAC and the CCD Housing Task Force today are publishing a new study entitled Priced *Out in 2000: The Crisis Continues*. This study updates the information contained in our previous groundbreaking report, *Priced Out in 1998: The Housing Crisis for People with Disabilities*. Both these reports examine the affordability of modest efficiency and one-bedroom housing units for people with disabilities in all 50 states and within each of the 2,703 distinct housing market areas of the country defined by the federal government. These are the types of rental units most sought after by single individuals with disabilities who want to establish a home of their own in the community.

The rents used in our study are HUD's Fair Market Rents in effect in October of 2000. These rents were compared to SSI benefit amounts for people with disabilities living independently, including any state SSI supplement, if applicable. SSI incomes were also compared to the median one person income as published by HUD, as well as the "Housing Wage" that is published annually by the National Low Income Housing Coalition.

The key findings of *Priced Out in 2000* document include:

- People with disabilities continued to be the poorest people in the nation. As a national average, SSI benefits in 2000 were equal to only 18.5 percent of the one-person median household income, and fell below 20 percent of median income for the first time in over a decade.

- In 2000, people with disabilities receiving SSI benefits needed to pay – on a national average – 98 percent of their SSI benefits to rent a modest one-bedroom unit priced at the HUD Fair Market Rent. An SSI recipient paying this amount for rent would have only $11 per month left over for all other essential expenses, such as food, transportation, telephone, etc

- Cost of living adjustments to SSI benefit levels have not kept pace with the increasing cost of rental housing. Between 1998 and 2000, rental housing costs rose almost twice as much as the income of people with disabilities.

- In 2000, there was not one single housing market in the country where a person with a disability receiving SSI benefits could afford to rent a modest efficiency or one-bedroom unit.

- "Housing Wage" data from the National Low Income Housing Coalition shows that people with disabilities who received SSI benefits needed to triple their income to be able to afford a decent one-bedroom unit. On average, SSI benefits are equal to an hourly rate of $3.23, only one third of the National Low Income Housing Coalition's housing wage, and almost $2 below the federal minimum wage.

In some states, including New Jersey, people receiving SSI benefits are literally "priced out" of the rental housing market. For example, in the year 2000 in New Jersey, a person receiving SSI benefits received $543 in benefit income per month. State-wide, the average cost of a modest one studio apartment was approximately $585, and a one bedroom rental was over $700.

Housing Policy Issues

In addition to the problems of affordability, there are several other important factors which have contributed to the housing crisis facing people with disabilities. These factors are discussed briefly below.

1. **The decline in the supply of subsidized housing available to people with disabilities.**

Since the implementation of "elderly only" housing policies, non-elderly people with disabilities have been increasingly denied access to federally subsidized housing developments. Efforts by Congress to provide alternative resources through the Section 8 program have not kept pace with the loss of supply.

HUD, General Accounting Office and numerous CCD Housing Task Force studies all document that over 60 percent of privately owned HUD-assisted housing developments have occupancy policies which either severely restrict or completely exclude people with disabilities under age 62. CCD has estimated that over 273,000 units of HUD public and assisted housing which were –by law – available to people with disabilities prior to 1992 are now reserved exclusively for elderly households. Thus far, only 40,000 new Section 8 vouchers have been created to make up for this loss.

This decline in available studio and one bedroom units for people with disabilities will continue as PHAs continue to designate "elderly only" housing. Each year, PHAs remove at least 15,000 units or more from the supply of subsidized housing that people with disabilities are able to live in, and more units are being designated every day. Many of these units are the only federally subsidized units in the locality that are fully accessible to people with disabilities that have mobility impairments. Current federal housing policies do not address this loss of housing opportunity.

2. Cuts in the Section 811 budget

Ironically, as the need for housing assistance for people with disabilities has grown substantially, federal funding for disability specific housing programs has declined dramatically. Cuts to the Section 811 program during the Clinton Administration have seen its funding fall from $387 million in the early 1990s to its current level of $217 million. This amount of funding must support 4 different activities, including: (1) new production activities; (2) tenant based rental assistance (up to 25 percent of the appropriation); (3) initial funding of Project Rental Assistance Contracts; and (4) renewal of Project Rental Assistance Contracts. This level of funding will produce less than 1900 new units of affordable and accessible housing for people with disabilities – a mere fraction of what is necessary to begin to address the need.

Since 1992, HUD has been authorized to divert up to 25 percent of Section 811 funding for use as tenant-based rental assistance. However, only 1,600 units of Section 811 tenant based rental assistance are funded yearly. In another irony, these rental assistance funds are distributed as Section 8 vouchers primarily through PHAs. Although a HUD waiver requested by Congress now permits non-profit organizations to apply, most of the rent subsidies continue to be distributed by HUD to PHAs. It is a well-known fact that PHAs rarely have people with the most severe disabilities on their waiting lists. The CCD Housing Task Force is concerned that PHA administration of Section 811 tenant based appropriations means that these scarce resources are not being provided to people with severe disabilities who need permanent supportive housing.

It is clear that an increase in appropriations is necessary to meet all of the above program objectives. The Section 811 program must continue to be a valuable tool for non-profit organizations to produce new, affordable, and accessible housing stock that is extremely difficult for people with the most severe disabilities to obtain in the private market.

3. Other Section 811 issues

Congress intended that the Section 811 program, as well as the Section 202 program, help very low-income people who need supportive housing in the community. When these two supportive housing programs were first authorized, it may have been appropriate for the policies and appropriations governing these programs to be so intrinsically linked. However, in the year 2001, the housing developed with Section 811 funds is very different from the housing developed with Section 202 funding.

While elderly households continue to prefer to live in larger housing developments reserved for elders, people with disabilities have expressed a clear preference for less stigmatizing, scattered-site, and low density models of housing that are well integrated within the community. Non-profit developers of Section 811 housing have found that low-density models of housing for people with disabilities are extremely difficult to develop using the current Section 811 program. Current Section 811 rules require an onerous development process (NOTE: HUD has 375 pages of guidance and forms). The single-purpose corporation ownership arrangement is incompatible with a low-density scattered site approach development and makes it difficult to acquire a percentage of the units in a larger affordable housing project.

Lower density projects are more difficult, and more expensive to develop because the developer must "spread" the fixed costs associated with the project (i.e. architectural and engineering fees, site work, development fees, etc.) over as many units as possible in order to meet the program's cost limits. This works for Section 202 projects that may have 100 units or more, but does not work for a 6-unit project. The single purpose corporation requirement makes it much more difficult and costly to obtain and use other housing development financing to bridge "gaps" caused by limited Section 811 funding provided per project. "Gap" financing is often needed because the Section 811 costs limits are frequently too low to build good quality accessible housing on a scattered site basis.

As a result of these incentives in the Section 811 program, and reductions in funding over the past decade, many non-profits have been discouraged from even competing in the program. The application process is extremely complicated, and often requires even experienced developers to pay $10,000 or more for a specialized Section 811 consultant. Non-profit groups can rarely afford to pay this amount of "up front" money unless there is a reasonable chance that an good application will be funded.

The CCD Housing Task Force has advocated, without success, for many years that the Section 811 program to be simplified and that it be used to develop housing which more accurately reflects the housing preferences of people with disabilities. While Section 811 program options have been expanded beyond group homes and independent living facilities to include units in condominium, cooperative and other multi-family developments, the program's development process and HUD's burdensome administration procedures make these models much more difficult – and expensive – to pursue

4. Lack of access by people with disabilities to other federal housing assistance programs including the HOME and CDBG programs, the federal Low Income Housing Tax Credit Program and the Consolidated Plan process.

As they are currently administered by state and local housing officials, these federal programs are rarely used to expand housing supply for people with disabilities. The problem is two-fold: (1) these programs are almost never linked to the operating subsidies or project based rental assistance resources that are needed to develop housing that is affordable for people with disabilities below 30 percent of median incomes; and (2) state and local officials rarely prioritize or fund housing for people with disabilities through the Consolidated Plan process. According to the 2000 TAC/CCD Housing Task Force report *Going It Alone: The Struggle to Expand Housing Opportunities for People with Disabilities*, only 10 percent of state/local housing officials and only 26 percent of state housing finance agencies have made the housing needs of people with disabilities a priority.

This report also documents that people with disabilities, and their housing advocates, have great difficulty playing a meaningful role in the Consolidated Plan process. Needs assessments are often incomplete, and the funding decisions included in the Consolidated Plan produce housing that people with disabilities can afford. For example, most communities are not using the HOME program to provide tenant based rental assistance for people with disabilities.

5. Most Public Housing Authorities (PHAs) are not helping people with disabilities obtain affordable housing.

Most PHAs are not working with the disability community to expand housing opportunities. Each year, fewer than 10 percent of people with disabilities apply for new Section 8 funding that Congress appropriates for people with disabilities. When the PHA is unwilling to apply, there is no other recourse because PHAs have virtually "sole source" access to run the Section 8 program. This situation has been extremely frustrating for people with disabilities who need housing as well as for their families and housing advocates.

PHAs frequently do not modify their policies and programs to meet the needs of people with disabilities. For, example, PHAs often refused to approve Section 8 exception rents for barrier free units, and are unfamiliar with their reasonable accommodation and modification obligations under federal Fair Housing laws. Simply put, most PHAs do not see people with disabilities as an important constituency.

6. People with disabilities continue to experience pervasive housing discrimination from affordable housing funders and providers.

A recent Abt Associates study of ten large metropolitan areas across the country commissioned by HUD is the latest evidence of the blatant housing discrimination that is still experienced by people with disabilities 13 years after the Fair Housing Act was enacted. Abt Associates reports that HUD assisted housing managers regularly prevent people with disabilities from applying for or moving into subsidized housing developments. Many PHAs, including some of the largest PHAs in the country, denied people with disabilities access to public housing without HUD approval to do so. Some organizations and agencies that receive federal funding do not comply with the Fair Housing Act Accessibility Guidelines, which are needed to produce new units of barrier free and otherwise accessible housing in the private rental market. Low Income Housing Tax Credit owners have a long track record of refusing to accept Section 8 rent subsidies from people with disabilities in wheelchairs who are desperate for accessible and affordable housing.

CCD Housing Task Force Recommendations

The CCD Housing Task Force believes that it is essential for HUD to do much more to address the housing crisis facing people with disabilities. The loss of housing options from "elderly only" housing policies will continue. Post-*Olmstead* legal actions and *Olmstead*-related planning activities in many states will mean more people with disabilities competing for the scarce housing resources now provided through the Section 811 and Section 8 programs. New and more aggressive policies must be developed by federal housing officials, more targeted federal funding must be made available, and state and local officials must be held accountable for their responsibility to distribute a "fair share" of government housing assistance to people with disabilities based on the need.

Recommendation #1 – Provide access for people with disabilities to all HUD "mainstream" programs and the Consolidated Plan process. People with disabilities should have the opportunity to benefit from all of HUD's initiatives, including tenant based rental assistance, housing production programs, as well as homeownership. This means ensuring that people with disabilities receive their "fair share" of federal HOME and CDBG funding, and that the disability community is an active participant in the development of housing strategies within state and local Consolidated Plans. Special attention should be paid to the extremely limited incomes of people with severe disabilities to ensure that all programs are made truly "affordable" to people with incomes below 20 percent of median. Legitimate federal efforts to expand homeownership opportunities should not re-direct resources away from those with the lowest incomes that will continue to need rental housing.

Recommendation #2 -- Continue to target new Section 8 Vouchers to people with disabilities and improve monitoring of "elderly only" housing designation activities. The important progress made through the leadership of members of Congress on both sides of the aisle since 1996 to address the loss of public and assisted housing for people with disabilities through the Section 8 voucher program should continue. At least 6,000 new Section 8 vouchers will be needed each year as Public Housing Agencies and HUD assisted housing providers continue to designate "elderly only" housing. HUD should immediately move to complete an inventory of all assisted housing projects that have been designated as elderly only. Congress – at the behest of your colleague Representative Rodney Frelinghuysen – directed the HUD Secretary to do this more than three years ago. The inventory is needed to prevent housing discrimination and to direct new Section 8 vouchers to communities that have experienced the greatest loss of housing for people with disabilities. Better HUD monitoring of public housing designation activities and the administration of new Section 8 vouchers set-aside for people with disabilities by PHAs is also needed to remedy serious problems created by the present lack of oversight

Recommendation #3 – Modernize and improve the Section 811 Supportive Housing for Persons with Disabilities program. The Section 811 program has been poorly utilized for the past several years and needs major legislative reform as well as a substantial increase in appropriations. An appropriation of $346 million for FY 2002 would restore the program's funding level to what it was in the final year of the last Bush Administration. In addition to restoring needed funding, HUD, Congress, and disability advocates should work together to ensure that Section 811 funding can be used more flexibly to develop, rehabilitate, purchase, or rent small scale or scattered site housing desired by people with disabilities. Important progress was made in this effort last year with enactment of the P.L. 106-569 and its provisions allowing Section 811 sponsors to partner with for-profit entities, use mixed funding sources and use project reserves to downsize older projects.

While last year's reforms to Section 811 are a big step forward, there is more work to be done by this Subcommittee and HUD to speed up production and eliminate years of cumulative "red tape" and bureaucracy. The primary focus of the Section 811 program should continue to be production of housing for people with the most severe disabilities, with no more than 25 percent of the funding being targeted for tenant based rental assistance. All Section 811 funds should be provided exclusively to non-profit disability organizations, and not to PHAs. Most PHAs have demonstrated little interest in or the capacity to serve people with severe disabilities. To meet the needs of people with severe disabilities, a new non-profit administered Section 811 rental assistance program should be created so that the current practice of converting Section 811 tenant based funding to Section 8 vouchers can be eliminated.

Recommendation #4 -- Strengthen the role and housing capacity of non-profit disability organizations. The TAC/CCD Housing Task Force's most recent policy report, *Going It Alone: The Struggle to Expand Housing Opportunities for People with Disabilities,*[i] underscores the need to provide HUD funded technical assistance and capacity building on housing issues to non-profit disability organizations and to the disability community in general. Unfortunately, the housing system rarely engages the disability community in housing discussions. The disability community must take the lead to establish these partnerships. To do so effectively, the disability community needs a much better understanding of federal housing programs and policies, and how they can work to assist people with disabilities. Using private philanthropic funds, TAC and the CCD Housing Task Force have taken the lead to provide this information through our publications and our websites (www.c-c-d.org/intro_page.htm and www.tacinc.org) To become truly effective, we need HUD to be a partner in this effort.

Recommendation #5 – Continue to direct McKinney-Vento Homeless Assistance funds towards permanent housing. During the past few years, HUD's policies regarding Homeless Assistance funds have been modified virtually every year, with both positive and negative outcomes. On the positive side, the 30 percent permanent housing set aside, first proposed by members of this Subcommittee, has proven very effective in reorienting the McKinney-Vento program toward ending chronic homelessness, rather than building the capacity a service system for the homeless. On the negative side, HUD's administration of the McKinney-Vento program in recent years has created uncertainty in the public and non-profit sectors that provide housing services to homeless people with disabilities.

A new Administration and Congress must bring stability and accountability to these important programs, and continue to re-orient them to their original purpose, which was to expand permanent supportive housing for homeless persons with disabilities. All permanent rental assistance and operating subsidy funding should be renewed by HUD for projects in compliance with statutory and regulatory guidelines. CCD supports bipartisan legislation drafted by Ranking

Member LaFalce (HR 888) that would ensure long-term stability of all Shelter Plus Care and SHP permanent housing rent subsidies. All states and localities should be provided with a clear understanding of their obligations and responsibilities with respect to any planning requirements under the Continuum of Care model. The CCD Housing Task Force believes these goals – not the block grant v. competitive grant issue – should be the most important aspects of any legislative reforms.

Recommendation #6 – Formulate new affordable housing production policies that include a focus on HUD's response to the Supreme Court *L.C. v. Olmstead* decision. Tenant based rental assistance programs such as Section 8 cannot be the sole foundation of federal housing policies to assist households with incomes below 30 percent of median income. A balanced housing policy for people with disabilities and others at the bottom of the economic ladder must also include the construction of new rental housing through a program. CCD is encouraged by the increasing bipartisan interest in both the House and Senate in developing rental housing production legislation that is focus resources on assisting very low-income households. We look forward to support legislation to authorize a new rental housing production program at HUD that targets households at 30 percent of area median income and below and includes an operating subsidy that allows developers and non-profits to effectively serve individuals on SSI.

Federal efforts to assist states in implementing plans to downsize institutions and help adults with severe disabilities move into the community under the Supreme Court's *Olmstead* decision should not focus solely on small HUD programs that only serve people with disabilities (e.g. the Section 811 program, the Section 8 Mainstream and designated housing voucher programs). They should also focus on providing access to all of HUD's mainstream housing production programs, including HOME and CDBG. HUD guidance to communities regarding the *Olmstead* decision should also suggest revising local and state Consolidated Plan needs assessments, if necessary, to include the supportive housing needs of those individuals with disabilities living unnecessarily in "restrictive settings".

Recommendation #7 – Address and prevent housing discrimination and provide reasonable accommodation for people with disabilities in all federal housing programs and policies and in the private housing market where applicable. HUD, as well as all recipients of HUD funding, should be held accountable for compliance with the Fair Housing Act Amendments of 1988 and Section 504 of the Rehabilitation Act of 1973, including the removal of all barriers and impediments which have a negative impact on the access of people with disabilities to affordable housing programs. Training and technical assistance should be made available to the disability community regarding the reasonable accommodation and reasonable modifications provisions of the Fair Housing Act and Section 504. Steps should also be taken by HUD to ensure that people with disabilities are not being discriminated against when public housing agencies and private owners of HUD assisted housing seek to restrict occupancy to households age 62 and older.

HUD should also work closely with the Department of Justice and the Department of the Treasury to ensure that people with disabilities have access to the units developed in federal low income housing tax credit developments, including ending discriminatory practices such as the refusal to accept Section 8 voucher program participants. Finally, more HUD leadership is needed to ensure the full compliance and enforcement of the accessibility provisions of the Fair

Housing Act Amendments of 1988 in the private housing market. Affordable and accessible housing is critically important for people with mobility or sensory impairments.

Conclusion

Chairwoman Roukema and members of the Subcommittee, thank you for the opportunity to provide testimony on this important issue. The CCD Housing Task Force looks forward to working with all members of this Subcommittee to improve the performance of HUD's programs to make them more responsive to the needs of people with disabilities. I would be happy to respond to any questions.

For more information, contact one of the co-chairs of the CCD Housing Task Force: Suellen Galbraith -- American Network of Community Options and Resources – 703-642-6614; Kathy McGinley -- The Arc of the United States – 202-785-3388; Susan Prokop -- Paralyzed Veterans of America – 202-416-7707; Andrew Sperling -- National Alliance for the Mentally Ill – 703-524-7600.

STATEMENT BY R. CARTER SANDERS

BEFORE

THE SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

JUNE 21, 2001

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THE SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
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My name is R. Carter Sanders. I am a resident of the State of Virginia. While I have been in the practice of law specializing in low-income housing in Washington, DC since 1982, I am submitting this paper as a private citizen. I represent no client or any interest other than that of any fellow citizens who seek honest reform in federally subsidized housing programs. I am opposed to the enactment of new federal programs intended to provide new construction housing for low-income tenants.

In her classic book, The Burden of Bad Ideas, Heather Mac Donald[1] catalogues a number of ludicrous public policies that ultimately harm the very people targeted as beneficiaries and in the meantime pile up more unnecessary debt for the taxpayer to fund. If Congress enacts any form of publicly funded subsidized new construction programs, then we can add one more item to her list of bad ideas. Others have strong beliefs that subsidized housing is, in all circumstances, a bad idea.[2]

Since the inception of subsidized housing programs in the 1930's, rarely has any enacted program accomplished the goals stated.[3] Unless of course, the result sought is to swell the pocketbooks of a myriad of industry groups who exist – and prosper--as long as the programs *do not* work as well as they intended. As a result, Congress creates more programs that provide even further financial opportunities for those groups. As a somewhat amusing point about this, I

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[1] Burden of Bad Ideas: how modern intellectuals misshape our society, Heather Mac Donald, 2000, Ivan R. Dee, Chicago.
[2] See Appendix 1. We Don't Need Subsidized Housing, Howard Husock; Appendix 2. Time To Condemn Subsidized Housing, F. R. Duplainteier. The Articles speak for themselves.
[3] Appendix 3. A complete list of major housing acts. Cornerstone Electronic Services, LLC. At: http://www.rental-housing.com/rental/housing.htm. Rental Housing Online.

have included a paper entitled An Optimization Model for Location of Subsidized Housing in Metropolitan Areas.[4]

At the bar guiding the instant debate is a report called, "Empty Promises-Subcommittee Staff Report on HUD'S Failing Grade on the Utilization of Section 8 Vouchers," (the "Report"), As submitted to Christopher Bond, Chairman of the Subcommittee of VA, HUD, and Independent Agencies dated September 12, 2000, the report is proof that the nation needs a new housing program.[5]

Consider the Report's contributors. The Counsel of Larger Public Housing Authorities is the fact finder. The National Low Income Housing Coalition's 1999 study called "Scarcity and Success: Perspectives on Assisted Housing" was cited extensively. It also quotes a study conducted in 1994 by a private concern, Abt Associates, but what is the point of citing a study that is over seven years old? None of these entities is truly object since they have an ongoing stake in the very matters they studied.

However, most surprisingly, the Report also relies upon a study conducted by The Washington Post. The Washington Post study stands for the proposition that housing authorities regularly issue more Section 8 vouchers in order to insure that prospective tenants will find a property owner, eventually, who will accept them.

The Report goes on to state states that, "the most disturbing finding by the Post was the rise in homelessness in some jurisdictions due to the loss of affordable housing units previously assisted with project-based Section 8 and the inability to use Section 8 in the private market." One of the reasons for this is city sponsored urban renewal developments. Since these "city gentrification" projects are products of local government action, they should deal with the problem. Without a factual basis, the Post concludes that vouchers simply will not take the place of project based subsidies and therefore homeless rolls are rising. If the homeless roles are rising

[4] Appendix 4.

[5] "Empty Promises—Subcommittee Staff Report on HUD's failing Grade on the Utilization of Section 8 Vouchers. Report to Christopher S. Bond, Chairman of the Subcommittee on VA, HUD and Independent Agencies of the Committee on Appropriations United States Senate, 106th Congress Second Session, September 12, 2000.

even thought there is an adequate supply of vouchers, then the problem must lie somewhere else. In other words, the findings suggest that the Section 8 vouchers are not acceptable no matter what, it seems antithetical to suggest issuing more vouchers is a solution.

Returning to the recommendations of the CLPHA for a minute. Essentially, the crux of the Report's theme is:

> "....Reform HUD programs to be more effective in meeting the housing needs of low income families and develop new strategies to develop new low-income housing in anticipation of continuing and growing worst case housing needs..."

There is no independently crafted or introduced item of evidence to support this recommendation. Not any. If this is the "handwriting on the wall" that there is a growing worst-case housing crisis in the nation, then as another writer has suggested, this handwriting may be a forgery.

The most impressive item of evidence of why the Report's fact-finding is probably flawed lies behind the report, State of the Nation's Housing: 2000 issued by the Joint Center for Housing Studies, Harvard University used in the housing industry. The State of the Nation's [6] Housing: 2000

"...is the Joint Center's annual report which identifies and analyzes the demographic, economic and social trends to inform industry leaders and public officials and help them plan for the future..."[7]

To insure a complete appreciation for the perspective of the Joint Center's bias, consider the list of financial contributors. They are Fannie Mae, Freddie Mac, Housing Assistance Council et al.,[8] and as importantly, the Policy Board Advisory Members all of whom have a

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[6] As in the original.
[7] Appendix 5. page 1.
[8] Appendix 5. page 1-2.

financial stake in insuring that the nation's subsidized construction industry remains healthy and robust.[9] Conflicts of interest with the nation's taxpayers abound without any pretense otherwise.

But the really curious, telling and somewhat comedic part of the Report lies in the simple declaration found at page 24 (in the original, Appendix 5. page 6, herein) under the heading "Housing Problems Worsen." Here the Joint Center states:

"...According to HUD estimates, the number of very low-income households facing severe housing problems—paying more than half of their incomes for housing and/or living in severely inadequate units---set another record in 1997. **Although changes in the American Housing Survey make this *impossible to verify*, it is *likely* that affordability problems are increasing because of the growing gap between housing costs and the incomes of the nation's poorest households."** (Emphasis added).

In other words, Harvard's Joint Center gives advice to politicians and industry leaders based on pure *guesswork, and they say so*.[10] This reliance on estimates and unverifiable data is compounded by the Joint center's reliance on data that is over four years old. If the people at Harvard cannot get the facts straight, why should the Congress rely on CLPHA and other industry insiders to provide them with equally dubious facts without a far more careful inquiry?

To emphasize this matter a little more directly, The National Center for Policy Analysis has produced a compilation paper that details and catalogues the opinions of a number of policy positions by various institutions and analysts.[11] It, too, suffers from the problem that since 1997, no one apparently has been able to offer statistics that disclose the true nature of the state of the national subsidized housing inventory and usage.

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9 Appendix 5. page 3-4.

10 See also the statement in the paragraph on page 25 (in the original and 8 herein) which again cautions that they cannot verify changes to the housing stock. The paragraph starts in the middle column with, "Between 1993 and 1995..."

11 Appendix 6.

The solution to this problem lies with local governing officials such as mayors, county officials, and governors. Cornerstone Electronic Services, LLC has established an internet service called "Rental Housing Online"[12] and produces various papers relating to the housing industry. Attached hereto at Exhibit 7 is a review of the federal role in housing and an example of how one State, Michigan, through the Michigan State Housing Development Authority, has successfully produced housing for its citizens in a carefully targeted and controlled system. This should be the model for the Congress to study in considering legislation.

In contrast to Michigan's approach, consider California's position. Like the prohibition on constructing new energy production facilities under Article 34 of the State Constitution, California bans the construction of publicly subsidized housing unless a referendum permits it. The residents of California apparently are not interested in providing additional subsidized housing for their citizens even though their federal taxes pay for the construction and operation of such housing in every other state in the union.[13] The fact is, unless Congress preempts California law, nothing it enacts will increase the supply of subsidized housing in that State.

A major point in the Report revolves around the National Low Income Housing Coalition (NLIHC) study conducted in 1999 at the following passage:[14]

"While the survey was limited, the variances in the lease-up rates are somewhat disturbing on the effectiveness or ineffectiveness of the program's ability in serving its intended beneficiaries. The survey found that the major reasons for Section 8 not being used were (1) payment standard and/or FMR too low, (2) personal problems of the tenant, and (3) too few rental units met housing quality standards."

My proposed solutions to these findings are (1) make the payment standard the same as conventional rent by referencing local newspaper classified advertising and eliminate the FMR standards; (2) ignore the tenants problems since the federal, state and local governmental bodies

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[12] *Supra*, Fn. 3
[13] Appendix 8. Subsidized Housing Needs a Boost. The San Jose Mercury News, July 20, 1998.
[14] *Supra*, Fn. 5, page 9.

can do nothing about them and, (3) eliminate altogether the ancient housing quality standards from the equation. It makes no sense for the federal government to set standards for units for low-income tenants at higher levels than local building codes that have all the protections already established for everyone.

The Committee Report emphasizes that the apparent real problem is the loss of "affordable housing units" for low-income families. What is "affordable housing" a euphemism anyway?

Is it not true that given any particular housing unit, it is affordable to someone? Else said, if one has the right amount of rent money from month to month for a particular unit, then that unit is an affordable unit to that person. If the person does not have the right amount, the unit is then unaffordable to that person. The unit has not changed character; only the financial character of the tenant has changed. Thus, the financial character of the person seeking the housing, not the monthly rental charge, is the determining factor for "affordable housing."

The overall solution is to recognize that the problem is <u>not</u> the lack of affordable housing units -- there are only segments of the population that need supplemental payments to assist in paying for living quarters. The two population segments to deal with immediately and comprehensively are the elderly and the truly disabled. Grant them lifetime vouchers at whatever market rent the owner charges and which are portable in the event the owner converts the facility they live in. Another means to this and one far more streamlined, is to simply increase their income from the federal government and let them use the increase for whatever they choose.

For the remaining low-income population, let the various state and local governments' form the appropriate policies for delivering housing assistance benefits at whatever levels are representative of their jurisdiction.

Additionally, eliminate all bond caps for tax-exempt financing of housing facilities for both State and local government finance authorities. The argument is that it simply another subsidy, and while it is, it a far more efficient way to distribute the subsidy across the taxpayer base. The availability of 4% Low Income Housing Tax Credits should in no way be linked to the removal of volume bond caps for housing bond issues and *vice versa.* Volume cap simply serves to protect the federal government from competition in providing subsidized housing. The distribution of the subsidy by those who wish to provide it, the bondholders, would substantially reduce the federal taxpayers' role in paying for subsidized housing.

Last, reinstate the federal tax provisions that permit the use of passive losses realized from the operation of low-income housing projects in offsetting ordinary income. Even though this is also a form of subsidy, the supply of housing is driven be economic considerations in a locality and not by bureaucratic fiat.

For a comprehensive review of publications relating to the subsidized housing industry, I have included a good representative list at Appendix H. It is a reading list from a course Outline on "Housing Economics and Policy."[15]

Thank you for the opportunity to present this paper. Respectfully submitted,

June 19, 2001

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[15] Appendix 9. M.E. Rinker, Sr. School of Building Construction, University of Florida. Semester Course Outline, BCN 6756.

Testimony of Michael Johnston,

Director of Leasing and Occupancy for the Cambridge Housing Authority, Cambridge, Massachusetts

On Behalf of

The Council of Large Public Housing Authorities Before the House Committee on Financial Services Subcommittee on Housing and Community Opportunity

June 21, 2001

Thank you very much for the opportunity to be here today to share with you our views on the Section 8 program and its great potential to continue serving the needs of low income Americans.

My name is Michael Johnston and I am here today representing the Council of Large Public Housing Authorities, as director of the Cambridge Housing Authority Office of Leasing and Occupancy. I joined the Cambridge Housing Authority in 1991 and oversee the day to day operations of the Authority's leased housing programs, as well as the tenant selection process for the Authority's public housing units. As an administrator and practitioner, I know the Section 8 program in a very detailed, operational way. As an attorney and member of the Massachusetts Bar, I also am familiar with the regulatory and policy end of the program. Prior to joining the CHA, I was CEO of a private property management/real estate development company specializing in residential renovations/conversions and modular construction, so I am familiar with the private sector perspective, as well.

Background

The Cambridge Housing Authority ("CHA") administers almost 2,500 Section 8 vouchers in a city of 100,000, an additional 300 subsidies are administered from the Commonwealth of Massachusetts voucher program. CHA also owns and operates 2057 units of Federally-assisted public housing and 750 units of state-assisted public housing. The City of Cambridge has always been racially and economically diverse, and both public housing and Section 8 units are dispersed throughout the City. Cambridge has seen an unprecedented escalation in the real estate market since the end of the last vestiges of rent control over five years ago. The end of rent control coupled with a boom in our economy has left us with an incredibly low apartment vacancy rate of 2%.

We understand that there has been much discussion in Washington and elsewhere regarding utilization of the Section 8 program. HUD's primary response to concerns has been that low utilization rates are the result of poor housing authority management. This response does not begin to adequately describe the real issues. While some agencies may have some management problems, I am here today to testify that high costs in local real estate market, low HUD Fair Market Rents, and a host of other complicated dynamics are really at play.

The Cambridge Housing Authority has been one of the highest performing housing authorities in the nation for many years, achieving a 100 out of a possible 100 on its last three management assessments. We have also received a score of 100 out of 100 on during recent testing for HUD's new Section 8 assessment system, SEMAP. CHA is one of a handful of public housing authorities that is permitted to use its Section 8 funding, along with its public housing money flexibility to provide tenant-based vouchers, but also produce subsidized units to increase the available supply under the Moving to Work Demonstration Program (MTW). Even with this added flexibility, which has been key to our success MTW allows the CHA and other participating authorities to suspend portions of the 1937 Housing Act, as amended, we still have not been able to achieve full utilization. As part of our efforts to assist residents in using their Section 8 voucher we perform the following services:

- Initial Rent Levels - Staff always conduct a rent reasonableness analysis; however, CHA utilizes flexibility to exceed 120% in very limited instances. Flexibility in use of higher rents is key to successful leasing in Cambridge.

- Rent Increases - As with initial rent determinations, rent increases are always based on a rent reasonableness determination. However, CHA aggressively works to maintain good landlords in the program. Using flexibility granted by HUD, CHA has adopted more flexible rent increase policies (including percentage increases greater than the AAF and flexible anniversary dates) to accomplish this objective.

- Tenant Payment - In order to avoid displacement of families and maintain units on the program, CHA has, reluctantly, allowed higher numbers of tenants to exceed 40% TTP. Using HUD-granted flexibility, CHA has allowed greater than 40% TTP at initial lease up on some occassions.

- Security Deposits and Damage Payments - CHA will under certain conditions pay owners up to one month's rent for damages beyond wear and tear and up to one month's rent should the tenant vacate without notice or owing rent. These approaches were previously allowed under the Section 8 regulations. CHA has found that it can be an important part of an overall landlord marketing strategy.

- Owner Intervention - CHA has hired a staff person to market the program to owners and to negotiate renewals and rent increases. Every owner who indicates that he/she intends to terminate participation in the program is contacted to: 1) determine the reason for termination, and 2) to identify ways to keep the unit in the program.

- Owner Survey - CHA conducted a survey of all current owner participants to assess satisfaction with the program and identify ways that program administration could be improved.

- Landlord Marketing - CHA has an ongoing marketing strategy to promote awareness of the program and its benefits. This includes an aggressive communications strategy targeting brokers, rental agents, institutional landlords and members of landlord associations. A newsletter is produced; presentations are made at meetings, etc.

- Housing Search - CHA has contracted with a local non-profit to provide housing search assistance to primarily disabled voucher holders. Combined with the landlord marketing efforts, this has helped improve the success rates of CHA participants.

- Participant Survey - CHA conducted surveys of both successful and unsuccessful program participants to try to better understand factors influencing a successful housing search. Results of the survey underscore: 1) our participants overwhelmingly want to stay in Cambridge; 2) the lack of affordable units in Cambridge is the number one problem for participants; 3) the most successful housing searches result from "word of mouth"" referrals; 4) contacting owners based on newspaper advertising is the most frustrating and least productive mode of housing search.

- Project Based Program - The number one problem in Cambridge is the lack of affordable housing units, a problem that is increasing every year. While they have limited impact in expensive rental markets, project based vouchers can serve as a tool to increase supply. CHA is creatively using HUD granted flexibility to link project based vouchers to development projects under Moving to Work. MTW allows CHA to bypass the 25% rule, which is a critical factor impacting success.

Still, according to HUD, we are able to achieve a utilization rate of only 88%, below the 95% that HUD says is sufficient. Clearly, this illustrates that the problems are more complicated than just management.

Sometimes we forget that, although the Section 8 program is administered by housing authorities, it relies heavily on the voluntary participation of private landlords. The program is structured so that it only works to the extent that a local real estate market has a sufficient supply of housing meeting the needs of the voucher holders that rents for an amount not to exceed 40% and now, 50% of the Fair Market Rent for the area. It also assumes that private landlords who own such properties are willing to participate in a highly regulated program that serves very low-income residents. If those conditions do not exist in a local market, like Cambridge, housing low-income families becomes even more difficult. We expect that the supply of housing available to Section 8 voucher-holders to decrease even more this fall as HUD implements requirements to ensure that private owners participating in the Section 8 remove lead-paint from their units.

In many communities like Cambridge, where housing available for Section 8 voucher holders has all but evaporated, HUD and Congress's heavily reliance on the Section 8 program as its primary means of providing more affordable housing assistance to low income families seems misplaced. The program was never intended to be the primary means of Federal housing assistance, but rather another equally important tool that communities could use along with a fully funded public housing program, project-based Section 8, FHA insured programs, low income housing tax credits and others to provide housing opportunities for low income residents in a way that makes sense locally.

Despite what HUD says, I consider CHA's leased housing program to be a great success, particularly given market conditions in our area. To put this in perspective, it may be helpful to provide the Committee with some context. Currently, the two bedroom FMR in the Boston SMSA is $979, including utilities ; CHA, has received HUD permission to go to 120% of FMR, or $1,175. The actual average rent for a two bedroom apartment in the City of Cambridge is $1,868, utilities excluded. This success rate also includes incremental new lease-ups over the last year of 108 units.

Current discussions in relation to the program's success include a number of proposals that the CHA considers potential threats to cost effective and efficient administration. Virtually all of the proposals that are being discussed by non-industry groups appear to overlay additional regulations or tinker with existing regulations. An overhaul of the program is in order to address the real impediments to utilization. The fundamental premise of any new proposals should include the following: 1) rent levels need to be directly pegged to actual local market conditions; 2) HUD regulations need to be reduced in number and complexity; 3) program administration and paperwork needs to be simplified and administrative funding sufficient; and, 4) localities should have the flexibility to create local leasing programs that provide quality, affordable housing without requiring adherence to a national protocol for every administrative action. These four points are fundamental to the program's success.

Increased Rent Levels

Over the past year, the CHA has invested considerable resources in landlord outreach and retention, and in surveying landlords and program participants to identify challenges to utilization in our community. The results of the survey were clear, both from landlords and from program participants: the overwhelming challenge to utilization was lack of an adequate Fair Market Rent ("FMR").

CHA views the current FMR determination system as the primary problem with the current Section 8 system. Alternatives to the current system should be considered including, but not limited to: 1) modifying the methodology to include more thorough and updated samples; and 2) increasing the funds available for local rent surveys.

The methodology is cleared flawed based on the experience of the Boston metropolitan region. Even at the 50th percentile, even at 120% of the 50th percentile, the rent structure is simply too low to attract new units to the program, and is too low to ensure the continued participation of current landlords. Newly published FMRs do not utilize updated Census data, basing rents on data that is far out of date.

A major stated goal of the Section 8 program is to reduce concentrations of poverty and encourage mobility. However, the FMR structure in a market such as Boston may ultimately create new pockets of poverty by forcing people to move away from Cambridge, Boston, Brookline, etc. and to those cities where rents are marginally more affordable. There is already anecdotal evidence that this is happening in smaller cities outside of Boston. Any regionalization of program administration would exacerbate that, if Massachusetts' experience can be generalized

Deregulation

The history of the Section 8 program has been one of progressively higher levels of regulation applied to public housing authorities. The program regulations are too stringent and too proscriptive. Public housing authorities need more flexibility to adjust program to meet local market conditions. The regulations essentially do not allow for the wide variances that occur among local housing markets. They also make the program incredibly confusing and difficult to navigate for program participants and landlords

Program Administration

More regulation means more regulatory compliance requirements for housing authorities to meet. The Section 8 program currently requires public housing authorities to follow various processes, fill-out reams of paperwork, and do endless reporting, none of which is geared to toward improving a voucher holder's ability to find housing. Fufilling these requirements takes scarce resources away from housing. While more and more is expected in the way of housing counseling, lease enforcement, no more resources are available. Again, this situation makes it extremely difficult for even the best performing agencies to use the program effectively.

Local Control with Maximum Flexibility

In CHA's case, MTW has allowed us to locally determine program rules for our local leased housing program. The ability to respond to local needs and local market conditions in a way the CHA staff, program participants and Board of Commissioners feel appropriate has been fundamental to the preservation and expansion of the program's utilization in Cambridge. Again, I cannot stress enough the two most important elements of our success: local determination and administration of program rules, and the ability to bring maximum flexibility to our housing programs.

The Dangerous Myth of Regional Administration

CHA has seen some discussion of regionalization of Section 8 Administration. Proposals to create regional Section 8 administering agencies assume that such agencies will somehow do a better job of promoting mobility and increasing utilization. This is a hypothesis that is not based on data or sound research. The experience of Massachusetts in creating regional agencies to administer the state leasing program in the 1970s should serve as a cautionary warning.

It has been our experience, on the local level, that the regional agencies provide less access for program participants, who often call CHA after unsuccessful attempts to wend their way through the bureaucracy of a large organization. Further, the regional administrators are less effective in targeting local market needs, and intimate knowledge of appropriate local rent levels. Regional administration would threaten local housing authorities' ability to do relocation for modernization, target underutilized neighborhoods. In my extensive work as an actual administrator of the program, the abstract and academic notion that there could be economies of scale to a larger program, or that it could potentially provide better direct service to families participating in the program is in direct conflict with my real life experience.

Again, if there are management problems at some agencies, we agree that HUD should make every effort to work with those housing authorities to improve the use of subsidy. However, HUD's data systems are still insufficient to accurately determine whether low utilization rates are due to mismanagement, market conditions, or other factors going on in the local community. There is no evidence of which we are aware that indicates changing the entity that manages the Section 8 program will improve any of the conditions that really cause low utilization. The alternative administration proposal seeks to fix a problem, without accurately determining the causes or even if there is a problem at all.

Conclusion

In sum, Section 8 is designed to be a locally driven program, therefore solutions to concerns about underutilization must be made locally. Instead of proposing more top-down Federal policies that may work in some communities and not others, Congress and HUD should consider proposals that diminish regulatory requirements and give housing authorities the flexibility to craft a program that makes sense in their community. Changing the administering entity to a regional or non-profit group will not address the underlying reasons why Section 8 is hard to utilize, but may, in fact, create new problems. Instead, efforts should be focused on providing the resources necessary to meet market demands, particularly the need to increase FMR.

APPENDIX

July 17, 2001

Statement
Marge Roukema
Chairwoman
Subcommittee on Housing and Community Opportunity
Hearing on Housing Affordability
July 17, 2001

Good morning.

Thank you all for coming this morning. This is the fourth hearing in a series of several planned by the Subcommittee on the issue of affordable housing. At the Subcommittee's first hearing, held on May 3, 2001, witnesses defined the parameters and complexities of the problem and outlined some potential solutions. At the second hearing, held on May 22, 2001, witnesses testified regarding public/private initiatives that address affordable housing, and on the Community Development Block Grant (CDBG) and HOME Investment Partnerships programs. The third hearings focused on the under-utilization of section 8 vouchers, as well as the specific problems faced by the homeless and disabled populations in finding affordable housing.

Today's hearing will focus on elderly housing programs and the difficult problems faced by the elderly in finding suitable affordable housing as well as the coordination of housing and the services they so desperately need.

According to the Department of Commerce, Bureau of the Census, in July 1999 there were more than 35.5 million Americans over 65 years of age, and the Bureau projects that by the year 2030, more than 70 million, will be over 65 years of age.

HUD statistics indicate that only one-third of the low-income senior citizens in need of affordable housing actually receives assistance. Furthermore, the high cost of housing is the most widespread housing problem for older Americans.

Our seniors deserve to partake in the American Dream – decent affordable housing for all. But, appropriate housing for our seniors is only part of the dream. Along with the decent housing, seniors need supportive services. The lack of options, such as assisted living, for low-income seniors who wish to age-in-place in their communities is a real problem. In addition, utility costs continue to rise and create additional problems for our seniors on fixed incomes.

Over the years, non-profits and faith-based organizations have worked with HUD to develop creative ways to meet the needs of this vulnerable group in our society; but as our population continues to age, we need to develop new ways to meet the elderly housing needs and to make sure that they have access to the services they so desperately need.

There is no doubt that we must do more to increase new production and to preserve our existing elderly housing stock, but the solution to this fundamental goal will not be easy and it deserves our deliberate consideration. As we continue to look at ways to address production and preservation, I believe there are things we can do now that will begin to address this problem.

First, we must take a serious look at the existing HUD programs and determine ways to make them run in a more efficient and effective manner. I believe we need to provide greater flexibility within the programs in order to maximize their utilization – this is true not only for the elderly programs, but for other programs like the Section 8 voucher program, HOME, CDBG and Hope VI.

We need to make sure that HUD has the trained staff and tools it needs to properly administer the programs – to cut the bureaucratic red tape that often slows the process and frustrates recipients as well as HUD's private partners. I know that Secretary Martinez is committed to this goal and I stand ready to work with him to accomplish that goal.

We know that it is more cost effective to provide services such as meals, transportation, housekeeping, personal care, and health care to the elderly in their homes rather than moving them to costly nursing care facilities prematurely. We also know that providing service coordinators to seniors to make sure that necessary services are provided to those who need them is a cost effect way of allowing seniors to age-in-place. These are things we know work, and we must look for ways to expand upon those successes.

Last year, this Committee recognized the need to address the growing elderly housing crisis and it created the Commission on Affordable Housing and Health Care Facility Needs in the 21st Century. The purpose of this Commission is to provide an estimate of the need for affordable housing, assisted living facilities, and health care facilities by elderly in the future. It is also to identify methods of encouraging private sector participation and investment in affordable housing for the elderly. The Commission is to submit a report to Congress on it findings. Unfortunately, the Commission members were not appointed until just recently. Two weeks ago, this committee approved legislation to extend the life of the Commission so that they can complete their important work. I know that all of us look forward to receiving that report when it is completed.

We are fortunate to have two of the members of the Commission with us here today along with several other senior housing veterans who will not only provide us with valuable insights on the complexities of this growing problem but possible solutions.

Thank you all for coming and thank you for all the work you do to assist in providing and promoting housing for the elderly. I look forward to your testimony.

With that I would like to recognize my distinguished Ranking Minority Member, Congressman Frank.

Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Housing and Community Opportunity
July 17, 2001
(prepared, not delivered)

"Elderly Housing and Affordability Issues for the 21st Century"

Thank you Chairwoman Roukema.

Today is the fourth day of hearings by this Subcommittee to address the complex issue of availability and affordability of housing in our communities. Today's focus is on elderly housing and the difficulties faced by our seniors in finding appropriate, affordable housing.

The United States is an aging nation. In 2000, approximately 35 million people or 13 percent of the population were aged 65 years and older. This number is expected to double by year 2030 to 70 million or 20 percent of the population. We must begin to plan now, if we are going to meet the needs of an aging baby-boomer generation.

There are signs of trouble already on the horizon. While most Americans 65 and older live in decent, affordable housing, there are still over a million older Americans living in housing that needs to be repaired or rehabilitated. Half a million of these seniors live in housing that is an actual threat to their safety and welfare. HUD has reported that only a third of low-income seniors in need of assistance actually receive any assistance, and there are other reports that almost 30 percent of all elderly households pay more than they can afford for housing.

Most older Americans prefer to age in the communities where they have been living, and elderly homeowners understandably prefer to remain in their homes. Assisting older persons to age-in-place through the provision of supportive services not only allows seniors to age with dignity, but moreover is much more cost effective than institutionalization.

As the number of Americans living longer increases, so will the magnitude of these problems, unless we begin preparing today. I look forward to hearing the suggestions of our panelists today; all of them experienced in providing housing to elderly residents.

On a personal note, I welcome two fellow Ohioans to today's hearing, Thomas Slemmer of National Church Residences, and Janice Monks from the American Association of Service Coordinators.

Once again, thank you Madam Chairwoman for providing leadership on this issue.

Statement of Congressman Israel
Housing Hearing
July 17, 2001

Thank you Chairwoman Roukema and Ranking Member Frank for scheduling this hearing.

There is a critical need to assist and preserve existing non-profit sponsored elderly housing, as well as to expand the supply of suitable and affordable housing for low and moderate income older persons.

A few months ago in my district in Long Island, I convened a Seniors Roundtable to discuss these housing affordability issues.

Along with being concerned with housing affordability issues, many seniors are concerned about heating costs, predatory lending, and rehabilitation of their homes, assisted living, and reverse mortgages.

I believe that we must help our seniors find solutions to these problems.

Next month, a local non-profit in my district, the Long Island Housing Partnership, is convening a Seniors' Town Hall to discuss these critical issues.

In addition, I am concerned with the current funding for HUD's Section 202 program.

Last year, HUD funded approximately 5,200 new units through the Section 202 program. This is not enough.

More than 7.4 million elderly households pay more than they can afford for their housing, including the 1.4 million with "worst case" housing needs.

A majority of these households are on fixed incomes and receive no housing assistance.

According to an AARP study, there were 9 people over 62 years old waiting for every Section 202 unit in 1999 and these numbers are growing.

I urge my colleagues to support increased funding for the Section 202 program.

Only then, our seniors will be able to enjoy their "golden years" in a safe and sound environment.

Thank you.

Hon. Barbara Lee
Subcommittee on Housing and Community Opportunity
Elderly Housing and Affordability Issues for the 21st Century
July 16, 2001

Good Morning Madame Chair, and I would like to welcome our panelists today. The problem were discussing today is critical: the fastest growing segment of the population, the elderly, pitted against a severe housing crisis throughout the country and particularly in urban areas like the Cities of Oakland and Berkeley in my district in California.

From testimony submitted, I understand that one third of the 1.3 million people living in public housing are elderly or disabled people. This is another reason some of us were outraged when this Administration cut funding for the public housing drug elimination program which directly impacts the safety of the elderly and disabled.
The Housing crisis is terrible for everyone in my district in the Bay Area, and it is more devastating for our elderly who are on fixed incomes, burdened with increasing energy costs, and are less able to move about and deal with transient housing options.

I look forward to your testimony today so that we can hear your opinion on how effectively our federal housing programs are working for the elderly and how we can improve them.

One thing rings clear from every one of our hearings on the affordable housing problem and that is the need for a subsidized housing production program. Funding is critical. I support using excess FHA and Ginnie Mae funds as well as increased appropriations to address this issue which is crippling our communities. I urge my colleagues and the Chair to support a viable and well-funded housing production plan so that our constituents, especially our cherished elderly, can have a decent, affordable place to live.

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Testimony of

THOMAS SLEMMER
President
National Church Residences
Columbus, Ohio

Representing

THE AMERICAN ASSOCIATION OF HOMES AND SERVICES FOR THE AGING

Before the

HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

July 17, 2001

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July 17, 2001

Madame Chair Roukema and members of the Housing and Community Opportunity Subcommittee, I am Tom Slemmer, President of National Church Residences (NCR). NCR is one of the nation's largest nonprofit sponsors and managers of affordable housing for seniors, including over 14,000 federally-assisted housing units. I am pleased to be here today on behalf of the American Association of Homes and Services for the Aging (AAHSA), where I serve on the Board of Directors and am Chair of the Housing Committee.

AAHSA's members own and manage more than 300,000 units of federally assisted and market rate housing – and we represent the largest number of sponsors of HUD Section 202 Supportive Housing for the Elderly projects. More than half of AAHSA's members are faith-based, and all are nonprofits. The not-for-profit difference, as we call it, means that our members bring to their communities an enduring commitment to older people borne out of our philanthropic mission rather than a profit motive. Our members raise seed capital to establish these facilities. We involve innumerable volunteers to provide services to the people we serve. And, we raise money for quality of life activities and services not covered by government programs. We like to think that's a major part of the nonprofit difference.

AAHSA would like to thank members of the subcommittee for holding this very important hearing on elderly housing affordability. AAHSA appreciates the close look this subcommittee is taking with regard to housing affordability issues and we are pleased to be here today to share some of our observations, concerns and solutions.

Overview: Generally stated, there is a short list of major contributing factors to the elderly housing crisis. They are:

- The often unnecessary loss of federally-subsidized housing units that are affordable to people with low incomes.
- The lack of new housing production on any meaningful scale.
- A dramatically elderly population.

- The recent national housing policy focus on vouchers instead of production as the primary way to solve the affordable housing crisis.
- Rental costs increasing faster than incomes, especially for low income people and particularly for people on fixed incomes.

HUD Secretary Martinez stated during his Senate confirmation that "our grandparents and our parents helped build this country's greatness and deserve the peace of mind to know that they will be taken care of, and can live in safe and decent homes and neighborhoods." AAHSA is committed to a multi-faceted affordable continuum of care for the elderly, incorporating housing, health care, supportive services and community-based options.

The capital advance concept developed to address the housing needs of low income seniors has been incredibly successful. So have the earlier programs. Indeed, they have been so successful that the market is ripe for additional units funded through the same programs. We are fortunate such strong programs have been able to address the need for these units that has grown over the years. The track records of the elderly HUD programs are so strong that nonprofit organizations know them to be excellent tools in serving the housing and service coordination needs of low income seniors nationwide. Just as important, these well-run programs are welcomed by neighborhoods seeking not just housing and service coordination, but a long term commitment to their communities and the many returns on this investment they receive. These returns include the ability of residents to age in place, diversion from nursing homes, quality of life for residents, jobs, a focal point for information for seniors and capital. We must continue to increase the investment in the Section 202 program in order to maximize these returns to communities as we bring housing assistance to the 1.4 million very low income elderly households currently eligible for rental assistance but not receiving it.

These 1.4 million households, according to HUD's Report on Worst Case Housing Needs in 1999, pay more than half of their incomes for housing or live in severely substandard housing. Last year, HUD funded approximately 5,200 new units through the Section 202 program. We need a more rapid growth pace for new housing units. And, we must increase our investment in affordable assisted living. HUD's role in the bricks and mortar portion of this endeavor is a natural fit for our aging nation. AAHSA also encourages HUD's continued leadership in facilitating a partnership with the Department of Health and Human Services for leveraging resources available to deliver supportive and health care services.

Need: There is a critical need to assist and preserve existing non-profit sponsored elderly housing facilities, as well as to expand the supply of suitable and affordable housing for low and moderate income older persons. More than 7.4 million elderly households pay more than they can afford for their housing including the 1.4 million with worst case housing needs mentioned previously. A majority of these households is on fixed incomes and receives no housing assistance. Unfortunately, low income elderly people seeking housing are faced with multi-year waiting lists exacerbated by the shrinking supply of suitable, affordable housing as some owners convert existing units to market rate housing. According to a recent AARP study, there were nine people over 62 years old waiting for every Section 202 unit in 1999. That number has undoubtedly grown since then.

The dynamic of fixed incomes, high costs and limited supply of affordable housing options is compounded by an ever increasing aging population needing a range of supportive and health care services. This need for supportive services, appropriate community space, and service coordination applies to the 1.5 million elderly households who currently live in federally-subsidized housing, with an average age of about 75 years, as well as those in need of housing assistance. Today's elderly population is expected to double by 2030. Additionally, many elderly housing facilities have "aged" and need modernization and/or retrofitting and refinancing in order to accommodate supportive services to aging residents, assure quality of life, accessibility and marketability. It is essential that adequate contract amendment funds be made available for adjustments to project operating costs to accommodate such increases (utilities, insurance, and staffing.)

Solutions

Section 202: AAHSA supports increasing funding for the Section 202 Supportive Housing for the Elderly program to at least $760 million. These funds are specifically for new development and project rental assistance contracts (PRAC) to help address the critical shortage of affordable housing for very low income elderly people. We have seen Section 202 funding trend downward from $1.2 billion in FY95 to $679 million last year. In FY2000, more than 50% of applications for funding of new affordable housing under the Section 202 program were denied, simply for lack of funds available to the program. Only by increasing the Section 202 budget above and beyond the inflation rate can we begin to make marked progress in meeting housing needs. Over the last two years Congress has enacted, with our strong support, changes to the Section 202 program. However, these changes alone will not produce new housing units affordable for increasingly frail very low income seniors.

We are pleased, for example, with new authority enacted last year, enabling partnerships between private investors and the traditional nonprofit sponsors in the financing of Section 202 projects. This change will make it easier for Section 202 elderly housing sponsors to bring private financing into the development of the projects. Now, as the sole general partner of a limited partnership, nonprofits can partner with for-profits so that low income housing tax credits and private activity bonds can be used for Section 202 projects. However, without increasing the amount of funds appropriated to the Section 202 program, we are merely shuffling housing resources from one population or program to another without a net increase in housing units. Maintaining the traditional Section 202 program, and its unique identity as a nonprofit provider of federally-subsidized elderly housing, while bolstering other opportunities to house low income elderly people, such as mixed finance, are ideas we support. AAHSA supports an overall increase for FY2002 to at least $760 million for the Section 202 program for FY2002 so more elderly households can be served and the value of this important reform fully realized.

AAHSA also supports the renewal of all expiring Section 8 project rental assistance contracts (PRACs) and adequate funds for amendments as necessary to existing contracts to ensure the sound operation of housing developments. Adequate funding includes sufficient recognition of increased utility costs for nonprofit-sponsored senior housing providers. Although the Department of Housing and Urban Development has issued a utility adjustment notice, it provides relief only to a limited number of federally-assisted housing providers and more is desperately needed.

Next year will bring the first substantial number of expiring PRACs. HUD estimates that approximately $3 million will be necessary to renew all of these contracts. Like the Section 8 contract expirations, additional funding for the PRAC renewals is necessary to maintain the existing housing stock.

Recently, concerns have been raised about unexpended funds within the Section 202 pipeline. While a 2000 HUD-contracted study found some delays in some aspects of the program, AAHSA has been unable to determine from HUD the dollar amount associated with these delays and thus we are unable to address this issue from a well-informed perspective. AAHSA has, however, made recommendations to Hill staff in order to accelerate the Section 202 program's pipeline. Among our top recommendations is to increase the number and / or training of HUD staff so that the Section 202 funding process moves as smoothly as possible, and to make award announcements promptly. Every year, new grantees are awarded precious Section 202 dollars and it is imperative that HUD staff be knowledgeable and responsive to grantees' technical assistance needs and property reservation commitments.

HUD staffing needs (i.e., both the number of staff and their training level) affect every new and existing HUD program. HUD's recent downsizing has resulted in a lack of meaningful attention to many programs important to this subcommittee, including the Section 202 pipeline, the new assisted living conversion program, utility adjustments, contract administrators, etc. AAHSA encourages the subcommittee to work with the Department to identify HUD staffing needs and to work toward effective solutions.

Modernization of Elderly Housing Stock: AAHSA urges the subcommittee to authorize funds for the modernization of federally-assisted nonprofit elderly units. AAHSA supports $250 million to rehabilitate, modernize and retrofit older federally-assisted nonprofit elderly housing facilities and to enhance access to (and delivery of) supportive services. As a nation we have a significant investment in all federally-assisted housing. AAHSA strongly believes in maintaining the integrity of this investment and recognizes the needs present in many aging elderly housing facilities, including Section 236 properties. Currently, HUD has the authority to provide Section 531 (from the Multifamily Assisted Housing Reform and Affordability Act of 1997) grants but has yet to announce the availability of these funds to projects nationwide in need of capital infusions. Also, AAHSA would strongly support $250 million in specifically targeted capital improvement funds for this purpose.

We owe it to our existing investment to accommodate the modernization and retrofitting needs of aging buildings and buildings that need to be adapted to facilitate supportive services. Just as our residents are aging in place, our housing is aging and is in need of modernization. Legislation enacted last year gives Section 202 providers with Section 8 housing assistance payments greater access to their residual receipts and reserves for building modernization, retrofitting and up to 15% of service costs, etc. Many other types of aging, nonprofit-owned elderly housing developments also need access to such funds and the time for this investment is now.

According to AARP's 1999 survey of Section 202 properties, projects built during the earliest round of 202 and the cost-containment years of the mid-to-late 1980s will have especially heavy demands for capital to modernize and retrofit in order to continue to meet the needs of the residents they serve. AARP found that 20% of the oldest facilities reported that their capital reserves are inadequate to meet current repair concerns and that 36% reported that reserves are inadequate to meet projected repair needs.

The Section 236 non-profit elderly developments appear to be the most in need of modernization funds. AASHA fears that ignoring these needs now will only increase affordable elderly housing needs in the near future as the health of these properties continues to deteriorate. It is well known and documented that elderly housing facilities are themselves "aging in place" and have tremendous need for retrofit, repair and modernization, but lack the resources in their current reserve accounts, or lack the flexibility within their operating budgets, or through rent increases to accommodate these needs. While we can appreciate the current concern over constraints in the federal housing budget we believe it is imperative that a modernization program be established to meet the increasing needs for our aging residents within our aging facilities.

Preservation: The ongoing loss of affordable rental housing exacerbates the elderly housing crisis. According to the 2001 State of the Nation's Housing report by the Joint Center for Housing Studies of Harvard University, more than 300,000 units affordable to households with low incomes were lost between 1997 and 1999 alone. Given the tremendous need for affordable housing, AAHSA believes that as many of these units as practical should be maintained. To that end, we support various tools to assist in preserving at-risk stock for the increasing numbers of elderly households in need of such units. The number of household heads over the age of 75 alone is expected to increase by roughly 1.3 million this decade.

AAHSA also supports enactment of a preservation matching grant program for states and localities that dedicate funds toward the preservation of federally assisted housing at risk of leaving the affordable housing inventory. To that end, AAHSA encourages the subcommittee to move H.R. 425, which establishes such a program. In addition, we support efforts to relieve (via deferral or outright cancellation of the exit tax) current owners of tax burdens when they transfer their properties to nonprofits that agree to maintain the units as affordable to people with low incomes. AAHSA believes these tax burdens are preventing the transfer of properties to nonprofits, many of which are ready and willing to sustain ownership of this critical housing stock.

While most HUD and local officials are very concerned about the loss of desperately needed affordable senior housing, we have heard that in certain areas (e.g., Detroit) that HUD officials have actually worked against preservation efforts or have at least stood by as valuable affordable housing stock was lost. We are very concerned about recent reports that, in an effort to satisfy a goal of having perfect portfolios, local HUD offices are prematurely foreclosing on Section 202 elderly properties. In Detroit, where preservation appears to not be part of their active agenda, two large Section 202 projects totaling 532 units have been foreclosed on by HUD and auctioned to for profit developers resulting in the loss of the buildings and their project-based Section 8 subsidies forever to the City of Detroit. In these instances, it appears that HUD did not intervene to remove obviously weak and failing Boards from the properties in time for the projects to be permanently saved, sold the projects to for profits at prices far below their assessed value and put the residents are great risk.

In one case, where 212 units alone were lost, the property had a long history of management problems. In the time preceding HUD's ultimate foreclosure and sale to a for profit, HUD placed the building in enforcement and brought in its own management. It did not, however, use its authority to replace the Board while the Board refused attempts by a coalition of nonprofit housing providers to take over control of the building and preserve it as affordable senior housing. We believe that if HUD had taken firm action to hold the Board responsible and to replace them if they refused to perform their duties it is quite likely that none of these units would have been lost.

In a pending case, a group of nonprofits is working to bring adequate resources together to purchase a failing development but HUD is insisting on modernization resources the task force likely does not have while not providing any of its own resources nor agreeing to hold the foreclosure in abeyance. While we support Congress's goal to maintain a safe, decent and affordable housing stock, we do not believe it has ever been Congress's intent to lose so many units so quickly to for profit owners, especially when the loss could be easily avoided at a cost that is a fraction of what a new unit costs. We also do not believe Congress would want to sell these projects at values far below their assessed values. AAHSA urges Congress to prohibit HUD from foreclosing on nonprofit senior housing without exhausting all options to maintain this desperately needed permanently affordable housing stock.

Since September 2000, my organization, National Church Residences has gone to great lengths to preserve affordable elderly housing. In Pacifica, California, 12 miles south of San Francisco, NCR assumed ownership of a 100-unit building after the city invoked eminent domain when the previous owners announced they planned to turn its once federally-subsidized units into market rate housing. Financing for the $11.1 million purchase of the property from the owners, more than $1 million more than what they had purchased it for two years prior, came from the County of San Mateo, the City of Pacifica and the California Housing Finance Agency. In doing so, NCR has permanently preserved these 100 units.

In Kansas, the City of Manhattan was key in NCR's preservation of 47 at-risk Section 8 units. Pulling the financing together to make this project work was not an easy task. With so many HUD contracts coming up for renewal and many owners considering opting out of the program, maintaining affordable senior hosing is one of AAHSA's priorities. In this example, again, the preservation could not have occurred without the city's own recognition of the importance of this affordable housing to its low income elderly residents.

Such massive state and local investment to preserve federally-subsidized merits federal financial support. The scarcity of affordable senior housing has reached crisis proportions in the United States. Programs like the preservation matching grant can greatly assist in preserving as many units as possible. HUD must encourage, at every step of the renewal process, the preservation of these scarce affordable units. In the Pacifica case, most resident were surely facing homelessness due to lack of affordable alternative housing. In Kansas, residents at best were facing dramatic increases in rents.

Service Coordinators and the Congregate Housing Services Program (CHSP): AAHSA urges $75 million for service coordinators and the continuation of existing CHSP contracts in FY2002. Programs that bridge the gaps between housing, supportive services and health care are necessary to facilitate a seamless continuum of care. The service coordinator program is such a bridge program. This program allows frail elderly people to live independently with dignity and respect in their own homes, and often defer or delay their need to move to a higher level of care. Increasing funding from $50 million to $75 million will offer the possibility of service coordinators to new applicants. Service coordinators are a critical piece in the creation of supportive housing and service-enriched housing. Their primary role is to link residents with home and community-based service providers that assist residents with aging in place. With a central coordinator facilitating access to outside services for residents who need them, economies of scale can be realized and the independence of residents maintained.

Service coordinators are an integral part of a strategy to provide a healthy, ethical and affordable continuum of care in elderly housing facilities. AAHSA has long maintained that funding for service coordinators should be through a predictable, regularized process. While it is our understanding that service coordinators may be funded as a part of a project's routine operating expense, many elderly housing facilities are presently unable to use this procedure because this would exceed their cost limits under Section 8.

AAHSA also encourages Congress to establish a more reliable and stable source of funding for service coordinators by assuring that service coordinators can be part of every facility's routine operating expense. Grant recipients should have the realistic option to build the cost of service coordinators into their operating budget upon the expiration of the grant, but we must also sustain separate funding options for those facilities where only a portion of the residents benefit from direct rental subsidies. Again, to maintain the integrity of the Section 202 development program, we encourage you to establish a separate funding stream, apart from the Section 202 account, for service coordinators and CHSP contracts.

We recommend that financially restructured projects (refinanced) build the cost of funding a service coordinator into their operating budget through a PRAC. We recommend that the cost of a service coordinator also be exempted from the annual limits on expiring Section 8 contracts; and that insured or assisted housing projects without project-based Section 8 rent subsidy have existing service coordination grants continued through Section 8 amendment funds.

Affordable Assisted Living Conversion and New Production: AAHSA supports $100 million for: 1) converting federally assisted elderly housing units to assisted living units and, 2) funding the production of affordable assisted living for low income seniors.

AAHSA supports $50 million to maintain the assisted living conversion program. In the FY2000 HUD budget, Congress ushered in a new era of forward-thinking housing policy when it appropriated $50 million for the conversion of Section 202 units into assisted living units. This policy change is indicative of the responsiveness of Congress and HUD to increasingly frail senior residents whose buildings no longer properly accommodate them and delivery of the services they need. The assisted living conversion program also acknowledges the resources housing programs can bring to communities in need.

One of the biggest current gaps in achieving a complete continuum of healthy, affordable and ethical care for seniors is the lack of affordable assisted living for very low income seniors. To address this need, AAHSA supports continuing this important program. Authorizing the conversion of some federally assisted elderly units into assisted living units allows residents to age in place, something many of us wish for our families and ourselves. AAHSA also urged expansion of the conversion program in FY2001 to non-Section 202 federally-assisted elderly housing projects. This change, which was enacted last year, will help a broad range of nonprofit-sponsored facilities begin to address local needs for affordable assisted living units.

AAHSA supports $50 million for new affordable assisted living production. On behalf of the communities we represent in every state, we encourage you to support a program to construct new affordable assisted living facilities to initially serve 1,500 low income elderly households. One way to accomplish this goal is to link to the Section 232 FHA insurance program to directly subsidize no more than 20% of the units in any given facility, thereby creating 7,500 mixed income assisted living units. Along with the assisted living conversion program, this program should be under a separate funding stream than the Section 202 program.

The *Olmstead* Decision: In 1999, the Supreme Court held in *Olmstead* that unnecessary institutionalization of people with mental disabilities is discrimination under the Americans with Disabilities Act. The Court ruled that states that offer community-based services to people with disabilities must make those services available to an individual when the person desires community services and when the person can be adequately served in the community. The decision applies to both individuals in institutions and those in the community at risk of institutionalization. This decision clearly points to a national movement to provide supportive services in the most non-institutional setting as possible. The ramifications on federally assisted housing have yet to be fully explored, but AAHSA believes the ruling will put pressure on communities to respond to additional needs for affordable assisted living, coordination of in-home (whether a federally-subsidized home or not) services and appropriate, consumer-driven options for supportive services.

HUD has already responded to the *Olmstead* decision by publishing its Access 2000 NOFA. While this NOFA is targeted specifically to non-elderly disabled individuals, it is AAHSA's hope that the program will soon be expanded to elderly individuals. The goal of Access 2000 is to use existing federal authority and appropriations to facilitate the successful transition from nursing homes to community living for persons with disabilities. This innovative initiative will use HUD Section 8 housing vouchers, Department of Health and Human Services Nursing Home Transition Grants, Medicaid funds and other resources to help individuals make appropriate transitions into community living. Because of housing's centrality in each of our lives, it is likely to be a very important part of any successful transition into community-based settings, as the Court stipulated. AAHSA is encouraged by HUD's leadership in the Access 2000 NOFA and looks forward to working with the subcommittee and the Department as more issues evolve to include elderly people as well.

Coordination between HUD and HHS. AAHSA believes that the work between HUD and HHS to implement the Access 2000 program is an excellent example of how the two departments can coordinate efforts in the future. AAHSA is currently working with HUD and HHS to help create an effective partnership between the two agencies so as to coordinate and maximize the benefits of federal housing, services and health programs. The goal, of course, is to allow individuals the opportunity to live independently, avoid premature institutionalization and make use of the most cost-effective alternatives possible. We hope our efforts result in an affordable continuum of care that offers a range of supportive services to older persons in federally-assisted housing.

New Production: In recognition of the great number of housing needs nationwide and for all ages, AAHSA strongly supports the creation of new programs to construct, rehabilitate and preserve a substantial number of units in the coming years. We encourage the subcommittee to support H.R. 2349, which establishes a national affordable housing trust fund. We also support S. 652, the Rural Rental Housing Act. These bills, if enacted, along with last year's much-needed increase in private activity bond and low income housing tax credit caps, could do much to alleviate our nation's housing crisis. AASHA looks forward to working on various new production proposals under consideration to develop the most cost-effective program(s) possible. Any new production program must ensure adequate access to federal funds by rural, suburban and urban communities.

The Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century: AAHSA thanks the subcommittee for its recent extension of this important Commission. The Commission's mission to explore ground-breaking avenues to address future residential and service needs is a timely and much-needed endeavor. Along with the subcommittee, AAHSA very much looks forward to the Commission's recommendations.

AAHSA is thankful for the leadership this subcommittee provides in national housing policies and for this opportunity to testify. We are pleased to contribute to your deliberation on these critical issues, and we urge your support for the recommendations outlined in our testimony.

If you desire additional information, please contact Linda Couch, Housing Policy Analyst, at 202/508-9476 or lcouch@aahsa.org.

TESTIMONY OF

JANE O'DELL BAUMGARTEN

Member, Board of Directors

AARP

Regarding

Elderly Housing and Affordability Issues
for the 21st Century

Before the

Housing and Community Opportunity

Subcommittee of the

House Financial Services Committee

July 17, 2001

2128 Rayburn House Office Building

Washington, D.C.

For additional information, contact:
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Good morning, Chairman Roukema, Ranking Member Frank, and members of the Subcommittee on Housing and Community Opportunity. My name is Jane Baumgarten. I live in North Bend, Oregon, and I serve as a member of AARP's Board of Directors.

In addition to serving on AARP's Board, I am also privileged to serve on the "Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century" – perhaps more conveniently known as the Seniors Housing Commission. Today my remarks will represent only the views of AARP, and will not in any way reflect on the Commission's work – which has just begun.

AARP appreciates the tradition of strong, bipartisan support for housing programs serving older Americans that has characterized this Subcommittee's work. We hope that the same bipartisan spirit will extend into the future as the Subcommittee examines and prepares to address the issues associated with housing affordability and availability – and takes under advisement the work of the Seniors Housing Commission along with the work conducted by the Millennial Housing Commission.[1] Both Commissions are focusing on the issue of affordable housing.

Two years ago, almost to the day, I testified on behalf of AARP before this Subcommittee on the topic of "Preserving Affordable Housing for Senior Citizens into the 21st Century". Toward that end, the Association is encouraged by the progress that was made last year with the enactment of

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[1] The Association would like to make available to the members of the Subcommittee a survey of AARP research reports that have been completed since 1997 on issues related to seniors housing and supportive services. (A listing of these reports, and a brief description of each, is attached to my testimony as Appendix I.)

the American Homeownership and Economic Opportunity Act of 2000 – including the creation of the Seniors Housing Commission.

Powerful Demographic Forces at Work

There are powerful demographic forces at work in our nation that are revealed in the numbers, proportions and age group distributions among older Americans who will be in need of affordable and appropriate housing. Projections by the U.S. Census Bureau estimate that by the year 2020, the number of persons age 65 and older will grow to over 53 million – representing a 55 percent increase from the 34 million estimated for 1998. Changes in the age distribution of the nation's older population are also occurring. Presently, the aging of the older population is driven by large increases in the number of persons age 75 and older. More specifically, in 1998, there were an estimated 4 million persons age 85 and older. The Census Bureau projects this figure to reach approximately 6.5 million by the year 2020. This would represent an increase of 62 percent for the 85-plus age category alone.

Housing is a critical factor in determining the quality of life and sense of security of all Americans. During the 1990s, on average, Americans – including older Americans – improved the quality of their housing. But despite the prosperity of the 1990's, many older Americans continued to experience serious housing problems because of substandard conditions, lack of affordability, or inappropriateness of their homes for "aging in place". There is a deficit in affordable, available, and appropriate housing that is affecting a growing number of older Americans.

The Availability of Affordable Housing for Older Persons

AARP believes that preserving affordable housing for the elderly must mean more than maintenance, rehabilitation, modernization and subsidizing of existing housing – as critical as it is that these needs be addressed. Beyond these, what is required is an increase in the rate of production of appropriate -- specifically including supportive -- housing in the near term future. Absent this, what will likely be produced is an affordability and availability housing crisis for a growing number of under-housed, under-served older Americans – leading, potentially, to an increase in costly and premature institutionalization. The frail elderly represent the fastest growing segment among older persons in our nation, and among the most at risk of those who are vulnerable to excessive housing cost burdens.

As Chairman Roukema's letter of invitation to testify suggests, housing affordability and availability focus on two different but related aspects of the housing question. Housing *affordability* refers to the financial ability to gain access to housing, as well as the financial ability to remain a resident. Housing *availability* refers not only to vacancy rates, but also to the appropriateness of the housing. AARP research consistently documents that as Americans pass through midlife, regardless of whether they own or rent their housing, they strongly prefer to remain in their existing place of residence. The adaptability of housing to the processes of aging in place presents difficult challenges for housing facilities that have often not been designed with these life changes in mind.

Housing affordability and availability remain major problems for many older Americans, especially for those who rent. AARP's analysis of the 1999 American Housing Survey indicates that approximately 25 million households were headed by a person age 62 or older. Of these, nearly 5 million (20 percent) were renters.[2] The same survey analysis indicates that 57 percent of these older renter households paid 30 percent or more of their income on housing, compared to 39 percent of younger renter households who paid 30 percent or more of their income on housing. Households are composed of one or more individuals, therefore the actual numbers of older Americans affected by heavy rent burdens is substantially understated.

In summary, according to the 1999 American Housing Survey data, of the 2.85 million households headed by a person age 62 or older that pay 30 percent or more of their income on housing, 1.7 million households (approximately 60 percent) benefited from one or more of the federal rental housing programs. This means that today, those household headed by someone 62 or older and benefiting from federal housing assistance account for roughly one-third of <u>all</u> households receiving such aid.

<u>The Growing Need for Elderly Housing with Supportive Services</u>

However, many older persons – especially those who live alone – eventually will need some supportive services to remain independent in their homes. The availability of these services varies widely due to the residential distribution patterns of older Americans. Again, according to AARP's analysis of the 1999 American Housing Survey data, seventy-two percent (72%) of older

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[2] See Appendix II, AARP Fact Sheet Number 85, entitled: "A Summary of Federal Rental Housing Programs".

persons live outside central cities, and are dispersed across suburbs, small towns, and rural areas. Such dispersion presents formidable challenges to the efficient delivery of services such as transportation, in-home health care, home-delivered meals and other necessary services.

It is especially relevant for the purposes of today's hearing to recognize that as the elderly population increases, the proportion who have difficulty performing one or more basic activities of daily living – such as bathing, dressing, or eating -- will also be increasing. An analysis prepared for AARP by the Lewin Group estimated that in 1994 there were over 1.7 million elderly (65 years of age and older) who had difficulty performing two or more such daily activities. The same study estimated that by the year 2020, the number of similarly aged persons with two or more of these impairments would increase to 2.8 million – a 65 percent increase from 1994.

Census data provide a more precise break-out of where these impaired individuals are likely to be concentrated. There are approximately 20,000 federally subsidized housing projects that serve more than 1.4 million older persons whose median age is approximately 75. The Census Bureau's 1995 Survey of Income and Program Participation indicates that approximately 40 percent of persons of age 62 or older, living in these *subsidized* rental housing units, had at least one Activity of Daily Living (often referred to as ADLs) limitation (such as moving around the room, transferring from a bed or chair, bathing, eating, dressing and using the toilet); or one Instrumental Activity of Daily Living (IADLs) limitation (such as using the telephone, keeping track of bills, preparing meals, taking medicine and getting outside the home), compared with 28 percent of older persons in *unsubsidized* rental properties and 19 percent of older persons in *owned* homes.

Trends Within the Section 202 Supportive Housing Program

The experience of the Section 202 supportive housing program for the elderly helps to illuminate the issues, challenges and-- most importantly – the need for supportive services, demonstrating the importance of viewing housing as an effective point of service delivery. The 202 program is the only federally-funded, new construction housing program specifically designed to address the physical frailties of elderly residents. I would like to briefly summarize several key findings from a recently released, extensive AARP-sponsored study of the Section 202 supportive housing program for the elderly.[3]

From the perspective of frail older persons, housing and services are often the keys to continued independence and dignity. Comparisons of the 1998 Section 202 survey findings with those from the 1988 survey document that:

- Section 202 units for older persons continue to be in high demand, as suggested by the low vacancy rates (1 percent for one-bedroom units) and long waiting lists (9 applicants waiting for each vacancy that occurs in a given year – up from 8 in 1988);
- Residents are older and frailer than was indicated in the earlier research (Average resident age increased from 72 years in 1983 to 73.6 years in 1988, rising to 75 years in 1999.);

[3] This study was conducted by the University of Illinois and sponsored by AARP. The study surveys the effects that demographic forces, modernization needs, and several legislative changes have had on Section 202 housing projects during the ten-year period from 1988 to 1998. The complete report was released just this year. Appendix III of my written testimony includes a more complete summary and explanation of key study findings. AARP would be happy to provide the Subcommittee with copies of the full report.

- Legislation and regulatory changes have improved the Section 202 program. For example, in 1999, more than a third of all Section 202 facilities (37.4 percent) had service coordinators on staff, a service authorized by legislative changes in 1990 and 1992;
- Facilities built during the past decade are, on average, much smaller than reported by earlier surveys for preceding years; and
- Capital reserves were generally viewed by managers as inadequate for retrofitting projects to meet the changing needs of aging residents, especially among the older projects, where the oldest residents are concentrated.

Conclusions

The essential conclusion to be drawn from this report is that adapting Section 202 housing to the changing needs of its residents can mean – for them -- the critical difference between maintaining an apartment in a supportive community surrounded by one's own belongings, or admission to more expensive nursing home care — often involving sharing a room with a stranger. Today, too many older persons with modest means face the stark choice between living in their own homes with minimal access to support services or moving to expensive and restrictive institutional settings.

AARP has made a commitment to work with the Seniors Housing Commission and the Millennial Housing Commission to conduct an extensive review of the issues, challenges and potential strategies for addressing the growing deficit in affordable and appropriate housing for the vulnerable low and moderate-income elderly population. We are particularly concerned over the mismatch of housing stock with the numerical growth and service needs of the frail elderly. In this regard, AARP is encouraged by the progress being made by the two Commissions, with a number of legislative proposals that have been or will be introduced in the House and Senate this year, and several initiatives being proposed by Secretary Martinez at the U.S. Department of Housing and Urban Development. We look forward to reviewing these proposals and initiatives in greater detail. The Association also looks forward to working with this Subcommittee to assess and help perfect these proposals as elements of an effective short-term and long-term affordable housing strategy for vulnerable older Americans.

I would be happy to answer any questions that you may have.[4]

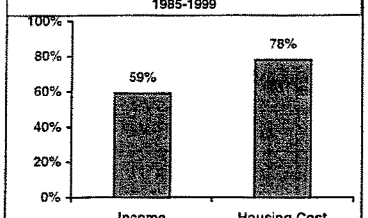
[4] In compliance with House Rule XI, clause 2(g) regarding information of public witnesses, attached is AARP's statement disclosing federal grants and contracts by source and amount received in the current and preceding two years.

A SUMMARY OF FEDERAL RENTAL HOUSING PROGRAMS

Introduction

In 1999, approximately 25 million households were headed by a person age 62 or older; of these, around 5 million (20 percent) were renters.[1] Older renters often find it difficult to find housing that they can reasonably afford. In fact, about 57 percent of older renter households pay 30 percent or more of their income on housing, compared to 39 percent of younger rental households.[2] Moreover, evidence indicates that the housing situation for older renters may be getting worse. Between 1985 and 1999, the median housing cost for renters age 65 and older grew faster than their income [Figure 1].[3] By 1999, their median annual housing cost had risen to $5,772, while their median income was $12,608.

Figure 1
Growth in Median Housing Cost
and Median Income
Renter Households Age 65 and Older
1985-1999



Sources: American Housing Survey, HUD (rent); PPI analysis March Current Population Survey, Census (income)

The problems experienced by older renters are often complicated by age-related factors. Older persons are more likely to live on a fixed income, which may make it difficult to find affordable housing or absorb rent increases. Older persons are also more likely to be frail, which can make a home search difficult, especially for housing that has architectural features or services that support aging-in-place.

One way to help meet the housing needs of older renters is through federal housing subsidy programs. Since the first major housing legislation was passed in the 1930s, the federal government has taken an active role in providing affordable housing for persons of all ages. In 1999, about 1.7 million households headed by a person age 62 or older benefited from some kind of federal rental housing program – roughly one-third of all households receiving such benefits [Figure 2].

Direct federal funding for new affordable housing is down in recent years, and many of the programs that were used to develop the current stock of affordable housing have been inactive for decades.

Major Federal Rental Housing Programs Benefiting Older Persons

The federal government has used a variety of methods to promote affordable rental housing; often, these methods reflect the changing political philosophies over the past 60 years. For instance, in the 1930's public housing was the key federal program for rental housing. In the 1950's and 1960's, the federal government promoted subsidized mortgages for private developers to build or rehabilitate multifamily housing for low- and moderate-income families. In the 1970's and 1980's, tenant-based rental assistance became the dominant philosophy. In the 1990's low-income housing tax credits and block grants to state and local governments became extremely important tools.

Because of the long duration of most housing assistance contracts, today's subsidized rental housing is a patchwork of disparate programs. This patchwork quality sometimes creates problems in coordinating housing policy for developing needs. For instance, many properties that serve older persons are experiencing an increasing need for supportive services, but the delivery of

Figure 2
Stock of Assisted Rental Housing, 1999
Major Programs

	Total	Age 62+
HUD Programs		
Public Housing	1,120,000	358,400
Section 202	319,502	319,502
Section 221(d)(3)	109,861	21,437
Section 236	429,567	146,053
Section 8 new/rehab	744,889	343,673
Tenant Based Section 8	1,420,000	213,000
Rural Housing Service		
Section 515	453,275	190,829
Federal Incentives via State Agencies		
Low-Income Housing Tax Credit (w/out other federal subsidy)*	433,427	108,357
HOME	125,100	20,016
Total	**5,155,621**	**1,721,266**

* - In addition, approximately 290,000 low-income housing tax credit units are also subsidized through Section 8 or Section 515. Around 72,000 of those units are occupied by older persons.

Source: PPI estimates based on HUD, "Recent Research Results: New Facts About Households Assisted by HUD's Housing Programs" (October 2000); HUD Office of Budget Production Report; AARP 1999 National Survey of Section 202 Housing for the Elderly; HUD, "A Picture of Subsidized Households" (1998); Rural Housing Service, FY 1999 Multifamily Housing Occupancy Survey; HUD's Low-Income Housing Tax Credit Database; National Council of State Housing Agencies; GAO Survey of Tax Credit Units (as published in letter B-248332); Cummings and DiPasquale, "The Low-Income Housing Tax Credit: An Analysis of the First Ten Years," Housing Policy Debate, 1999; HUD, HOME Program Data, Q4 1999.

those services varies from program to program. On the other hand, the advantage to different approaches has been the involvement of a wide variety of entities, (including the federal government, state and local governments, nonprofit groups, and for-profit developers), each of which bring different resources and expertise to the field of affordable housing.

Public Housing

Public housing is federally funded, but owned and operated by local public housing authorities. The program was initially developed in the 1930's to provide temporary housing for working class families. Indeed, single older persons were not even eligible until the mid-50's. Public housing has since developed into long-term rental housing targeted to low-income households.

By the 1970's, well over a million units were in the public housing stock, but there have been no net additional units during the past 25 years. However, many units are being rehabilitated or replaced under the HOPE VI program for revitalization. Approximately one-third of the 1.1 million public housing units are occupied by an older household.

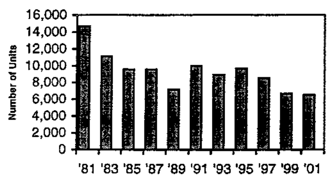
Section 8 New Construction/Rehabilitation

In recent years, Section 8 has typically been associated with tenant-based vouchers. However, when the program began in 1974, it also included subsidized mortgage financing for the construction and rehabilitation of multifamily projects by for-profit developers to serve renters with low-incomes. Primarily for budget reasons, Congress ended the Section 8 construction and rehabilitation program in 1983. Of the existing Section 8 stock of nearly 745,000 units, around 46 percent is occupied by older households.

Section 202

Section 202 Supportive Housing for the Elderly is the principal federally funded construction program for rental housing for older persons. When it was enacted under the 1959 National Housing Act, the program provided direct subsidized construction loans to private, nonprofit operators of housing for older persons and persons with disabilities. In 1990, the National Affordable Housing Act amended the program to serve only older persons, and created the new Section 811 program for persons with disabilities. In both cases, subsidized direct loans were replaced by capital grants. Around 316,000 older households reside in Section 202 housing. Production in the Section 202 program is well below peak levels of the early 1980s, and is currently about 7,000 units per year [Figure 3].

Figure 3
Production of Housing Units
Section 202 for Older Persons



FY 2001 Estimated
Source: HUD

Section 221(d)(3)
One of the programs authorized by the National Housing Act of 1959 was the Section 221(d)(3) program, which insured and subsidized low-interest rate loans to private developers, both for-profit and nonprofit, in order to promote the construction of affordable housing. The program was discontinued in the mid-1960s. Of the nearly 110,000 221(d)(3) units still existing, about a fifth are occupied by an older household.

Section 236
The Section 236 program was enacted as part of the Housing Act of 1968 as a replacement for the Section 221(d)(3) program, and it offered prepayment provisions and use restrictions similar to the Section 221(d)(3) program. However, Section 236 mortgages typically had a lower interest rate. This program was discontinued in 1973 because many of the project sponsors experienced cash flow problems, even with the subsidized loan. Nearly 430,000 units built under the Section 236 program remain, of which around a third are occupied by older households.

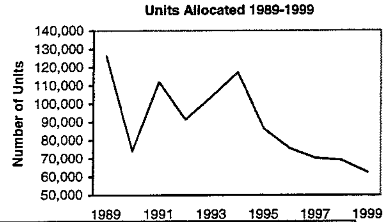
Section 515
Authorized in 1962, Section 515 is a direct loan program under which private for-profit and nonprofit sponsors receive a low-interest rate loan from the Rural Housing Service of the US Department of Agriculture in return for renting to persons with low and moderate incomes. Unlike the Section 221(d)(3) and Section 236 programs, Section 515 is still financing the construction and rehabilitation of affordable housing, though funding cuts in recent years have substantially reduced the production of units. Among the 453,000 Section 515 units, 42 percent are occupied by older households.

Low-Income Housing Tax Credit
The Tax Reform Act of 1986 created the Low-Income Housing Tax Credit (LIHTC). Under this program, states are allocated tax credits based on their population. State housing agencies then allocate the credits to private developers who acquire, construct or rehabilitate affordable rental housing. The tax credit is taken over a ten-year period. The amount of the credit is based on the cost of units set aside for low-income households, whether the credits are used for construction, rehabilitation, or acquisition of a property, and whether an additional federal subsidy is involved. Although units for residents with mixed incomes are permitted, in practice most projects consist entirely of units for low-income residents. About 25 percent of the 700,000 affordable units built under this program are occupied by older households.

Until recently, the per-capita tax credit allocation for each state was unchanged from year to year. Consequently, inflation eroded the number of units generated by the program. Congress addressed this problem in 2000 by raising the tax credit cap from

$1.25 per capita to $1.75 per capita by 2002, with adjustment for inflation thereafter. This move may help production recover from its gradual decline [Figure 4].

Figure 4
Low-Income Housing Tax Credits
Units Allocated 1989-1999



Source: National Council of State Housing Agencies.

HOME

The HOME Investment Partnership Program was created by the Cranston-Gonzalez National Affordable Housing Act of 1990. The HOME program is a block grant program from the federal government to support state and local affordable housing programs. Generally, local jurisdictions are required to match at least 25 percent of the federal grant. A variety of activities are eligible under the program, including tenant-based rental assistance, home ownership assistance, and the development of affordable rental housing. For rental housing, HOME funds may be used for acquisition, rehabilitation, and new construction of units for low-income households. Older households occupy about 16 percent of the 125,000 rental units completed.

Tenant-Based Section 8 Rental Assistance

In addition to the project-based programs above, the Department of Housing and Urban Development (HUD) provides rental assistance to low-income households that can be used to acquire market-rate rental housing. For those landlords who are willing to accept tenant-based vouchers or certificates, HUD pays the difference between 30 percent of the resident's income and a published standard based on area market rents for comparable units.

The difference between a certificate and a voucher is the rent level of a qualified unit. Certificates, common in early years of the Section 8 program, require the unit's rent to be at or below the published standard for that type of unit. With vouchers, the rent may be any level, but the resident is responsible for any additional rent above the published standard. Thus, with a voucher, it is possible for a resident to pay more than 30 percent of income in rent. The advantage to a voucher, however, is that the household has a larger selection of apartments. Older households hold about 15 percent of the 1.4 million certificates and vouchers.

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[1] PPI analysis of HUD's 1999 American Housing Survey.
[2] Ibid.
[3] Housing costs include rent, utilities and renters insurance (if any).

Written Andrew Kochera, Public Policy Institute, May 2001.

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AARP Research Relating to Seniors Housing and Supportive Services

Doc #	Year	Title	Description	Author/Project Leader
D17145	2000	Assisted Living: Summary of State Statutes	State by state summary of assisted living regulations and licensing requirements.	Sharon Hermanson
FS10R	2001	Nursing Homes	This 2-page fact sheet provides an overview of nursing homes in the US, including information regarding resident characteristics, utilization, capacity, cost and regulation of nursing homes.	Sheel Pandya
2001-02	2001	The 1999 National Survey of Section 202 Elderly Housing	The purpose of this study was to document changes in project characteristics, resident characteristics, consumer demand, services offered, management styles, and capital needs.	Leonard F. Heumann, Ph.D.,Karen Winter-Nelson, and James R. Anderson, Ph.D
IB47	2001	Section 8 Project-Based Rental Assistance: The Potential Loss of Affordable Federally Subsidized Housing Stock	This Issue Brief reviews the history of the project based Section 8 program, the incentives property owners face to leave the program, existing policy to help retain property owners and protect residents, as well as policy options that may minimize the loss of assisted housing in the project-based Section 8 program.	Andrew Kochera, Donald Redfoot, and Jeremy Citro
FS16R	2001	Issues in Manufactured Housing	This fact sheet describes the scale of the manufactured housing industry, characteristics of manufactured homes, demographics of the residents, and includes a review of construction issues and unfair practices in manufactured home parks.	Andrew Kochera

FS85	2001	A Summary of Federal Rental Housing Programs	This fact sheet highlights the critical need for affordable rental housing, describes the history of various federal housing programs and how they operate, and summarizes the number of older residents who benefit from the various programs.	Andrew Kochera
2001-04	2001	Personal Care Services: A Comparison of Four States	This issue paper describes the various ways in which four states use Medicaid and state funds to provide personal care services to older people with disabilities.	Robert L. Mollica
FS65R	2001	"Section 202 Supportive Housing for the Elderly"	This fact sheet highlights the growing need for affordable supportive housing, describes the features of Section 202 housing that help older persons remain independent, presents key findings on the characteristics of the residents, and discusses recent budget and production issues.	Andrew Kochera
2000-02	2000	Changes in Home Care Use by Older People with Disabilities: 1982-1994	Documents trends in disability status of community residents 65+, sources of help, hours of help, sources of payment for long-term care help, etc.	Korbin Liu
IB43	2000	Assuring the Quality of Home Care: The Challenge of Involving the Consumer	This 18-page issue brief by Barbara J. Coleman of PPI concludes with suggestions for state actions to educate and involve the consumer in quality-of-care issues.	Barbara Coleman

2000-07	2000	Helping the Helpers: State-Supported Services for Family Caregivers	This 24-page issue paper by Barbara Coleman of the Public Policy Institute reviews the findings of two 1999 surveys of state caregiver support programs that identify state strategies for reaching caregiver families and for designing programs to meet their needs.	Barbara Coleman
2000-18	2000	The Effect of State TANF Choices on Grandparent-Headed Households	This 46-page in brief by Faith Mullen and Monique Einhorn of the Public Policy Institute evaluates the effect of welfare reform on grandparent-headed households, in the 50 states.	Faith Mullen and Monique Einhorn
FS82	2000	Caregiving and Long-Term Care	This 2-page fact sheet by Sheel M. Pandya and Barbara Coleman of PPI provides information about the prevalence of informal caregiving in the United States and its role in long-term care.	Sheel Pandya and Barbara Coleman
D17317	2000	Across the States 2000: Profiles of Long-Term care Systems	Brief numerical state summaries of demographics, home and community based services beneficiaries, service providers, nursing facilities, and expenditures for long term care	Heather Nawrocki and Steven Gregory
2000-06	2000	Medicaid Financial Eligibility for Older People: State Variations and Access to Home and Community-Based Waiver in Nursing Home Services.	This 27-page paper by Enid Kassner of PPI and Lee Shirley of the National Academy on an Aging Society examines the financial eligibility criteria used by states for older persons with disabilities who seek Medicaid services.	Enid Kassner

2000-10	2000	Patterns of Dissaving in Retirement	This 83-page PPI paper by Steven Haider, Michael Hurd, Elaine Reardon, and Stephanie Williamson of RAND examines dissaving or asset decumulation in retirement in retirement using the Social Security Administration's New Beneficiary Data Survey (NBDS) and the Asset and Health Dynamics Among the Oldest Old (AHEAD), sponsored by the Administration on Aging.	Sara Rix
2000-21	2000	Olmstead v L.C.: Implications for Older Persons with Mental and Physical Disabilities	This 25-page PPI Issue Paper by Sara Rosenbaum analyzes the Olmstead decision and considers its implications for persons with physical and mental disabilities, with a particular focus on older persons.	Kelly Griffin
IB 42	2000	The Declining Personal Savings Rate: Is there Cause for Alarm?	This 21-page issue brief by Satyendra Verma and Jules Lichtenstein of PPI discusses the two different definitions of the personal saving rate commonly used by analysts, one based on the Bureau of Economic Analysis' (BEA) National Income and Product Account (NIPA), and the other based on the Federal Reserve's Flow of Funds Account (FOFA).	Saty Verma
DD 44	2000	Wealth Distribution in 1998: Findings from the Survey of Consumer Finance	This 4-page Data Digest by John Gist of PPI summarizes the most recent SCF findings on household wealth and places them in the context of trends since 1989, just prior to the last recession.	John Gist
D17168	2000	Fixing to Stay	A national survey of housing and home modification issues. Discusses resident's future living plans, issues related to physical mobility problems, concerns and barriers to home modifications, etc	Leon Harper

9904	1999	How do They Manage? A Case Study of Elderly Persons Functionally Eligible for Medicaid Waiver Services But Not Receiving Them	This 24 page Issue Paper by Janet O'Keeffe of the Public Policy Institute, et al., provides an in-depth look at a sample of elderly persons who are functionally eligible for Medicaid home and community based waiver services but are not receiving them.	Janet O'Keeffe, Sharon Long, and Korbin Liu
DD38	1999	Trends in Medicaid Long-Term Care spending	This 6 page data digest discusses shift in Medicaid spending patterns, state home care Medicaid expenditures, waiver programs, personal care services.	Barbara Coleman
D16905	1999	"Liveable Communities: An Evaluation Guide"	This 118-page PPI book by Patricia Baron Pollak of Cornell University provides residents, organizations, and local governments with a tool to assess a community's "liveability."	Patricia Baron Pollak, Ph.D., Robert Jenkens, George Gaberlavage
FS62R	2001	"Assisted Living in the United States"	This 5-page Fact Sheet by Jeremy Citro and Sharon Hermanson provides an up-to-date overview of the assisted living regulatory environment, resident characteristics, and industry trends. Public Policy Institute Consumer Team research on private accommodations and the financing of affordable assisted living is also highlighted.	Bernadette Wright
9906	1999	Do Baby Boomers Save and, if so, What For?	This 30-page Issue Paper by John Gist, Ke Bin Wu, and Charles Ford of PPI assesses baby boomers' progress in their preparation for retirement by examining what survey data reveal about how much boomers have saved, and their attitudes toward saving.	John Gist

D16691	1999	Universal Design and Home Modification	Products and design features that help to promote independent living.	Leon Harper
9809	1998	New Directions for State LTC Systems 2nd Edition	This thirty-page issue paper describes the strategies used by states to increase and improve the delivery and financing of publicly funded long-term care services, particularly home and community-based care services.	Barbara Coleman
D16905	1998	"Assisted Living Quality Initiative: Building a Structure that Promotes Quality"	Industry and Consumer coalition report to provide framework for minimum assisted living quality standards.	Assisted Living Quality Coalition
9806	1998	In Brief: How Americans Save	Highlights the sociodemographic characteristics of retirement savers and the retirement saving of baby boomers and summarizes Korczyk's findings from the Health and Retirement Study regarding personal experiences and saving, as well as the attitudes of high savers.	Charles Ford
D14986	1998	Staying At Home	A consumer guide that discusses specific services ranging from help around the house to assisted living. Each service is defined and discussed, including considerations about cost and quality.	

9704	1997	Taking Care of Their Own: State Funded....	Discussion of state funded (nonMedicaid) Home and Community Based Care	Enid Kassner
9701	1997	New Directions for State LTC Systems Vol. III: Supportive Housing	This report reviews and clarifies the definitions for th evarious types of supportive housing and distinguishes range of services they offer. Highlights some basic issues.	Katherine Blanchette
9702	1997	New Directions for State LTC Systems: Vol. IV: Limiting Spending on Nursing Home Care	Reviews steps states have taken to target nursing home spending for Medicaid savings.	Barbara Coleman

IN BRIEF

THE 1999 NATIONAL SURVEY OF SECTION 202 ELDERLY HOUSING

Although the program's mission and financing have been modified several times by different Congresses and Administrations, the Section 202 Elderly Housing program remains the primary federal program focused on constructing subsidized housing for older adults. Over 3,500 Section 202 facilities housed more than 300,000 older persons in 1999.

The 1999 National Survey of Section 202 Elderly Housing[1] is the third national survey of elderly housing sponsors and facility managers (previous surveys were done in 1983 and 1988). The purpose of this study was to document changes in project characteristics, resident characteristics, consumer demand, services offered, management styles, and capital needs. In particular, the survey asked about financing changes and staffing changes authorized by the housing acts of 1990 and 1992 to document the effects of those pieces of legislation. A total of 509 managers (response rate 47 percent) and 480 sponsors (response rate 44 percent) participated in the survey to learn the impact of legislative and regulatory changes over time. The analyses compared project, resident, staffing, services, and financial characteristics as they have changed through five phases of the Section 202 program:

- Moderate-Income Phase (1959-74) – Projects built in this phase have higher income eligibility requirements and generally no rental assistance.
- Low-Income Phase (1974-84) – Projects built in this phase have Section 8 rental assistance and serve renters with less than 80 percent of median income.
- Cost-Containment, or Very Low-Income, Phase (1985-88) – Projects built in this phase must serve renters with less than 50 percent of median income, and many were built under rigid cost-containment rules.
- Transition Phase (1989-94) – Projects in this phase have the same income requirements as the very low-income phase, but HUD waived many cost-containment measures. Some overlap exists between projects placed in this phase and those in the subsequent "PRAC Phase" because of the lag time in implementing financing changes between the two phases.
- PRAC Phase (1993-present) – The current phase uses "project rental assistance contracts" (PRAC) instead of Section 8 for rental assistance, though the income eligibility is the same as in the cost-containment and transition phases.

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[1] AARP Public Policy Institute report #2001-02, by Leonard F. Heumann, Ph.D., Karen Winter-Nelson, and James R. Anderson, Ph.D.

In Brief prepared by Donald L. Redfoot, January 2001

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Summary of Key Findings

Five key points emerge from the wealth of data in this report.

- First, Section 202 units for older persons continue to be in high demand, as shown by low vacancy rates (1 percent for one bedroom units) and long waiting lists (nine applicants waiting for each vacancy that occurs in a given year, up from eight in 1988).

- Second, legislative and regulatory changes have improved the Section 202 program. For example, in 1999, more than a third of all Section 202 facilities (37.4 percent) had service coordinators on staff, a service authorized by legislative changes in 1990 and 1992.

- Third, residents are older and frailer than in previous years. Average resident age increased from 72 years in 1983 to 73.6 years in 1988 and 75 years in 1999. In the oldest projects, the average age was 78.2 years in 1999, and 39 percent of residents were over the age of 80.

- Fourth, facilities built during the past decade are, on average, much smaller than those built in previous years. This change may limit managers' ability to adapt to the changing needs of aging residents.

- Five, capital reserves were generally viewed as inadequate for retrofitting projects to meet the changing needs of aging residents, especially among older projects, where the oldest residents are concentrated.

Policy Implications

The following policy implications may be drawn from the data in this report:

- Production levels are not adequate to meet demand. The program is not able to meet the needs of many others who must wait years to get housing assistance. The trend toward lower funding levels limits Section 202 from serving most of the needy clients waiting for housing.

- Targeting funding to smaller rural projects is not addressing the greatest need, as evidenced by longer waiting lists and fewer vacancies in larger cities.

- The trend toward funding smaller projects creates difficulties achieving the economies of scale needed to provide community spaces, staffing, and services to support an increasingly very old and frail resident population.

- Projects built during the earliest period and the cost-containment years of the mid-1980s will have the heaviest need for capital to retrofit and modernize their projects. Unfortunately, these projects also report the least ability to meet capital needs from project reserves.

Council for Affordable and Rural Housing
Serving the Affordable Housing Needs of Rural America

**TESTIMONY OF ROBERT P. YODER, SR.
PAST PRESIDENT
COUNCIL FOR AFFORDABLE AND RURAL HOUSING
(CARH)
BEFORE THE
HOUSING AND COMMUNITY OPPORTUNITY
SUBCOMMITTEE
HOUSE FINANCIAL SERVICES COMMITTEE
HOUSE OF REPRESENTATIVES
JULY 17, 2001**

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TESTIMONY OF ROBERT P. YODER, SR.
PAST PRESIDENT
COUNCIL FOR AFFORDABLE AND RURAL HOUSING (CARH)
BEFORE THE
HOUSING AND COMMUNITY OPPORTUNITY SUBCOMMITTEE
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HOUSE OF REPRESENTATIVES
JULY 17, 2001

The Council for Affordable and Rural Housing ("CARH")* and I thank the Committee for the opportunity to speak and for this Committee's interest in the needs of rural America and our elderly citizens.

CARH members own or operate affordable housing across rural America, and this housing typically houses elderly persons. My own business has developed, managed and owned affordable housing throughout rural Pennsylvania for many years. We have seen the continuation of a historical trend of the younger members of a community moving away for employment or cultural reasons, while older family members remain. Certainly, there are exceptions to this trend, but it continues.

The real issue facing America is how to facilitate efforts to provide decent safe, affordable housing. We believe that this is an ongoing process the requires us to adequately maintain the existing affordable housing stock, provide for developing new housing in the areas that need it, and provide services that elderly persons typically need.

Recent studies conclude that there are 13.7 million families and elderly persons with critical housing needs, which includes a significant proportion of rural residents. Stegman, Quercia, McCarthy "Housing America's Working Families," New Century Housing (June, 2000). This need falls disproportionately on rural areas, as concluded by the General Accounting Office's September 2000 report entitled "Rural Housing Options for Optimizing the Federal Role in Rural Housing Development." As such, federal programs addressing housing needs also need to address rural housing needs to include all Americans in our national economy.

CARH members have had a series of discussions concerning the most efficient method for the delivery of affordable rural housing for the elderly as well as for rural America. We believe any such analysis must include the Rural Housing Service (RHS),

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*CARH is a national trade association with headquarters in Alexandria, Virginia. CARH represents the interests of over 300 companies. Members of the association build, develop, finance, manage, own and supply products to the rural housing industry.

the federal agency principally charged with providing affordable rural housing, and the Low-Income Housing Tax Credit ("Tax Credit"), which has become the central focus for the production of rural and non-rural affordable housing.

Roughly one-third of RHS multifamily properties are designated as elderly (age 62 or older or handicapped). Approximately 56 per cent of residents in RHS assisted property meet this criteria, with about 42 percent defined as 62 or older. Clearly, RHS properties largely exist to address not only rural, but elderly needs.

With this in mind, I would like to comment on RHS matters, along with other programs and concerns.

1. Restore RHS' Budget.

RHS' budget has been severely limited in recent years and the multi-family housing production budget is a fraction of that appropriated by Congress in years past. The RHS' main multifamily program is Section 515. Historical funding levels were around $500 million. In recent years, the budget was reduced to around $100 million, and a large portion of these funds are used for rehabilitation of existing Section 515 properties. (Precise budget figures can be provided upon request). This has resulted in relatively little new housing for rural America. Accordingly, we believe that, in all events, rural housing production appropriations should be increased to historical levels of the early 1990s. We expect that any funding increase would be modest in the current federal budget environment, but even a modest increase would be important.

Additional revenue will not only provide for housing, but for services and housing providers. Currently, RHS does not permit owners to use rent revenue to pay for special resident events or programs. We believe this is part of an effort to conserve funds. However, elderly residents located in relatively remote areas frequently need additional services, ranging from transportation, to physical therapy and medical related-services. Affordable housing can better attract, retain and provide for elderly residents if it can provide or coördinate services. Housing providers are knowledgeable about resident needs, but short on funding.

2. New Cost Effective Program.

In light of funding shortages, we have analyzed various ways to utilize federal funds to achieve maximum financial leverage. Our best suggestion outside of restoring budget funds is to leverage federal appropriations through a new program under the Federal Home Loan Bank system (the "Banks"). The Banks and their members ("Members") are an appealing source of financing because Members are largely located in or near rural areas. In our experience, Members also tend to be familiar with the development of rural housing.

This program would provide an interest credit in which a lump sum is paid to the Banks or the Federal Housing Finance Board, to be used to buy-down mortgage interest rates to support the below-market mission that RHS serves. The Banks' Affordable Housing Program and Community Lending Program already support and encourage Members to loan funds to rural multi-family housing. This interest credit program would facilitate greater lending at a below-market interest rate, and the savings can be passed on to residents in the form of below-market rents.

3. Tax Credit -- Addressing Rural Housing Needs.

We believe that the Tax Credit rules under Section 42 of the Internal Revenue Code should be clarified to permit the 9% credit for RHS programs, similar to the treatment of HUD programs. RHS provides rental assistance, direct loans and loan guarantees. RHS subsidies are often regarded by the tax credit investment industry as below-market federal finance, disqualifying RHS properties from the 9% Tax Credit, for all practical purposes. An amendment to specifically provide for 9% Tax Credit eligibility will help make additional rural housing possible. We believe that such legislation could even be targeted to very low income populations (such as the HOME program, where the minimum set aside for 9% Tax Credit is heightened to at least 40% of units occupied by persons at no more than 50% of a median income).

Similarly, we recommend that Section 42 be amended to provide for a small statutory set aside for properties located in rural housing areas as designated by RHS. This will also help open credit to needy, rural areas. A minimal set aside of at least 10% would be consistent with past set-asides, such as for non profit entities.

We also believe that the current rent limit rules need to be addressed. Under existing law tax credit residents can earn no more than 60 percent of their median income. Apartments financed by the credit can have rents at no more than 30 percent of 60 percent of the area median income. In many areas across the country, particularly rural areas, the median income is simply too low to support the development of new multifamily complexes therefore, making development in those areas very difficult or infeasible. Recent data from the Department of Housing and Urban Development (HUD) demonstrates that current income limits inhibit housing credit development in as many as 1,700 of the 2,364 non-metropolitan counties across the country.

CARH supports H.R. 951, introduced by Representatives Amo Houghton (R-NY) and Richard Neal (D.-MA) and S. 677 introduced by Senators Orrin Hatch (R.-UT) and John Breaux (D.-LA). These bills would amend the Internal Revenue Code to allow states to use the higher of the area median income (AMI) or the statewide median income for the purpose of calculating application income limits. This technical change to the tax credit program would greatly enhance the tax incentive's ability to help low-income renters that live in the nation's rural areas.

4. Vouchers.

RHS properties would benefit greatly from an allotment of Section 8 vouchers. Currently, rural properties cannot easily access Section 8 vouchers. An allotment of rural Section 8 vouchers (like the rural housing set aside for project-based Section 8) will open subsidy to very low income rural residents.

5. RHS Structural Issues.

RHS has national programs that should operate under basic national standards. However, RHS is administered on a state-by-state basis with state directors reporting to the Undersecretary for Rural Development instead of the Administrator. Each state office has leeway to establish and implement the same federal programs in vastly different ways than other offices, creating a jumble of interpretations to what should be a uniform set of standards. We believe that RHS should have uniform national standards and lines of authority, similar to current HUD operations.

6. Refinancing Barriers.

There are nearly 18,000 RHS multifamily properties, and at least two-thirds are 15 years and older. These properties need to be refinanced and redeveloped over the next several years to prevent this productive and successful portfolio from decaying. Two statutory changes are needed to accomplish this goal.

The Internal Revenue Code should be amended to provide for a tax forgiveness or deferral for persons who transfer their properties at a loss that there are no tax costs in excess of distributions at Closing. Currently, owners are "locked-in" by exit tax liability, which prevents transfer and refurbishment. This barrier is particularly intractable because many of these owners invested in these properties for tax benefits contained in the pre-1986 Tax Code, which were deleted with the 1986 amendments.

We would expect taxes to still be levied on any net income or profits received in a sale. Indeed, we believe that this proposal will actually increase tax revenues. Owners would be willing and able to transfer their properties, possibly realize a small profit and pay taxes on those profits.

Separately, the Low-Income Housing Preservation and Resident Homeownership Act of 1990 removed multifamily owners' right to prepay their RHS loans. This right was abridged at the same time a similar bar went into effect for HUD properties. The right to prepay was restored for HUD properties, but inexplicably, not for RHS properties. We believe restoring these rights will accelerate refinancing and refurbishment of aging properties but with little risk of removing such rural properties from the affordable housing stock. The current restriction acts as a barrier to progress even where the goal is to maintain the low-income nature of the properties.

We have addressed a variety of issues that we believe can profoundly improve the delivery of assisted housing to rural areas and in particular to older Americans in rural America. Let me reiterate that providing housing is an ongoing process, and our suggestions will help maintain the existing affordable housing stock, provide for developing new housing in the areas that need it, and provide services that elderly persons typically need.

Written Testimony of

Harry Thomas, Executive Director of the Housing Authority of the City of Seattle, Washington

and Member of

the Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century

Submitted to the

U. S. House of Representatives Committee on Financial Services Subcommittee on Housing and Community Opportunity

Regarding

Housing for the Elderly and Affordable Housing Issues

July 17, 2001

Testimony of Harry Thomas, Executive Director of the Housing Authority of the City of Seattle, Washington and Member of the Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century, before the U. S. House of Representatives Committee on Financial Services, Subcommittee on Housing and Community Opportunity

Good Morning, Madam Chairwoman and Members of the Committee.

I am Harry Thomas, Executive Director of the Seattle Housing Authority and a member of the Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century. Thank you for the opportunity to be here today to share with you our views on the difficult problems we face in providing decent housing for low-income elderly and disabled residents of public housing, particularly in light the proposed 18 percent cut to the Public Housing Capital Fund. Specifically, I will address the "Elderly Plus" proposal, which will help bring health-related services, including assisted-living, to elderly and disabled public housing residents, enabling them to age in their homes, instead of costly institutions.

First, allow me to provide some brief background about my work. I have spent 11 years as executive director of the housing authority in Seattle, with additional experience in community-based social service organizations and two-years of service as the Washington State governor's staff director. The Seattle Housing Authority has been one of the highest performing housing authorities in the nation for many years, achieving a perfect score on its management assessment for several years running. We were also chosen to participate in the Moving to Work Demonstration Program (MTW). We provide housing in Seattle to nearly 23,000 people through a variety of programs—HUD's Section 8 Housing Choice Vouchers, HUD's public housing program and a local portfolio of non-subsidized housing. We own and manage nearly 7,000 units of housing. Our portfolio includes approximately 50 buildings housing nearly 4,000 low-income seniors.

I will offer my thoughts today around two main issues:

1. The role of public housing for the elderly and disabled in housing our most vulnerable citizens and the importance of providing sufficient resources to maintain these units; and

2. Strategies for meeting the special needs of low-income elderly and disabled residents, including the "Elderly Plus" which will make it possible for them to remain in housing as they get older. I will use some examples from our experience in Seattle along with my knowledge of how this issue is being faced by my colleagues across the nation.

3. I will also update you briefly on the activities of the Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century, which this committee was principally responsible for creating and is conscientiously supporting. We greatly appreciate that support.

1. Public housing is the largest federally-assisted program housing elderly and disabled, thus it is important that we provide sufficient resources to protect this irreplaceable housing resource.

As you know, the federal government plays an important and much-appreciated role in housing low-income older Americans. Nearly 3.7 million Americans age 62 and older receive some form of housing assistance, through a variety of different programs. The Section 202 program, one of the programs most identified with serving this population, houses nearly a quarter of a million elders across the country. However, it is sometimes overlooked that public housing is the single largest federally-assisted housing program serving low-income elderly and disabled. In fact, about one third of the 1.3 million public housing units in the country house elderly or disabled people. Unfortunately, the projected need for special needs housing is growing rapidly, while resources for modernizing and maintaining this housing stock is shrinking. Unless something changes, this situation could result in a serious crisis in elderly and disabled housing in the coming years.

Between 1980 and 1997, as the overall population increased by 18 percent, the number of persons 65 and older grew much more rapidly—by more than 33 percent. This trend will continue as the Baby Boomers enter this age group. When we add to this the fact that life expectancy continues to increase, we can predict a dramatic increase in the number of Americans 85 years old and older. Not surprisingly, this is the most economically vulnerable group in our entire population. At the same time, the supply of affordable housing, particularly for the very low income, is rapidly evaporating.

In the face of this looming crisis, I believe we should, as a nation, be the best stewards of our existing housing stock that we can possibly be. It is much more cost effective to maintain and modernize this viable housing than to replace it. The existing stock of public housing in this country is valued at over $90 billion. It represents a significant resource for elderly and disabled Americans, and it is extremely important that we continue to invest as a nation in the long-term maintenance and capital needs of our existing public housing.

I know that many of you have heard this theme recently in discussions regarding the VA-HUD appropriations bill. However, I would do you a disservice if I did not mention the importance of maintaining this valuable national asset. For many of our seniors and disabled, capital improvements to our public housing buildings are not a matter of fresh paint or other cosmetic niceties – they are a matter of necessity. Let me give you a real-life example from our experience in Seattle of how these cuts would affect the lives of elderly and disabled residents.

Don Williams is an elderly resident of Jefferson Terrace in Seattle, a 34 year-old, 17-story building consisting mostly of one-bedroom apartments. Mr. Williams uses a wheelchair and lives on the seventh floor of this building. When the building's outdated elevators were not functioning in early March (due, this time, to Seattle's recent earthquake), the Seattle Fire Department had to come every day to carry Mr. Williams down the stairs and then back up again in order for him to go to ElderHealth and to the grocery store. ElderHealth is an adult day healthcare program where he eats his daytime meals and participates in daily activities. Because he has difficulty preparing his own meals and staying physically healthy, ElderHealth is essential for his well-being. Due to his limited mobility, the building's elevators are his lifeline. Elevator repair and replacement is a key item on our current capital budget in Seattle. If the Public Housing Capital Fund is cut by 18 percent, as proposed in the House VA-HUD mark-up, our plans to make these and other needed repairs in elderly and disabled housing units may be postponed.

2. We must address the special needs of low-income elderly and disabled residents and make it possible for them to remain in their homes as they get older. The "Elderly-Plus" proposal can do this.

There is often a precarious balance which our older and disabled residents experience—a minor injury which sends a resident to the emergency room for medical services may land them eventually in a nursing home because of the lack of in-home services available to them in public housing. Ultimately, subsidizing low-income residents in a nursing home is much more costly than bringing needed services to them in their own homes. Moreover, residents prefer to remain in their homes near family and neighbors, rather than to move to an institutional setting.

Given the age and configurations of most public housing properties, they are unable to adequately house frail residents. Approximately 70 percent of elderly and disabled residents in public housing live in buildings that are between 30 and 50 years old. Many buildings constructed during this period do not conform to the standards set by the Americans with Disabilities Act. Small efficiency units remain functionally inaccessible to residents with physical limitations, and many do not include standard features necessary to accommodate those with physical challenges, such as railings, grab bars and accessible bathrooms. A recent HUD study of public housing modernization estimated the needs of elderly public housing at $5.7 billion. Preserving the existing stock of low-income housing for the elderly means both maintaining the structural viability of the buildings and modernizing them to better meet the specific needs of seniors and the disabled as they age.

Last year, the House considered HR 4664, a bill to implement the "Elderly Plus Health Support Services Program." This program would provide grants to selected public housing authorities to upgrade existing buildings to make them ready to provide health-related services, including assisted living, as well as funds for service coordinators and congregate care programs. Public housing authorities would not be the service providers, but rather use the service coordinator and congregate care grants to leverage services tailored to meet the needs of their resident population. In addition to making improvements to the actual apartment units, "Elderly Plus" funds could be used to provide office space for doctors and nurses, congregate dining space, facilities for residents needing physical therapy, social services, and more. By making these buildings "service-friendly", some housing authorities can pursue Medicaid waivers to ensure that assisted-living or other services can be made available. The initiative is a viable, cost-effective approach to supporting our low-income elderly and disabled residents, as it dramatically reduces federal government spending on unnecessary nursing home care. We expect a revised version of this bill to be introduced shortly in the Senate and hope you will seriously consider re-introducing it in the House.

Already, a few public housing authorities across the country are pioneering innovative models to serve the needs of the elderly and disabled in public housing and help them to age in place. In addition to Seattle, housing authorities in Cambridge, Massachusetts, St. Paul and Minneapolis, Minnesota, and Miami-Dade County, Florida, have been leaders in this field. Despite our best efforts, however, health-related requirements and inadequate resources continue to hamper these efforts. Where programs are most successful, they combine resources across federal programs, bring in local resources, and assemble a patchwork of services to bring in the wrap-around care so necessary to help seniors age in place. We believe that "Elderly Plus" could go a long way toward facilitating easier coordination and better services for our lowest-income elderly and disabled residents.

Let me tell you about one such program in Seattle. We are engaged in the redevelopment of several of our public housing communities using HOPE VI grants from HUD. We are furthest along with redevelopment activities at NewHolly. The centerpiece of the NewHolly redevelopment's Phase II is a living environment designed with the needs of the elderly in mind, the Elder Village. The 318-unit village, which is nearing the end of construction, is being developed in partnership with two nonprofit agencies whose specialty is housing and care of the elderly: the Providence Health Systems and the Retirement Housing Foundation. The Elder Village combines resources from public housing, Section 202, the Low Income Housing Tax Credit, and non-profit groups to provide service-rich environment for low incomes residents with a variety of service needs.

The Elder Village takes advantage of a flat space adjacent to a planned park, and will be close to a grocery store and public transit. Community spaces will allow residents to meet, interact, and participate in activities. Garden space will be available for tenants to grow flowers and vegetables. Three apartment buildings plus a commons area will make up the Elder Village.

Peter Claver House is an 80-unit apartment residence for independent seniors that will have a full-time manager. The Providence Health Systems project will emphasize coordination, helping residents and their families obtain needed services such as in-home assistance or nursing care, and financial assistance such as Medicare and Medicaid.

Providence Health Systems obtained a federal Section 202 grant for construction of Peter Claver House. Section 202 will provide operating subsidies that will keep the units affordable for low-income seniors for 40 years. Tenants will pay the equivalent of 30 percent of their incomes.

Next door, the Retirement Housing Foundation will build the Esperanza Apartments, with 84 studio and one- and two-bedroom units for seniors, all of which will be wheelchair-accessible. Esperanza will provide an independent living environment in one building. It will be reserved for residents 62 years and older who earn no more than 60 percent of the median gross income.

Next to Esperanza will be the Park Place Assisted Living Facility. The 154-unit building will offer assisted living for persons 62 and older who are no longer able to live independently. The center of the complex, the Commons Building, will feature a large dining room overlooking an exterior courtyard, a club room, gift shop, computer room, fitness room, exam rooms, art studio, beauty shop, and offices centered around an atrium café with a skylight.

Let me tell you how this facility will contribute to the quality of life of just one of our older residents. Ernestine White is currently living in our old-style public housing, but is scheduled to move into the Elder Village next month. Mrs. White has been a resident in our public housing for over 20 years. She raised her children here while working full time. This African-American woman wants to stay in the neighborhood she has grown to love, but she is beginning to slow down. She moves very deliberately and uses a cane, but she still gets around. She still lives in housing that includes steps and was designed for family living.

She is looking forward to her move to the Elder Village. In her new home, she will no longer have to negotiate the stairs every day. As she grows older, she will be able to contract for in-home services if she needs them—housekeeping, meals and laundry service, for example. Lately, she has depended on the telephone to keep up her relationships with friends and neighbors, but now she'll be able to meet them down the hall, or in the community room. Shopping and other services will be close by.

As all Americans grow older, we experience barriers related to mobility and physical limitations. In our Elder Village, with limited assistance, people like Ernestine White will be able to stay in their own neighborhoods. As she gets older, the services she needs, such as case management and visiting nurse service, will be readily accessible to her.

3. Update on the Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century

In an attempt to better understand the issues and prepare for the future needs of appropriate, affordable housing and health services for the elderly, this Subcommittee was principally responsible for establishing the Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century.

I was honored to be appointed as one of the Commissioners earlier this year, and am pleased to report that we began work on the mandate given to us by this subcommittee and Congress. Because it took one year longer than anticipated for Congress to appoint Commission members, I am pleased Chairwoman Roukema and Ranking Member Frank introduced H.R. 1850, legislation to extend the Commission's reporting deadline and termination date by one year (and I understand the full House will be taking up that legislation very soon).

In organizing the work of the Commission, we divided our seven-point mandate among three task forces: Financing Strategies, Housing and Health Strategies, and Needs Assessment. Under the guidance of the task forces, we are initiating a national dialogue on affordable housing and healthcare needs and how best to address those needs through a series of fact-finding hearings across the country beginning later this month in Syracuse, New York. Part of the focus of this meeting will be to examine the critical role of public housing plays in housing our poorest elderly and disabled.

We are pleased with the response so far. As we talk to individuals and groups, we are finding a deep interest in the work of the Commission, and we are confidant that by the end of this process, we will deliver a product to Congress that will not only provide an accurate picture and projection of the state of the nation's senior's housing and health facility services environment, but will also provide practical policy recommendations for Congress to consider.

Conclusion

The inventory of public housing for the elderly and disabled is an extremely valuable asset which we cannot afford to neglect or abandon. Dramatic cuts to the Public Housing Capital Fund, like those currently proposed, would place our stock of housing for elderly and disabled residents in serious jeopardy. Instead, we need more resources and flexibility, as outlined in the "Elderly Plus" proposal, to enable seniors and disabled residents to age more comfortably in their own homes. Using the successes we have already experienced in public housing for seniors as models, we need to continue to look for ways to wrap needed services into our facilities and programs, so that our elders are not displaced as their needs increase. I am convinced that we can do this if we apply unflagging commitment and the right resources to this problem.

Thank you for your on-going support and for the opportunity to appear before you today.

TESTIMONY OF

JANICE MONKS, LSW

Executive Director
American Association of Service Coordinators
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July 17, 2001

Chairwoman Roukema, Ranking Minority Frank and members of the House Subcommittee on Housing and Community Opportunity: Thank you for inviting the American Association of Service Coordinators (AASC) to testify at today's important hearing concerning the future of federal affordable service-enriched elderly housing. I am Janice Monks, executive director of the Columbus, Ohio-based AASC, a nationwide, grassroots nonprofit organization of more than 700 service coordinators, managers, management companies, public housing authorities, state housing finance agencies, state and local area agencies on aging and a broad range of national and state organizations involved in affordable, service-enriched housing. (*see attachments*).

Everyday, AASC members serve literally hundreds of thousands of low-income families, frail elderly persons and persons with disabilities who live in a variety of federal and state subsidized housing programs including the Section 202 programs, the Section 8 programs, public housing programs, the Congregate Housing Services Program (CHSP), the Low-Income Housing Tax Credit (LIHTC) program and even a variety of conventionally financed, market-rate housing programs. And soon, thanks to your wisdom and foresight, service coordinators will be helping eligible low-income neighbors where the facilities service coordinators work at are located.

While service coordinators shoulder a wide variety of responsibilities and duties, their work mainly is focused on helping our most vulnerable Americans:

- Maintain independence and avoid premature, costly and less-humane institutionalization;
- Link with appropriate and sometimes life-saving health, social and other services;
- Locate child care and other family services;
- Gain job training, employment and transportation; and
- Receive a wide range of educational opportunities.

But service coordinators do much more than help residents who live in and around the properties where they work. The advent of service coordination into low-income properties and neighborhoods has had a much greater impact than probably anyone ever imagined it would. Almost every property that has added a service coordination component to its operation has seen a significant improvement in numerous ways. For example, service coordinators actually save management companies time and money by such things as: reducing unit and tenant turnover; solving a variety of time-consuming, tenant-related problems that before would bedevil management staff who mostly were ill-prepared and ill-trained to deal with them; reducing the number of off-hour emergency calls to management and local paramedics and other emergency personnel; increasing satisfaction of tenants and their families; and increasing the visibility and marketability, and improving the overall image of the property within the community, among many other things.

AASC and its members believe strongly that the future of affordable housing—not only for the elderly but also for families and persons with disabilities—depends greatly on our ability as a nation to ensure that those who need these scarce federal, state and local resources are linked through these programs to the types of social, medical and other services that allow them either to live independently as long as possible, or to achieve a level self-esteem, self-confidence and self-sufficiency that help wean themselves and their families from long-term dependence on housing programs and other types of government subsidies.

But even more important than any of this, service coordinators can and should play an integral role in the ongoing development of a seamless continuum of services and care that will be critically necessary in order to care for the more than 70 million baby-boomers who will begin retiring over the next 20 years. This generation not only will live to a much older age than today's seniors, it will demand a long-term care system based not on an institutional care model, like today's system, but instead one based on a social model—one that offers cost-efficient, homelike, flexible environments where they can receive a broad menu of care and services as long as possible.

Over the next decade, as Congress begins its critically important work revamping the Social Security, Medicare and Medicaid systems to prepare for this inevitable wave of baby boomers, it should consider the incredibly positive role that service coordination already has played in improving the programs in which it is utilized, and improving the lives of the residents, families and neighborhoods where those programs exist. With a strong service-enriched foundation of residential community-based care in which service coordinators act as the mortar that holds the bricks together, the federal government can and will develop a seamless continuum of care and services for today's elderly, tomorrow's baby boomers, their children and even their children's children.

By more firmly embracing and expanding HUD's service coordinator programs today, Congress can take giant steps in ensuring these valuable programs continue to offer their residents much more than "pockets of poverty" and "shelters of last resort," and instead become community oases for their residents and their neighbors, and launching pads of hope for struggling families striving to improve their lives and realize their dreams.

By investing a little more money and making some minor adjustments to a few statutes and regulations today, Congress can make this happen, and in the process improve the quality of life for millions of Americans and the neighborhoods where they live while ensuring that these programs survive and thrive to serve America's future generations.

Funding Needs

- **Congress should expand funding for HUD's service coordinator programs.**

Section 202/8 Programs: Almost every year, more than half the funding requests for the Section 202/Section 8 service coordinator programs go unfilled, denying this vital resource to thousands of residents in need and hundreds of projects and communities that would reap benefits from their help. To fill this gap, and to avoid the arbitrary, unfair and much-maligned lottery system that HUD is forced to utilize because of the large number of requests competing for the small pot of money, AASC urges Congress to increase funding for these programs to $100 million a year.

Additional cost: $50 million annually.

Public Housing: Congress currently funds public housing service coordinators through general funds that public housing authorities can—and because of increasingly tight budget constraints more often than not do—use for a number of competing, equally important needs. To ensure that public housing residents have the same access to service coordinators as assisted housing residents, AASC urges Congress to create a separate set-aside for service coordinators in the public housing funding formula and provide at least $50 million annually.

Additional cost: None

Low-Income Housing Tax Credit (LIHTC) Program: While an increasing number of LIHTC projects employ service coordinators mostly through local and state funds, these resources are shrinking as the nation's economy weakens. To serve the growing tax-credit program, AASC urges Congress to create a separate set-aside for service coordinators in the

HOME Investment Partnership block grant program and fund it at $50 million annually. This would allow tax-credit projects that serve special needs populations an opportunity to better serve their residents, improve their neighborhoods and their long-term marketability and viability.

Additional cost: None

Statutory, Regulatory Relief

- **Congress can improve the service coordinator programs through some minor but important statutory and regulatory relief measures.**

Fair-Market Rent (FMR) Cap Exemption: Although Congress and HUD allow Section 8 properties to build the cost of a service coordinator into their annual budgets, restraints such as the 120% of FMR cap imposed by Congress to hold down Section 8 costs also in many cases makes this nearly impossible. By exempting the costs of a service coordinator from the 120% cap, Congress could make budget-based service coordinators a reality and ensure that literally hundreds of thousands of additional residents receive the benefits of service coordination. This also would decrease the competition and need for the grant programs, eliminate service coordinator contract renewals and extensions and release already over-burdened HUD staff to focus on other equally important duties.

Additional cost: Up to $10 million annually mostly offset by savings in HUD staff costs.

Allow service coordinators in the Section 811 program: When Congress created the Section 811 program for persons with disabilities in the 1990 Cranston-Gonzalez Act, service coordinators were not included as an eligible project expense, unlike its sister program, the Section 202 project rental assistance contract (PRAC) program. Because of that, the Section 811 program and its residents have suffered due to the lack of an on-site service coordination component. By including service coordination in the Section 811 package, Congress can add great value to this important program, improve the quality of life for its residents and help states and communities better meet some of their obligations under the recent U.S. Supreme Court *Olmstead* decision.

Additional cost: None

Congress should mandate adequate, appropriate team-based training and continuing education: Currently, because HUD's service coordinator training requirements are not statutory but only guidelines issued through the HUD notice and handbook processes, many service coordinators' training and continuing education needs are not being adequately met. Furthermore, because service coordinators, managers and other management staff aren't required to and generally don't train together, a cohesive, team-based training approach is mostly lost on the long-time "bricks-and-mortar" mentality of a majority of traditional housing providers. Congress should amend the appropriate existing statutes and regulations to ensure that service coordinators, their managers and the entire management team are trained and educated together so that the important work that service coordination is designed to carry out can be accomplished to benefit residents, families and communities.

Additional cost: Negligible

Congress should encourage training partnerships with housing providers and our nation's systems of higher education: Congress also could provide incentives for our nation's colleges and universities that train and educate social workers—some who will eventually become service coordinators—to partner with service-enriched housing providers. This will ensure that the next generation of social workers understands the value of working in residential care environments and that our current service coordinators can access the best, most professional education and training available.

Additional cost: Negligible, but invaluable

Congress should require a quality-assurance component for all service coordinator programs: In many states, liability issues are overwhelming other parts of our nation's current long-term care system, of which elderly supportive housing is an important part—such as the nursing home and assisted living communities—forcing a substantial number of providers either to cut back on essential services or personnel, or leave the system altogether. If this trend seeps into our unlicensed, residential care system, the cost of housing and providing supportive services to low-income elderly and disabled also will skyrocket, forcing many providers out of the system and substantially increasing the cost of housing and serving America's most vulnerable citizens. Congress should mandate that a formal, risk-management, quality-assurance component is part of all federal service coordinator programs.

Additional cost: Negligible, but very cost-effective

Congress should require a focused collaboration between HUD, HHS, the IRS and the RHS (Rural Housing Services): Since federal housing programs and responsibilities are spread between several federal agencies, it's imperative that the various agencies begin working more closely together to ensure a level and equivalent playing field, and consistent regulations and guidance exists as our nation's continuum of care and services evolves. But due to the nature of federal bureaucracies, Congress needs to make this happen through statute. By requiring agencies involved in providing housing services and subsidies for low-income Americans to work together, Congress can close many existing gaps in our nation's affordable, service-enriched housing continuum.

Additional cost: None

Congress should ensure that federal oversight of the service coordinator programs is handled by a single entity within HUD: Currently, oversight of federal service coordinator programs is handled by two offices within the HUD bureaucracy—the Office of Housing and the Office of Public Housing—causing unnecessary confusion and inconsistency in the administration of these programs. In keeping with the philosophy of streamlining and reducing the size of federal government, AASC believes that Congress should mandate that service coordinators are administered from one HUD office instead of two.

In conclusion, AASC urges Congress to seriously consider these few, cost-effective but vital steps that can be taken now to improve our nation's service-enriched housing efforts already underway. If you have any questions or concerns, I will be glad to respond now or in writing at your convenience. We thank you for your time and consideration.

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Volunteers of America®

Statement of

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Volunteers of America National Services

Before the

Subcommittee on Housing & Community Opportunity

Financial Services Committee

United States House of Representatives

July 17, 2001

VOLUNTEERS OF AMERICA
TESTIMONY ON ELDERLY HOUSING

SUBCOMMITTEE ON HOUSING & COMMUNITY OPPORTUNITY
FINANCIAL SERVICES COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES

July 17, 2001

Madam Chairwoman, members of the Committee, I am Lee Felgar, senior vice president for development and acquisitions at Volunteers of America National Services, the national housing and health care division of Volunteers of America. On behalf of our organization, I want to express our sincere appreciation for your interest and concern for this vital subject and for inviting us to be here today.

Volunteers of America is one of the Nation's largest and most comprehensive charitable, nonprofit, spiritually based human service organizations. From rural America to inner-city neighborhoods, Volunteers of America engages its professional staff and volunteers in designing and operating high quality human services that deal with today's most pressing social needs for abused and neglected children, youth at risk, the frail elderly, the disabled, homeless individuals and families, ex-offenders, substance abusers, and many others in need of assistance.

Volunteers of America National Services is one of the nation's leading nonprofit providers of quality affordable housing for individuals and families in need, people with disabilities, and the elderly in over 220 communities across the United States, and is a growing provider of assisted living, skilled nursing and Alzheimer facilities for seniors with limited resources.

As a faith based organization we are committed to:

- High Quality Services
- A holistic approach to meeting an individual's physical, social, emotional and spiritual needs
- The dignity of each person
- A focus on what is best for individuals, families and communities through an extensive and fully participative communication process involving all parties, and
- A special focus for low-income persons

The problems we face as an non-profit services organization and as a nation in attempting to provide more and better facilities to house and serve America's seniors, especially the frail elderly, will be severely compounded by the expected rapid growth in the nation's aging population in the coming decades and the lack of adequate public policy and resources to meet that growth.

In its most recent report, "The State of the Nation's Housing 2001" the Joint Center for Housing Studies of Harvard University reported that heads of households over the age of 75 "are expected to increase by roughly 1.3 million over the decade." They go on to say that " This growth implies rising demand for housing that allows seniors to age safely in place and for specialized facilities such as assisted living and continuing care communities."

The Harvard report further indicates that, of the nearly 5 million one-person households to be added over the next decade, "almost one-third will be over the age of 65." This growth is not going to take place in the distant future, it is going to be taking place between now and 2010, when the baby boomer generation begins to retire in ever increasing numbers.

The U.S. Department of Housing and Urban Development anticipates that today's senior population will double in size by 2030, expanding at a rate of almost 3 percent a year to almost 70 million people by that time, with the fastest growing segment of that cohort being persons aged 85 and older. Commensurately, the Census Bureau estimates that 20 percent of the population in the United States will be beyond retirement age by 2030 compared with only about13 percent today.

Clearly, as a nation we have a problem here of extraordinary scale and urgency as the housing programs and social services programs we have in place today will not keep pace with this situation.

These hearings and the work of this Committee and of the new Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century are exceedingly important for the future well being of a large segment of the American public, many of whom are in great need. Expanded and improved mechanisms for financing increasing development of elderly housing with a continuum of services is absolutely essential before we overwhelm programs like Social Security and Medicare / Medicaid, which were developed to help provide financial security for the senior populations of the 1930's and 1960's, respectively.

Volunteers of America, as an active member of both the Interfaith Coalition for Long Term Care and the Elderly Housing Coalition, believes we are at a time in our history that calls for serious debate that leads to the creation of a national long term care policy that is inclusive of the continuum of services issues of affordable elderly housing, adult day care, homecare, assisted living, and skilled nursing facilities. This is vitally important to persons who are frail and elderly, especially those who participate in federally assisted or subsidized housing, who are among the most vulnerable. They face the triple jeopardy of poverty, declining health and living alone. As they grow older in residences designed for independent living, they are at high risk of being forced into institutional nursing home care, or alternatively having their needs unmet. Much of this problem is due to the fact that the delivery of services to many persons is fragmented because of multiple funding streams, conflicting regulations, and overlapping state and federal government agencies. This fragmentation is not only costly, it often times leads to serious gaps in providing what is needed.

Adult children of middle and lower incomes, whose parents' face these housing and healthcare needs, are ill equipped both in terms of care management skills and financial capacity to meet all of these needs their parents face. Our nation has evolved to a point where these elders cannot look entirely to their adult children for financial and care support, as most of our households have the adults working full time to meet their own financial obligations and those financial needs of their young children. Where once upon a time in our nation, long term care meant providing for aging adults in their adult children's homes, we now by necessity have our adult children working long days at jobs that leave little time for adult care. Somehow and in some way the solution to this elder housing and elder long term care crisis must come from a comprehensive policy that cost effectively integrates programs and calls for some reasonable program for the sharing of costs from the individual, adult children, along with state and national government.

Some individuals might think that committed and competent providers, like Volunteers of America, have access to sufficient resources to meet the growing national need for elderly housing. Unfortunately, that is not the case, especially with respect to the growing need of frail elders who are not affluent. There has been a trend toward reduced funding for the development of new federally-assisted housing for seniors, the devolution of federal housing programs to state and local governments, short-term renewals and funding for Section 8 contracts, and the potential loss of affordable housing units to market-rate housing through Mark To Market.

The Section 202 program hit its peak in the late 1970's in production terms and has essentially been trending downward ever since. Even as recently as FY 1996, Section 202 was appropriated at $830 million. The HUD request for FY 2002 is $783 million, of which only $679 million is for grants for new construction.

In addition, in the private money market elderly housing sponsors always have had the difficulty competing for capital because traditional sources of private capital have tended to see elderly housing loans as more labor intensive and less profitable because it has unique physical characteristics, unusual exposure to changes in government policy, and complex requirements for sponsor success. All of these barriers to capital availability are intensified in the case of affordable housing for frail elderly.

In a recent analysis of state housing finance agency bonds, Moody's Investor Services stated that it considered assisted living to have a significantly higher risk profile than traditional multi-family housing. Credit evaluation of an assisted living facility, the report states, "must encompass elements of real estate, such as historical and projected financial performance, physical condition, market demand, and property ownership and management. In addition, it must incorporate the hotel-like services and healthcare component offered by the facility. Moody's believes that this emphasis on personal care makes this type of product a greater risk than other types of affordable multi-family housing." Among the most significant risks listed by Moody's were high resident turnover, uncertainty over future regulations, and uncertainty over Medicaid funding for services.

Providers of long-term housing finance typically to not understand the terminology or analytic framework of the health care community. Health care regulators are unaware of the requirements of housing finance. The need to get participation and approvals for transportation, social service, and other regulatory bodies further complicates the discussion. Housing sponsors often must spend inordinate amounts of time and energy as a go-between because different disciplines give different meanings to important words. Often terms like "assisted living" acquire precise regulatory meanings that differ from state to state.

The needs of elders are many and persons of lower income have an even more challenging environment. When we at Volunteers of America sponsor an elderly housing development we must not only build the structure, we must find a way to create or bring social service support programs to our developments. Our typical resident at a HUD 202 property is a 75 year old female living on some very modest savings and Social Security income. For this person, a $20 "emergency" is problematic. These elders are living at the economic edge even with the HUD 202 housing support.

We work to find no-cost or very low cost programs that provide meals, transportation, medical screening, home health care, case management, personal counseling and off-site trips on a property by property basis. None of this social service coordination is standardized. Each development is unique as each town or city has its own resources and programs. Typically, our residents fare better in larger cities that have the economic power and commitment to helping elders. However, most of the communities we serve do not have these programs in place and we try our best with the limited resources we have. Elders in rural communities face even more challenging circumstances. The USDA and Farmers Home programs serve those rural communities, but here again the burden of providing these support programs falls upon the sponsor. Project base funds for these support programs just are not there.

We at Volunteers of America encourage this Committee to consider the following issues and suggested courses of action that will greatly assist our nation in meeting this elder housing and elder care issue:

Recommendation #1

We believe the HUD 202 program is one of the finest programs that Congress and HUD ever created. The HUD 202 program is fair, administered well, and it reaches those elderly aged 62 and over (whose income is at 50% of area median income or less) in an effective way. The grant aspect of this program does not require there to be debt or equity, although most HUD 202 developments need some second tier grants in order to be completed. This simple capitalization structure enables the development process to move quickly and effectively in the hands of capable non-profit sponsors.

Because this program works so very well, we strongly encourage Congress to expand the program so that it can produce at least 10,000 new apartment units per year going forward over the next several years. We would also ask this Committee to have an actuarial study completed to identify the total population in need for this particular housing. From our HUD 202 properties sponsored by Volunteers of America I can tell you that 99 percent of them have very long waiting lists... we know the need is broad and deep throughout the nation. We encourage the Committee to examine how the HUD 202 program can be expanded to appropriate levels to meet this existing, and what will be, growing need.

Recommendation #2

We believe that within the existing stock of HUD 202 properties there are many that have the capacity to provide some measure of assisted living services, that is assistance with Activities of Daily Living, not dementia care.

Congress and HUD have previously provided some demonstration amounts of program funds for the physical conversion of some units of these buildings for physical asset changes. We appreciate that effort and would ask that the Committee seek to expand the funding for both physical asset conversions and for project based services. Heretofore, the HUD 202 program focused on independent living only in these facilities. As was mentioned previously, as residents age in place, their next stop in the continuum of care has to be, by necessity, skilled nursing facilities, as these low income elders cannot go anywhere else for housing and health care. These HUD 202 facility residents do not have enough money for market rate assisted living facilities and have no choice but to go to nursing homes once they can no longer live independently.

Nursing home care is expensive and we believe there needs to be a way to keep as many residents in HUD 202 facilities for as long as is possible until the residents truly need skilled nursing care in nursing homes. We believe that federal funding for social service programs for these residents in HUD 202 programs is appropriate and highly cost effective. We believe the Committee should investigate the real costs associated with what is going on here with the belief that funds can be more wisely spent in the 202 facility rather than in a skilled nursing home.

Recommendation #3

We continue to support those programs and initiatives that preserve project based rental assistance for affordable housing and low and moderate-income persons. We believe that this rental assistance is effective at meeting the need. We do not see for-profit developers and sponsors as being fully motivated to provide this housing and related services.

Recommendation #4

We at Volunteers of America actively participate in a variety of affordable housing programs to house and service elders, including the Low Income Housing Tax Credit Program. We applaud HUD's initiative to allow the HUD 202 Program and the Low Income Housing Tax Credit Program to work together to produce affordable senior housing.

However, we would like to advise the Committee that, although there are increased tax credits available now, we are seeing in the capital markets more and more pressure on housing sponsors to provide financial guarantees for project performance.

For example, we are working on a mixed finance senior housing campus on a HOPE VI site in St. Louis involving a HUD 202 facility and a Low Income Housing Tax Credit facility. We have been asked to provide a $600,000 guarantee relative to the equity investment that is associated with a 40-unit tax credit facility during its compliance period from the tax credit investor. These sizable financial guarantees are a market place reality that sponsors must face and meet to the satisfaction of tax credit investors. For the time being we are able to meet these guarantees, but we know that many smaller and less capitalized non-profit organizations will not be able to meet these guarantee requirements from tax credit investors. Simply stated, the availability of more tax credits does not necessarily equate to more senior housing as these guarantees are onerous for many non-profit service organizations who want to sponsor such developments.

We also see many state Qualified Allocation Plans ("QAP") for tax credit allocations that do not provide special support for housing for elders. Many states focus on multi-family development to the exclusion of elder developments.

We also see a narrowing number of tax credit investors and we see a demand for higher investment yields... all of this works against higher production of elder housing using the tax credit program. We ask the Committee to take these market conditions under consideration as it contemplates future HUD 202 financing and suggested programs that call for greater affordable housing production.

Recommendation #5

We believe that HUD should consider the merits of allowing project based social service programs to be an allowable project expense, particularly as it reviews rent and debt levels in the portfolio re-engineering and refinancing programs. Allowing development owners to include these support programs, as project eligible expenses will help alleviate the problem for sponsors as to how these support programs are paid for. Absent this kind of financial support, non-profit sponsors must seek out financial support by other means and those other sources face huge demands on their limited funds.

The HUD Service Coordination Program has made a good start in providing persons to coordinate services and bring those services to the HUD 202 facilities. We believe this program is working well, but it is only a portion of the solution. The other portion is to allow some program services to be a project eligible expense.

Recommendation #6

We believe this Committee should create a new set of government agency expectations and directives that require agencies at all levels to work collaboratively to develop arrangements to provide resources for protective and supportive services. We believe there has been a good start with this concept as HUD and HHS have been meeting to discuss common areas of interest as it relates to elderly housing and social services. Both agencies serve the same elderly citizen profile and we believe that a merging of programs and funding sources can be a very powerful and cost effective way of dealing with the problems mentioned in other parts of this testimony.

HUD and HHS have the ability to create the kind of programs that can solve these matters. We believe this same cross program / cross agency approach can be replicated on the state level to create methodologies to cut through undue process and create simple standards and a sharing of funds to enable the non-profit community to be successful in meeting these challenges.

We also believe there is much to be gained by having Congressional committees which serve this same citizen profile, meet more frequently to discuss how a blending of resources and programs may be more effective than the approaches that have been taken in the past that have programs working in isolation of other programs.

Recommendation #7

We ask the Committee to support personal tax incentives for the purchase of long-term care insurance that includes assisted living as part of its coverage.

Recommendation #8

We would like to see greatly improved coordination between Medicare and Medicaid, with a blanket allowance for the use of Medicaid funds in homebound and assisted living settings.

Recommendation #9

We also see a need for better enforcement of laws that protect consumers against housing discrimination, such as the Fair Housing Act and Americans with Disabilities Act.

Recommendation #10

We would also ask for the Committee to ask HUD and the USDA to find ways to greatly simplify the process whereby non-profits make application for the transfer of ownership of housing developments from for-profit owners to non-profit owners.

In our experience we have found the process to be too lengthy, too broad and too expensive in terms of legal fees and management time. HUD's Transfer of Physical Asset process involves some 50 informational items. USDA's similar process involves some 80 items. We believe there is a way to consolidate and expedite the transfer process that will protect HUD's and USDA's interests, while enabling competent non-profits to acquire many more affordable housing developments from for-profit owners who no longer wish to participate in affordable housing that is regulated by HUD and the USDA. We believe there is a large number of affordable elder housing developments that can be preserved by means of a more user-friendly process. Beyond the HUD financed portfolio, the USDA portfolio stands out as having a huge potential positive impact in serving the elders in rural communities with successful recapitalizations and transfers to competent non-profit sponsors.

Recommendation #11

We would like to see Presidential commitment and leadership to engage the public, nonprofit providers, and policy makers in a national dialogue to find ways of developing a cohesive and cost effective approach to comprehensive long term care that includes affordable housing, health care, and coordinated community services for low-income seniors.

Summary

Madam Chairwoman, we appreciate the opportunity to bring you our ideas and perspectives. We assure you and all members of the Committee, that Volunteers of America is strongly committed to helping resolve these issues before the growing demand for elderly housing and supportive services spirals out of control. We are confident that sound solutions can be found and implemented in a way that is fiscally responsible and fair to all parties.

We appreciate your commitment to this cause and we look forward to working with you throughout this process. Thank you.

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Before the
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
UNITED STATES HOUSE OF REPRESENTATIVES
"ELDERLY HOUSING AND AFFORDABILTY ISSUES FOR THE 21st CENTURY"

Tuesday, July 17, 2001

WRITTEN TESTIMONY OF

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On behalf of the NCB Development Corporation, I am pleased to submit written testimony to the United States House of Representatives Subcommittee on Housing and Community Opportunity for the hearing entitled, "Elderly Housing and Affordability Issues for the 21st century". I am Terry Simonette, president and chief executive officer of NCB Development Corporation located in Washington, District of Columbia and I would like to thank Chairwoman Marge Roukema and Ranking Member Barney Frank for holding this hearing and a series of hearings exploring housing availability and affordability.

At the outset, let me share with you some background information on NCBDC and our approach to the problem of adequate and available housing for all low-and moderate-income older Americans in this country, our concerns with existing legislation, and our suggestions for improvements.

History of the NCB Development Corporation

NCB Development Corporation (NCBDC) was founded as a 501(c)(3) non-profit affiliate of the National Cooperative Bank in 1977 pursuant to the National Consumer Cooperative Bank Act (public law 95-351). NCBDC's mission is to provide solutions that empower under-served communities to address the problems poverty creates in America. NCBDC's solutions are based on the cooperative principles of self-help, democratic control, and open participation. NCBDC targets community needs nationwide that have not been adequately addressed by traditional approaches. NCBDC focuses its resources on select problem areas including affordable assisted living, economic development, low-and moderate-income housing, education, and health care for the poor and uninsured. In its 20-plus years of existence, NCBDC has grown from a provider of high-risk development finance to a multifaceted national organization engaged more broadly in pursuing solutions to some of the most urgent problems facing under-served communities today.

With a combination of financial and development services and technical assistance, NCBDC acts as a catalyst seeking to change the systems for delivering affordable housing and essential community services to the nation's low-income and under-served elderly. NCBDC has three current initiatives pushing the envelope to provide affordable housing to low and very-low income seniors:

- Three innovative section 202 refinancing programs providing a total of $125 million to nonprofit owners across the country;
- In conjunction with the Robert Wood Johnson Foundation, the Coming Home Program, designed to provide affordable assisted living to low and very low-income seniors in rural communities; and
- Affordable, resident owned independent living using section 213 insured multifamily financing to develop senior housing cooperatives.

Let me tell you about each of them.

Section 202 (Prepayment and Refinancing of Housing for the Elderly Loans)

Preserving and enhancing affordable housing for seniors is of critical importance as the population ages and the current residents of affordable senior housing age in place. Every day, affordable senior housing is lost as owners prepay their mortgages or opt out of section 8 contracts. Section 202 is one of the most reliable resources of housing for the elderly. The program enjoys broad public and political support.

Of the 337,000 apartments financed by the section 202 program, more than 260,000 apartments are subsidized by section 8-rental assistance, with many contracts set to expire over the next five to ten years. Although few doubt that the Congress will renew the contracts, there is increasing concern that the rents upon renewal can not meet the needs of either the projects as they deteriorate or the elderly residents as they age in place and require additional supportive services.

The section 202 program provides affordable housing for older Americans in developments owned solely by nonprofit organizations. Since its inception in 1957, section 202 has undergone numerous changes, both regulatory and legislative, with section 8 subsidies being added to the program in the 70's. At the end of the 106th Congress, legislation was enacted and signed by the President amending the program requirements to provide opportunities for a much-needed infusion of new investment in the properties, using a variety of low-cost financing including tax-exempt bonds and low-income housing tax credits. The law makes similar changes in requirements applicable to section 811 projects for person with disabilities, but the small size of these projects makes it more difficult to take advantage of the opportunities offered.

To address the needs of the older section 202/8 inventory, these amendments encourage the prepayment and refinancing of existing debt at lower interest rates and share the savings of the section 8 assistance resulting from the reduced debt service. They require the Secretary to agree to the prepayment and refinancing of section 202 mortgages if the refinanced development would continue to operate as affordable rental housing for the elderly subject to new mortgages with reduced interest rates and/or reductions in debt service. They would also require that at least 50 percent of the savings in section 8 assistance achieved through reduced debt service be made available to the non-profit sponsor for one of the following eligible uses:

- increased and enhanced services;
- retrofitting or renovating the project to enhance amenities for the elderly;
- construction of additions or other facilities within the project or the community;
- rent freezes or reductions to any unassisted tenants; or
- other purposes advantageous to the elderly.

The amendments would also require that any excess residual receipts or reserves for replacement be retained in the property accounts or be utilized for one or more of the eligible uses.

The intent behind the section 202 refinancing program is splendid. Implementing the new provisions has been made extremely difficult due a series of regulatory changes and problems in statutory interpretation.

To illustrate, NCBDC is currently working with three nonprofit sponsors to utilize the 202 prepayment and refinancing program. In addition, NCBDC has met with sponsors of 202 housing in Texas; Pennsylvania; Georgia; Ohio; Los Angeles, California; Detroit, Michigan; and Boston, Massachusetts who would like to put together programs to prepay and refinance their high interest 202 loans. In each case, they would utilize the refinancing to pay off the loans and then to cover the costs of improvements and repairs for their properties. They and other sponsors understand the potential to use this program to infuse millions of private dollars into the preservation and improvement of thousands of section 202 units. However, they have put the decision to go forward on hold pending the results of our ongoing efforts to use the prepayment/refinancing program for our first 3 refinancing initiatives. Here is a brief description of them:

- Miami, Florida – The Cuban American National Council (CODEC) owns more than thirty 202's serving more than 1300 very low-income seniors. Five of their properties are subject to United States Housing and Urban Development (HUD) 202 loans. NCBDC is proposing to prepay these loans by using funds raised from the sale of tax exempt bonds, credit enhanced by the Federal Housing Administration (FHA) under section 223f. The bonds will raise substantial funds in addition to those necessary to prepay the existing loans. These funds will be used to cover around 80% of the cost of developing an assisted living facility (ALF) that is affordable for the low-income seniors in the five existing properties. Because the refinancing will reduce interest rates by 2.5% to 3.5%, the current combined debt service will support the sum of the principle balances on the existing loans plus an additional $4.5 million in debt. That additional $4.5 million will be used for the ALF. Current residents of the CODEC properties will have priority to relocate to the ALF. **Consequently, at no additional annual cost to the Federal Government, approximately 75 very low-income frail elderly will be able to receive quality and affordable care at a newly developed assisted living facility and that same number of 202 units will be available to some of the hundreds of persons on waiting lists.** This creative use of 202 refinancing corresponds to an example of use of the refinancing in the Housing Act of 2000.

- New York – The Jewish Association for Services to the Aging (JASA) owns seven elderly housing projects in Brooklyn and Manhattan. Five of them are financed with Section 202 loans, two with loans insured under section 236. Combined, the projects provide housing for more than 2,000 low-income seniors. Nearly all of the properties are located near the waterfront and have aged poorly because of original construction restraints and weather. Through the proposed refinancing, approximately $15 million will be generated that will be used for improvements and repairs to the properties. **This new money for capital investment and preservation will be at no additional cost to the Federal Government.** The existing loans will be prepaid using money from the sale of tax-exempt bonds, credit enhanced by FHA insurance under section 223f. The savings will be used to support debt issued to cover the $15 million of new investment.

- New York – Eight community-based sponsors of section 202 housing have joined together to seek financing to prepay and refinance their eleven 202's serving more than 1,000 residents, primarily in the Bronx. As with JASA, the excess proceeds of the refinancing (the funds supported by debt service in excess of the amount needed to prepay the existing loans) will be used for property improvements not otherwise supported by available funds. By joining together, they will benefit from reduced costs connected with the tax-exempt bond financing. **Once again, over $10,000,000 in property improvements will be made available at no additional cost to the Federal government.**

Each of these refinancing initiatives has goals squarely within the eligible uses defined by the statute as it is currently worded. Each is a complex transaction or set of transactions which, when completed, will provide significant benefits to current project residents, the properties themselves, the target population of potential residents, and to the federal government. Each has encountered barriers to completion that could be eliminated by congressional action.

We ask that you clarify the statutory language as it now stands to:

- Clearly allow and encourage shared use of surplus refinancing proceeds among multiple properties where the properties have a common sponsor and the shared use will benefit all the properties or their residents;
- Clearly allow and encourage the use of surplus refinancing proceeds to develop new assisted living facilities and new housing;
- Clearly allow potential section 8 savings from reduced debt service to be used to fund resident services (**see sample language in Attachment I**);
- Clearly allow and encourage the creative use of reserves to maximize benefits to projects and their residents;
- Exempt refinanced section 202 properties from MAHRAA refinancing in a continuation of the exemption they enjoy as 202s (**see suggested language in Attachment II**); and
- Eliminate delays in program implementation caused by unnecessary budget act compliance language.

The last point deserves some explanation. The Act currently requires that, each year, funds be appropriated to cover the "costs" of prepayment and refinancing section 202 loans. The problem created from this language arises from the fact that **there really are no costs resulting from prepayments**. The program is designed explicitly to provide a net inflow of cash and cost savings to the federal government - a stream of dollars from early payoff of principle balances plus in some instances ongoing monthly savings from reductions in section 8 payments to the properties.

Finally, it is critical that Congress clarify that section 8 payments to refinanced 202s with expanded debt service requirements continue to be available to the project, if neccessay. In some cases, necessary rehabilitation and improvement programs will result in a net increase in debt service. Lenders can provide necessary funds only if new loans can be underwritten on the assumption that section 8 will be renewed on a cost basis.

Affordable Assisted Living (NCBDC's Coming Home Program)

In discussing affordable assisted living for low-income seniors, let me start by telling you the story of Gloria Jean. Gloria Jean survived ovarian cancer and then lung cancer while raising four children in Salem, Oregon. After winning a 6-month battle against pneumonia, Gloria Jean remained tethered to an oxygen tank and was no longer able to live alone. "... I don't have the energy to cook anymore and I can't always trust myself to take my medications on the right schedule."

Gloria Jean could not afford the $1,800 required for market rate assisted living. Social Security was her sole source of income; even $800 per month would be too much. Fortunately, Gloria Jean was able to move into Orchard House Personalized Living Center for the low-income elderly, in Mt. Angel, Oregon, just 15 miles from her home.

This handsome 50 unit, two-story building is much more than the modern apartment building it looks like from the outside. In addition to her own one-bedroom apartment complete with bathroom and kitchen, Gloria Jean has access to a comfortable dining room and a staff trained to provide any help she needs in daily living tasks, such as meal preparation, laundry, bathing, and sticking to her medication schedule. Her rent is an affordable $370 per month and she is able to maintain much more control over her life than would have been possible in a nursing home.

Gloria Jean story's is similar to that of the more than 3.4 million other older Americans who cannot afford adequate health services and housing. The national median annual cost of assisted living in 1998 was $24,593— too high for the majority of those over 75. The number of Americans over 65 will more than double to about 70 million in the next thirty years, with those needed long term care to double from around 7 million to 14 million.

NCBDC and the Robert Wood Johnson Foundation located in New Brunswick, New Jersey have joined forces to develop the Coming Home program, which offers affordable assisted living options for the low-income elderly in nine states. Highlights of this national program where recently highlighted in the AARP's July – August 2001 Bulletin.

Assisted living— a residential setting that combines apartment living with supportive personal and healthcare services— allows older persons to maintain their independence and dignity while receiving a high level of care and support. Assisted living residents generally need assistance with daily activities such as bathing, grooming and dressing, eating, getting in and out of bed, incontinence, taking medications, etc., but do not need full-time nursing care.

The lack of affordable assisted living (either moderate cost or programs accepting Medicaid reimbursement) forces the majority of older Americans requiring long-term care to forgo needed services, move away from their communities, rely on family members who struggle to meet their needs, or unnecessarily enter the more institutional environment of a nursing home. In order to meet the needs of this burgeoning senior population, it is crucial to create more affordable, less restrictive alternatives to nursing home care.

A significant number of nursing home residents do not require the level of care provided by nursing homes. While nursing homes provide a much-needed service for those requiring 24-hour skilled nursing care, with a much higher reimbursement rate than assisted living, both the elderly and taxpayers would benefit from the development of more affordable assisted living.

The need is especially great in rural America, which has proportionately more elderly people than metropolitan areas. In 1997, 18 percent of the rural population was elderly compared to 15 percent of the urban population. This was due to a population aging in place, the out-migration of the younger populations to cities in search of better employment, and in some counties, the in-migration of elderly in search of a retirement destination. Additionally, there are often less support services for seniors available in rural communities, so when seniors become frail, their care options are limited. Assisted living allows frail seniors, who are unable to stay at home but do not need 24-hour skilled nursing care, to move into a residential setting with services designed to meet their needs. Residents can create an individualized care program that changes as their needs change, allowing older Americans to age in their own communities.

The first phase of Coming Home demonstrated that affordable assisted living facilities could be built. In its first phase, the Coming Home Program attracted some $22 million in grants, tax credits, and mortgages for five projects in southern Illinois, Colorado, Oregon and Arkansas. We learned in the first phase that it is extremely difficult to access subsidy and/or equity funds for affordable housing and match those up with funds provided through the Medicaid waiver or a state plan in a single project that serves low and moderate income people, particularly in rural areas. There are very few models of integrated systems of care linking health and social services with affordable housing. The key to successfully developing affordable assisted living is to combine the resources for affordable housing with the social service resources.

The Coming Home Program has now entered its second phase, funded by a $6.5 million grant from the Robert Wood Johnson Foundation. Nine grantee states, Alaska, Arkansas, Florida, Iowa, Maine, Massachusetts, Vermont, Washington and Wisconsin, have committed to making the necessary changes in their regulatory and reimbursement environments to support affordable assisted living.

The second phase of the Coming Home Program consists of three integrated components. First, matching grants of up to $300,000 each over three years are available to the participating states to encourage the development of affordable assisted living. Second, an $8 million revolving loan fund has been established to provide feasibility assessment and pre-development capital to nonprofit sponsors in the grantee states. Finally, the Coming Home Program staff at NCBDC assist in planning and implementing state regulatory changes and provide technical assistance to nonprofit developers of affordable assisted living facilities.

NCB Development Corporation is participating in a working group convened by the American Association of Home and Services for the Aging (AAHSA) to try to address issues that make it difficult to use the 202 program in combination with low income housing tax credits to develop housing for the elderly. **NCBDC makes the following suggestions as to how the Section 202 program could be changed to facilitate the development of affordable assisted living:**

- Flexibility on the room size standards for 202 projects would be helpful. People in assisted living are sometimes better able to maintain their independence and get around when they have a slightly smaller space.
- In contrast, assisted living facilities almost always need considerably more congregate space than the typical 202 projects. Additional flexibility to increase congregate space and to use some of the savings from smaller individual rooms to pay for the additional congregate space would be most helpful.
- The 202-conversion program is a good idea, but what about encouraging the development of *new* 202s for assisted living? HUD should be asked to encourage this as well.
- As "independent living", 202s are required to have a full kitchen. A more bare bones kitchen might be desirable in assisted living. If we cannot get any flexibility in the kitchen requirements, could we at least be allowed to have a disable switch for kitchen appliances when that makes the most sense for the resident?

Senior Cooperatives

Housing cooperatives are a form of multifamily homeownership in which a cooperative corporation owns the land, dwelling units and common areas. Stockholder-residents of the cooperative, by virtue of their stock ownership, are entitled to occupy a specific dwelling unit. With purchase of stock in the cooperative, the tenant-stockholder signs an occupancy agreement giving the tenant-stockholder a legal and exclusive right to occupy a dwelling unit as long as all obligations to the cooperative are met. Member-residents of the cooperative elect a Board of Directors from their number. The Board of Directors chooses the management agent, which carries out the day-to-day management, maintenance and oversight of social services, e.g. van transportation, group trips, etc. In addition to share prices, member-residents are responsible for paying monthly fees that cover debt service (if the cooperative has a blanket mortgage), maintenance of buildings and grounds, utilities, property taxes and any social services. Member-residents remain in control of fees, expenses, and the living environment.

Over the last thirty years, housing cooperatives have become increasingly a housing option of choice for American seniors, most notably in the Upper Midwest.

We estimate that there are about sixty-five congregate senior cooperatives in the United States. Of these, forty-two are in Minnesota. The first such building was developed in Edina, a suburb of Minneapolis, in 1978; it continues to be a flagship success with long waiting lists. Though the majority of senior cooperatives are in Minnesota, we at NCBDC are working to export the concept elsewhere -- both to other parts of the country and to underserved rural and urban communities within the Upper Midwest. We are presently working on projects in Maryland and Arkansas.

A key benefit of cooperatives to seniors is social interdependence. The shared living experience can be stronger in a cooperative than in an apartment or condominium building, since members share key responsibilities with the board of directors in the planning, oversight, and direction of the cooperative. Another is maintenance-free living. Many otherwise-independent seniors find the responsibilities of single-family homeownership increasingly burdensome. From lawn mowing to snow blowing, roof repair, to temperamental water heaters and furnaces, some American seniors would rather be freed from these tasks in their retirement years.

Additional advantages include retention of control and affordability of quality homeownership. At a time when unprecedented proportions of American seniors own their own homes (nationally, 75%), cooperative ownership offers a means by which seniors can continue to have control over their lives and financial futures. Shared prices and monthly fees vary from building to building but, generally speaking, the vast majority of senior cooperatives are affordable to a broad range of member-owners. All or almost all of the units in projects financed by NCB Development Corporation are affordable at 80% of median area household-size adjusted income. Many are affordable at 60% of median area income. Indeed, two recently completed cooperatives in the Twin Cities have charter members with incomes ranging from about $15,000 to well over $100,000 with a median income of $38,300.

Most senior cooperatives combine two financing sources: (1) cash brought by individual seniors, either from the proceeds of the sale of his/her home or, less frequently, from a share loan; and (2) a blanket mortgage issued to the cooperative corporation itself. The blanket mortgage generally takes the form of a 40-year fixed-rate non-recourse loan, insured under Section 213 of federal housing legislation. For almost thirty years, this program has been key to the success and affordability of most of these projects.

Despite this fact, many HUD offices and staff members beyond the Minneapolis office are unfamiliar with the provisions of or active status of section 213. Statutory authorization for the program is securely in place. **The blanket mortgage insurance for this cooperative-only program rests with a mutual mortgage insurance fund that requires no annual credit subsidy. The affordable cooperatives financed through this program (both senior and family) have been so financially secure over the years that the fund routinely refunds virtually all of the mortgage insurance premiums collected on an annual basis. The success of the section 213 program is one of the best-kept secrets of the FHA mortgage insurance program.**

Like other FHA multi-family mortgage insurance programs, the section 213 program is overdue for an increase to its per-unit loan limits. Unlike other FHA multi-family mortgage insurance programs, section 213 needs an additional upwards adjustment to its per-unit loan limits to bring it back into alignment with the more often-used section 221d3 and 221d4 programs. **And, unlike other FHA multi-family mortgage insurance programs, the section 213 program needs no credit subsidy to support either an increase or an upward adjustment to the per-unit loan limits.**

NCBDC supports the 25% across the board increase in multi-family loan limits embodied in H.R. 1629, introduced by Committee Chair Roukema. NCBDC asks that the bill be changed to include adjustments to bring both section 213 and the manufactured home per-pad loan limit of section 207 (a source of affordable financing for resident purchase of existing manufactured home parks) back into line with other multi-family per-unit loan limits. In addition, we ask that Congress do whatever it can to urge HUD to make full and effective use of these important and successful financing tools for affordable senior cooperative homeownership.

Thank you again for allowing NCBDC to present our concerns regarding the provision of affordable housing for older Americans and to address the specific problems raised in our testimony before the Subcommittee.

Attachment I

Amendments to
Section 811 of the American Homeownership and Economic Opportunity Act of 2000

I. Section 811(c) is amended by striking all that follows after the word "available" through the word "tenants" and inserting "from amounts of section 8 assistance as are currently available to the project such amounts as are necessary to provide housing on terms at least as advantageous to current and future residents as are required under the terms of the original loan and section 8 or rental assistance contract"

Explanation
In interpreting the existing language, there seems to be some confusion about whether it means that there must be section 8 savings in the event of a prepayment and refinancing. This language clarifies the sharing of section 8 assistance such that section 8 will continue to the extent necessary to provide the necessary enhancements once the mortgage is prepaid and the refinancing is in place. The intent of the legislation in the first place is to provide new capital to the project, not to cap the funds available.

II. Section 811(c)(1) is amended by striking "the cost of increasing" and inserting "the new loan amount to increase"

This amendment clarifies that up to 15% of the new financing can be used for services and non-bricks and mortar enhancements. Again without this amendment, it would be unclear precisely the amount of money that could be directed toward non-bricks and mortar enhancements. If it just based on the new funds into the project as a result of the refinancing, then the enhancements are arbitrarily limited and potentially insufficient to provide the service related enhancements - - counter to the purpose of the legislation.

III. Section 811 is amended by striking subsection (e).

This strikes the budget compliance language, which has stopped any prepayments and refinancings, dead in their tracks. Essentially, the legislation requires that each year funds be appropriated to cover the "costs" of prepayment and refinancing section 202 loans. Except there are no real costs; there was never any cost estimate provided by the Congressional Budget Office. Indeed loans are being repaid to the federal government - - early -- providing revenue to the federal government and reducing the risk to the federal government. And borrowers have the right to prepay their mortgages as provided in their mortgage notes. Were prepayments and refinancings implemented by Housing Notice 2000-26 alone, there would be no appropriation required.

Attachment II

Suggested Changes to MAHRAA

Section 514(h)(2) is amended to read as follows:

(2) the project is a project financed under section 202 of the Housing Act of 1959 or refinanced pursuant to section 811 of the American Homeownership and Economic Opportunity Act of 2000, the National Housing Act, or section 542 of the Housing and Community Development of 1992 under terms as least as advantageous to existing and future tenants as the terms required by the original loan agreement; or section 515 of the Housing Act of 1949

Explanation
This change will permit non profit sponsors and owners of section 202/8 developments to prepay and refinance the section 202 mortgages, refinancing will provide needed capital and a continuing stream of income to the older section 202 developments to enhance the properties for continued use of low income elderly. It should do so without subjecting the properties to mark to market restructuring. Now exempt from mark to market, 202s would remain exempt even if their new financing is FHA insured and the section 8 rents exceed the comparable market rents to account for amenities and enhancements for the elderly. Although legislation enacted last year authorizes prepayment and refinancing of section 202 developments and continuation of at least 50% of the section 8 payments as a means of recapitalizing older developments for the elderly, the possibility that once refinanced (and no longer, technically, a section 202 development) the debt and operations would be restructured threatens to prevent such prepayments and refinancings to the detriment of the developments and the elderly. This language would mean "once a section 202, always a section 202" and continue the exemption from mark to market.

The Mutual Housing Approach to Affordable Housing Ownership and Retention

Presented to the House of Representatives Housing Subcommittee on July 17, 2001

For its Hearings on Elderly Housing and Affordability Issues for the 21st century

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Our housing stock is facing serious issues of ownership and management leading to the loss of affordable units due to short-term attention given to a long-term asset. A solution to this dilemma is that of mutual housing organization which is cooperatively controlled by those with the greatest long term interest in the housing, the residents. This paper presents the mutual housing approach as an ideal part of a national strategy for senior housing.

The mutual housing model is a resident-controlled, central ownership and management organization which provides affordable housing as a long term asset. Ownership of the property vests in the mutual housing organization. The residents are members of the mutual housing organization and elect its board of directors. The management of the properties is by the mutual housing organization acting on behalf of the resident members of the organization. The member/residents have an active role in the day-to-day management of the housing, as volunteer committee members and building officers. The basic structure of the mutual housing organization fulfills the need for long term use as affordable housing, since there is no resale of individual units or resale of property for ownership speculation.

We are seeing small local nonprofits or fraternal groups individually holding an aging Section 202 stock and unable to professionally manage or competently oversee the challenges now facing that housing. Today seniors have their nearly 100% government funded apartment buildings "sold from under them" through opt outs and mismanagement. The Section 8 "sticky" certificate is often too little, too late. The sea change of ownership, management and tenancy is extremely disruptive, prompting residents to get out quickly. In addition, building "repositioning" as market rate, no doubt helps quicken the move outs of the older, poorer certificate holders. Within a short period of time, despite agreements to the contrary with new owners, the older, poorer tenants just get up and leave. (Cathedral Terrace a HUD 202 in Detroit was recently sold. Less than a year later, only 40 seniors live in the 212 apartments. The remaining apartments have been occupied by, or are marketed to, students. A more complete description of this experience is provided in the testimony by Mr. Thomas Slemmer of AAHSA.).

Mutual housing, being resident controlled and non-profit, provides undisrupted, long-term affordable tenancy for its members. Management of mutual housing is performed by a central organization with experience in management and avoids the pitfalls of individual nonprofit housing entities fending for their own, as in the Cathedral Terrace experience mentioned above. Mutual housing organizations can have the power to step in and change any adverse decision made by an individual housing organization under its ownership/control umbrella.

The mutual housing organization is also a developer of new housing, and can use income from developer fees to help build new housing and help out its older stock. The organization is an umbrella organization and has as its mission the nonprofit care of all properties as well as the new development.

Mutual housing organizations are housing-experienced based organizations that can develop firm credibility with public and private lending agencies and foundations. The combination of nonprofit operation and solid track record helps build funder confidence.

The cooperative structure of a mutual housing organization requires the organization to become mindful of the use of the housing by the consumer first, since the consumer (the resident) controls the organization through the cooperative principles of one member/one vote. This leads to a corporate mindset of long-term ownership, and management response to the resident as the uppermost goal.

Cooperative Services, Inc. (CSI) is a nonprofit consumer cooperative providing housing on a mutual housing basis for its 5200 members in 43 nonprofit housing communities for low and moderate income seniors in four states. The Cooperative Services member is actively involved in the day-to-day operation of their community This form of resident controlled housing leads to greater satisfaction with their housing. (The Social Consequences of Self-Management in a Mutual Housing Association for Older People, Gregg G. Van Ryzin, Doctoral Dissertation, City University of New York,1991.)

Cooperative Services has received national recognition on the excellent condition of its properties and scores consistently high in all aspects of asset management. It has received recent recognition from HUD Secretary Martinez on the completion of its Vista del Rio Co-op in the Mexicantown section of Detroit.

The recent wave of shocking losses to the affordable housing stock require a look at other alternatives to providing new and caring for the existing affordable housing. We feel that mutual housing cooperative organizations provide a proven alternative, and could do even a better job with several policy changes by HUD.

Policy recommendations

1. Interpretation of non-profit status. Although mutuals, like all cooperatives, operate on non-profit principles, they do not have 501 (c)(3) status as a public purpose charity as defined by the IRS. However, the mutual's non-profit purpose expressed through its incorporation and bylaws can perfectly mirror the goals of providing housing on a basis the same as those found in charitable organizations. Therefore mutuals should be treated as non-profits under HUD multifamily programs.

2. Funding of multiple asset corporations. Under Section 202, HUD requires the funding recipient to be a single asset corporation. We feel that the policy of funding only single asset nonprofit organizations be reviewed to accommodate mutual housing corporations. While the single asset corporation may protect against asset impairment from other entities in a portfolio, there needs to be a review of that asset's overall control. A mutual housing organization can have separate single asset corporations as affiliates (whose directors are chosen by the mutual housing members). This places the asset within a larger corporate structure providing greater management and financial stability for the property.

3. Operational regulations. The mindframe of regulation of management by results, not process, should be encouraged and continued at HUD and State Agencies. The tone set at the HUD regional offices should be one of supporting "good" housing (that having high REAC scores, solid financial performance, high resident satisfaction, strong community purpose, etc.) instead of review by regulation minutia. Mutual housing doesn't always fit into regulation boxes, yet their results can meet or exceed the funders' intent.

4. Membership prohibition. Flexibility is needed in HUD regulations which prohibit membership in a sponsoring organization as a requirement of tenancy of a Section 202 project. The membership of a mutual housing organization is formed by the residents of its housing. The membership payment may be returned when the member leaves the housing. The intent of the HUD prohibition is to forbid life care fees or founders fees which were large fees intended to essentially capitalize the sponsoring organization. By contrast, the mutual housing membership is a modest amount which does not act to capitalize the organization. The membership payment does connect the individual resident to the mutual housing organization in a material way, and helps give the resident the sense of ownership and control important in a good housing setting. HUD should permit such modest fees in cases of mutual housing organizations.

These are just a few of the specific policy requirements which flow from the implementation of a solid housing foundation, that of the cooperative mutual housing organization.

STATEMENT

ON BEHALF OF THE HEALTHCARE FINANCING STUDY GROUP

COMMITTEE ON GOVERNMENT PROGRAMS

BEFORE

THE HOUSE FINANCIAL SERVICES COMMITTEE,

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

July 17, 2001

The Members of the Healthcare Financing Study Group, Committee on Government Programs ("Study Group"), an association of national and regional investment and mortgage bankers and municipal bond insurers (Exhibit A) actively engaged in financing the construction and modernization of needed health care and assisted living facilities for the elderly throughout the United States under the mortgage insurance provisions of the National Housing Act appreciate the opportunity to submit testimony before the Subcommittee on Housing and Community Opportunity of the Housing Financial Services Committee. The Committee believes that discussions regarding housing and other affordability issues for our elderly communities cannot be complete without a discussion of the unique needs of the elderly with regard to supportive healthcare and related services.

In connection with these purposes, our comments will focus on programs of the National Housing Act which are available to provide such supportive services, including

Section 232 of the National Housing Act which permits FHA to insure mortgages to develop residential and skilled healthcare facilities consistent with a "continuum of care" for the housing to healthcare needs of the elderly. Section 242 of the Act permits FHA to facilitate the development of hospital facilities which also provide significant services to the elderly communities on an acute basis. These two programs have been successfully utilized for assuring a quality and affordable range of elderly services since adopted by Congress in the late 1960's. Both programs, as further noted in this paper, may be implemented without credit subsidy appropriations as a result of long and successful program histories.

Our comments for the purposes of today's hearing focus on amendments to the FHA Section 232 and 242 health care and assisted living programs which would allow these successful programs to be modernized and made more consistent with today's methods of delivering healthcare services of the highest quality and affordable price. These changes would help to assure that quality, affordable healthcare is more accessible to rural and urban American communities which have been unable to enjoy the benefits of the Act in its present form, and where private sector financing alternatives are not always readily available.

The Study Group, whose members have worked with these programs for decades, strongly supports amendments to make the National Housing Act's health care and assisted living programs more useful in meeting the growing health and housing needs of elderly, sick and disabled Americans, as well as our most important resource – our children, in all areas of our country.

By way of background, the basic health care sections of the Act (Section 232 for nursing home, intermediate care, board and care, and assisted living facilities, and Section 242 for hospitals and associated facilities) were enacted more than thirty years ago, and since their inception have assisted in or enabled the development of several thousand nursing home and assisted living units and three hundred hospital projects in over forty states and Puerto Rico (Exhibit B). Recent case activity has begun to spread to our Western communities, including Texas, Nevada, California and Arizona. Other recent projects have been in Michigan, Pennsylvania and Florida. Thanks to the credit enhancement provided through FHA mortgage insurance, many worthy projects, which might have been unable to obtain affordable construction or modernization financing through conventional private sources, have been successfully completed. In addition, these two sections of the Act have netted hundreds of millions of dollars to the Treasury and the FHA insurance funds from FHA fees and mortgage insurance premiums, and are two of only several mortgage insurance programs which are scored "credit subsidy negative" (indicating that no net federal funds are required for their support) by the Office of Management and Budget ("OMB") (Exhibit C).

Our experience indicates that these programs do not compete with private sector financing. Rather, they have tended to foster a partnership of government and private industry, as illustrated by the active participation of private mortgage companies and bond insurance companies (two of which are members of the Study Group) whose involvement in bond financed FHA hospital and nursing home projects has materially reduced the cost of financing, thereby helping to assure the repayment of the insured loan and reducing FHA's insurance risk. Much of the debt service savings realized under these programs also results in lower federal and state Medicare and Medicaid reimbursement. At the same time, FHA insurance is available to fill a void left by the private sector which, traditionally, has preferred to lend at affordable and reasonable rates only to the very highest investment grade credits. That is not to say, however, that all healthcare financings, regardless of financial integrity, should be freely entitled to use the FHA credit enhancement programs. Indeed, few high-risk applications would survive FHA's rigorous underwriting processes. Rather, the great majority of those providers that have enjoyed the benefits of the FHA programs have had a successful history of operations thereafter, as indicated by the negative credit subsidy scoring by OMB. In addition, when a pattern of successful project operation has emerged, borrowers have often been able to refinance at affordable rates in the private market, and thus leave behind the additional expenses and restrictions which FHA has reasonably established for the protection of its insurance funds

Since their enactment, Sections 232 and 242 have undergone only a limited number of modificationswith the result that the Act does not entirely accommodate, the significant and widespread changes in methodology and regulation of health care and assisted living delivery in the United States today. Two examples are found in the Act's definitions of the types of facilities eligible for mortgage insurance, and in the Act's severely outdated Certificate of Need ("CON") requirements and alternative procedures for the hospital and nursing home programs under the Act.

With respect to the former, the narrow definitions of eligible facilities fail to reflect the "continuum of care" now commonly provided within an individual facility or in a campus environment which has evolved in the healthcare community to reflect changing delivery and reimbursement patterns. This should be corrected to include new integrated service facilities.

The definition of Integrated Service Facility contained in a proposed House bill this past year, if adopted, would provide a technical amendment to existing law, recognizing changes to healthcare delivery methodology that have occurred since the Act's healthcare provisions were enacted over thirty years ago. Directed toward the needs of our aging population, as well as to the sick, injured, disabled, or infirm, and for the prevention of illness, this more modern definition provides an FHA insurance authorization for new types of facilities, such as neighborhood clinics for the same Americans intended to be covered originally by the National Housing Act, and recognizes the need to provide and would permit services to be received on the most cost efficient and affordable basis. In addition, the definition includes facilities designed to provide a continuum of care, as determined by FHA, which affords FHA a greater ability to approve worthy needed projects more suitable to the current delivery environment rather than an environment reflective of the mid-1990's, if the other definitional requirements of Section 502 are met.

Another important change should occur in the assisted living facility licensure requirement of the Act. Unless a facility is licensed by the state or other a local political subdivision in which the facility is located, the facility will be ineligible for FHA mortgage insurance under current law. In those states or subdivisions where no licensing is required or obtainable, otherwise worthy assisted living projects are precluded from the benefits of FHA mortgage insurance. FHA should be permitted to establish underwriting standards in lieu of licensure under these circumstances.

In addition, there is a problem with the Certificate of Need provisions of these programs. Mortgage insurance under the hospital and nursing home programs of Sections 242 and 232 is conditioned upon the receipt of state issued CONs. In fact, many states over the last twenty years, and with the blessing of Congress, have eliminated their CON programs, or the agencies that would normally have issued the certificates. Examples are Arizona, California, Colorado, Kansas, New Jersey, New Mexico, Pennsylvania, Texas, Washington and Wyoming. Because of these and other legislative anachronisms, otherwise needed projects become ineligible for low interest rate FHA financing. An earlier amendment to the Act, for states in which no CON was obtainable, established an alternative to the issuance of a CON and permitted the state to commission and pay for an independent study to establish feasibility and market need for a proposed project. It also authorized the project sponsor to reimburse the state for the expense of the study. While this alternate procedure has been adopted in several states, California and Nevada, for example, the process has been slow and cumbersome and is not yet complete. In at least one case, it has required special state legislation to authorize the commissioning and payment for such studies. Administrative procedures had also to be established within state agencies to commission and review the studies. Finally, the study had to be in form and substance acceptable to FHA, and the financial consultant who prepared it had also to be acceptable to FHA. While the Act contains alternative bases for meeting the Act's requirements in states in which CONs are no longer available, the alternative requirements, though well intended, have proven unworkable or, at best, difficult to implement, particularly with respect to hospital financing, with the result that FHA loan insurance may be unavailable to assist in meeting healthcare needs in those states. This impediment has made it difficult for FHA to diversify its loan portfolio geographically, and has also made it difficult, if not impossible, for "critical access hospitals", particularly in more sparsely populated rural and western states, to obtain needed financing to update facilities many of which date back to the mid-1900's. FHA should be permitted to establish underwriting standards in lieu of licensure under those circumstances.

The Certificate of Need requirement has been an impediment to healthcare delivery for both Section 232 type projects and hospitals in a number of states. The problem is growing worse as more states move away from certificate of needs in de-regulated environments which Congress has supported.

The effect of this change would be to speed up and modernize the overall application process, relieve the state of unwanted burdens, and reduce costs as state processing or service fees would be eliminated. In addition, it will more effectively enable FHA to achieve geographic diversification in its insurance portfolio, a goal which has long been sought by FHA.

Other important changes would eliminate from the Section 242 definition of an eligible "Hospital" the archaic test that denies eligibility where more than 50% of patient days are customarily assignable in any year to such illnesses as drug and alcoholic, epileptic, mentally deficient, mental, nervous and mental and tuberculosis. Today, some of these unfortunate afflictions are recognized as acute in nature, and may be reimbursed on that basis in an acute care hospital. Furthermore, since acute care services of any type are ineligible under the FHA nursing home program, the 50% rule, particularly in a "continuum of care" environment, creates a financing void for hospitals providing significant services of the type proscribed in the existing definitions of the National Housing Act.

The proposed inclusion of a definition of Hospital related Integrated Service Facility would also be helpful. Such a facility, when owned by a hospital sponsor, should be eligible for FHA insurance under Section 242 of the National Housing Act. As hospitals continue to add low cost, non-acute outpatient and ambulatory services, the Act's acute care oriented provisions artificially limit FHA's ability to provide affordable capital to finance less costly, more efficient hospital-based healthcare delivery systems. For example, the Act does not currently permit the financing of a hospital's non-acute care community health clinics for the care and prevention of illness, or laboratories and offices on sites separate and apart from the primary hospital site. This restriction, which imposes unnecessary financing costs on the hospitals, would be eliminated by the Amendments.

The same beneficial changes made to the alternate CON procedures for the nursing home program should be carried over to hospitals and FHA. This provision, coupled with the updating of the definition of "eligible hospital", will represent the single most important modernization of hospital financing under Section 242 of the Act since it was introduced about 30 years ago.

In the area of refinancing, existing integrated service facilities to the list of projects which may be refinanced, and authorizes the insured loan to include additional costs such as repairs, maintenance, minor improvements, or additional equipment as may be approved by FHA, all of which is consistent with conventional refinancings and considered standard in the lending community. The ability of existing facilities to refinance high rate uninsured mortgage loans will become even more important in those states which will benefit from the modification of the alternate CON protocols .

This past year's amendments also clarified existing law so that programs could be used by eligible applicants to finance, at reasonable rates, the purchase of existing hospitals and existing integrated service facilities. Each of these modifications would again allow substantial debt service savings to healthcare providers in an increasingly cost conscious service market, as well as the enhancement of the FHA portfolio, and federal revenues, with strong, seasoned projects.

The Study Group supports the National Housing Act's health care delivery system for the following reasons:

1. They help to assure the availability of **affordable**, low rate capital for projects for the sick and elderly in all areas of our country, rural as well as urban.

2. They will assist in reducing debt service costs as well as related expenses of state/federal cost based reimbursement. Where reimbursement is based upon services rather than cost, lower debt service frees revenues for improved services.

3. They also help preserve neighborhoods and maintain strong community job bases. Healthcare providers are often the largest neighborhood employers, enjoying strong philanthropic and community participation. They may also become magnets for non-healthcare neighborhood and community improvement and preservation, as well as economic development.

4. They assure the availability of low cost financing for new forms of integrated healthcare facilities (the continuum of care approach) which, to deal with changes in traditional revenue sources, are emerging as a means of providing the highest level of service at the lowest cost.

5. Sections 232 and 242 of the Act will continue to produce substantial revenues to the Treasury through FHA mortgage insurance premiums and fees. They are two of the FHA programs with negative OMB credit subsidy scoring in FY 2000 AND FY 2001.

The Healthcare Financing Study Group thanks the Chairman and the distinguished Members of the Subcommittee for permitting it to submit this testimony.

Healthcare Financing Study Group

Committee for Government Programs

By: ______________________

Michael E. Mazer, as Counsel

Exhibit A

HEALTHCARE FINANICING STUDY GROUP

MEMBERSHIP 2001

AMBAC Assurance Corporation
Bank of America
Cain Brothers
Cambridge Healthcare Funding
Cambridge Realty Capital Ltd.
Century Health Capital
Charles River Mortgage Co.
Continental Securities
Goldman, Sachs & Co.
MBIA Corporation
Merrill Lynch & Co.
Morgan Stanley Dean Witter
Paragon Mortgage Corporation
PFC Corporation
Prudential Huntoon Paige
PW Funding Inc.
Red Capital Group
Sims Mortgage Funding, Inc.
Suburban Mortgage Associates, Inc.
TRI Capital Corporation
Wirth & Company Health Care Funding, Inc.
Ziegler Securities

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